

DEFENCE

CHAPTER FOUR PLANNED OUTCOME PERFORMANCE

DEFENCE OUTCOME AND OUTPUT STRUCTURE

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DEFENCE OUTCOME AND OUTPUT STRUCTURE

OUTCOME ONE – Command of Operations in Defence of Australia and its Interests

OUTPUTS

- 1.1 Command of Operations
- 1.2 Defence Force Military Operations and Exercises
- 1.3 Contribution to National Support Tasks

OUTCOME TWO – Navy Capability for the Defence of Australia and its Interests

OUTPUTS

- 2.1 Capability for Major Surface Combatant Operations
- 2.2 Capability for Naval Aviation Operations
- 2.3 Capability for Patrol Boat Operations
- 2.4 Capability for Submarine Operations
- 2.5 Capability for Afloat Support
- 2.6 Capability for Mine Warfare
- 2.7 Capability for Amphibious Lift
- 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations

OUTCOME THREE – Army Capability for the Defence of Australia and its Interests

OUTPUTS

- 3.1 Capability for Special Operations
- 3.2 Capability for Medium Combined Arms Operations
- 3.3 Capability for Light Combined Arms Operations
- 3.4 Capability for Army Aviation Operations
- 3.5 Capability for Ground-Based Air Defence
- 3.6 Capability for Combat Support Operations
- 3.7 Capability for Regional Surveillance
- 3.8 Capability for Operational Logistic Support to Land Forces
- 3.9 Capability for Motorised Combined Arms Operations
- 3.10 Capability for Protective Operations

OUTCOME FOUR – Air Force Capability for the Defence of Australia and its Interests

OUTPUTS

- 4.1 Capability for Air Combat Operations
- 4.2 Capability for Combat Support of Air Operations
- 4.3 Capability for Surveillance and Response Operations
- 4.4 Capability for Airlift Operations

OUTCOME FIVE – Strategic Policy for the Defence of Australia and its Interests

OUTPUTS

- 5.1 International Policy, Activities and Engagement
- 5.2 Strategic Policy and Military Strategy

OUTCOME SIX – Intelligence for the Defence of Australia and its Interests

OUTPUT

- 6.1 Intelligence

OUTCOME SEVEN – Superannuation and Housing Support Services for Current and Retired Defence Personnel

OUTPUTS

- 7.1 Superannuation Support Services for Current and Retired Defence Personnel
- 7.2 Housing Assistance for Current Defence Personnel
- 7.3 Other Administered Expenses and Revenues

COST OF DEFENCE OUTCOMES

COST SUMMARY OF DEFENCE OUTCOMES

Table 4a: Total Cost of Defence Outcomes and Outputs 2005-06

Outcome/Output	Projected Result ⁽¹⁾ 2004-05 \$'000	PBS Budget Estimate 2005-06 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
Outcome One – Command of Operations in Defence of Australia and its Interests						
1.1 – Command of Operations	356,425	371,713	15,288	369,373	395,978	389,147
1.2 – Defence Force Military Operations and Exercises	401,111	499,032	97,921	210,836	137,404	116,175
1.3 – Contributions to National Support Tasks	11,882	10,178	-1,704	10,491	23,901	22,579
Sub-total Outcome One	769,418	880,924⁽³⁾	111,505	590,701	557,283	527,901
Outcome Two – Navy Capability for the Defence of Australia and its Interests						
2.1 – Capability for Major Surface Combatant Operations	1,614,053	1,605,701	-8,351	1,630,527	1,739,482	1,773,750
2.2 – Capability for Naval Aviation Operations	491,596	504,698	13,101	599,695	631,935	647,718
2.3 – Capability for Patrol Boat Operations	241,596	277,648	36,052	291,179	307,524	322,538
2.4 – Capability for Submarine Operations	774,183	779,765	5,582	708,121	745,606	728,873
2.5 – Capability for Afloat Support	201,017	214,290	13,273	216,717	228,895	234,427
2.6 – Capability for Mine Warfare	357,641	355,832	-1,809	360,946	380,780	393,078
2.7 – Capability for Amphibious Lift	369,173	370,160	987	372,965	394,524	405,524
2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	206,172	241,063	34,891	248,810	264,625	277,625
Sub-total Outcome Two	4,255,431	4,349,157	93,726	4,428,959	4,693,370	4,783,534
Outcome Three – Army Capability for the Defence of Australia and its Interests						
3.1 – Capability for Special Operations	449,178	500,281	51,103	519,363	552,621	577,865
3.2 – Capability for Medium Combined Arms Operations	900,989	926,273	25,285	953,871	1,013,268	1,054,450
3.3 – Capability for Light Combined Arms Operations	1,010,334	1,030,887	20,554	1,118,808	1,191,943	1,260,513
3.4 – Capability for Army Aviation Operations	540,343	577,197	36,854	594,598	634,667	653,690
3.5 – Capability for Ground-Based Air Defence	121,359	129,625	8,266	134,823	143,414	152,274
3.6 – Capability for Combat Support Operations	410,551	384,632	-25,919	397,833	423,003	446,364
3.7 – Capability for Regional Surveillance	147,388	124,492	-22,896	127,319	135,442	139,695
3.8 – Capability for Operational Logistic Support to Land Forces	561,968	575,652	13,683	595,586	630,355	664,860
3.9 – Capability for Motorised Combined Arms Operations	575,264	550,510	-24,754	567,524	603,955	634,554
3.10 – Capability for Protective Operations	561,005	613,377	52,372	729,871	778,103	798,443
Sub-total Outcome Three	5,278,379	5,412,926	134,547	5,739,597	6,106,770	6,382,707

Outcome/Output	Projected Result ⁽¹⁾ 2004-05 \$'000	PBS Budget Estimate 2005-06 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
Outcome Four – Air Force Capability for the Defence of Australia and its Interests						
4.1 – Capability for Air Combat Operations	1,815,426	1,769,462	-45,964	1,396,033	1,463,318	1,478,011
4.2 – Capability for Combat Support of Air Operations	742,603	761,662	19,058	932,193	970,131	1,024,279
4.3 – Capability for Surveillance and Response	1,077,257	1,104,931	27,674	1,172,559	1,226,575	1,233,367
4.4 – Capability for Airlift Operations	987,684	1,018,846	31,163	1,056,924	1,100,994	1,119,335
Sub-total Outcome Four	4,622,970	4,654,901	31,931	4,557,709	4,761,017	4,854,993
Outcome Five – Strategic Policy for the Defence of Australia and its Interests						
5.1 – International Policy, Activities and Engagement	185,488	188,067	2,579	186,140	192,080	196,821
5.2 – Strategic Policy and Military Strategy	41,235	43,262	2,027	43,327	45,783	47,458
Sub-total Outcome Five	226,723	231,329	4,606	229,467	237,863	244,279
Outcome Six – Intelligence for the Defence of Australia and its Interests						
6.1 – Intelligence	439,417	467,384	27,967	472,891	502,807	508,633
Sub-total Outcome Six	439,417	467,384	27,967	472,891	502,807	508,633
Net Cost for Department Outcomes⁽⁴⁾	15,592,338	15,996,621	404,283	16,019,324	16,859,110	17,302,046
Approved Allocated Profit/(Loss)	216,061	-18,900	-234,961	-	-	-
Departmental Appropriations from Government	15,808,399	15,977,721	169,322	16,019,324	16,859,110	17,302,046
Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel						
7.1 – Superannuation Support Services for Current and Retired Defence Personnel	1,756,695	1,847,625	90,930	1,847,625	1,947,625	1,947,625
7.2 – Housing Assistance for Current Defence Personnel	-43,350	-6,026	37,324	-9,829	-15,939	-15,939
7.3 – Other Administered Expenses and Revenues	-8,500	-4,000	4,500	-2,500	-2,500	-2,500
Net Cost of Administered Outcomes	1,704,845	1,837,599	132,754	1,835,296	1,929,186	1,929,186
Total Cost for Defence Outcomes⁽⁵⁾	17,513,244	17,815,320	302,076	17,854,620	18,788,296	19,231,232

Notes

1. Projected Results reflect revisions made to the previously published *Portfolio Additional Estimates Budget Estimates 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements Budget Estimate and the Projected Result.
3. This number differs from Table 2.13 due to the operating loss of \$18.9m.
4. Cross-reference to Table 4(b).
5. Cross-reference to Table 4(c).

Table 4b: Overall Cost to Government of Defence Outcomes (Departmental and Administered)

	Outcome 1 – Command of Operations	Outcome 2 – Navy Capabilities	Outcome 3 – Army Capabilities	Outcome 4 – Air Force Capabilities	Outcome 5 – Strategic Policy	Outcome 6 – Intelligence	Total Defence Departmental Outcome	Outcome 7 – Superannuation and Housing Support Services for Current and Retired Defence Personnel	Grand Total
	2005-06 \$'000	2005-06 \$'000	2005-06 \$'000	2005-06 \$'000	2005-06 \$'000	2005-06 \$'000	2005-06 \$'000	2005-06 \$'000	2005-06 \$'000
DEPARTMENTAL									
Operating Expenses									
Employees – Military	229,976	1,302,810	2,604,211	1,212,529	42,869	48,838	5,441,233	-	5,441,233
Employees – Civilian	65,084	258,097	348,657	263,118	44,548	166,791	1,146,295	-	1,146,295
Sub-Total Employees	295,060	1,560,907	2,952,868	1,475,647	87,417	215,629	6,587,528	-	6,587,528
Suppliers expense	577,578	1,921,679	1,904,309	2,191,900	149,860	201,420	6,946,746	-	6,946,746
Inventory consumption	-	-	-	-	-	-	-	-	-
Sub-Total Suppliers	577,578	1,921,679	1,904,309	2,191,900	149,860	201,420	6,946,746	-	6,946,746
Grants	64	297	602	282	12	18	1,275	-	1,275
Depreciation and amortisation	24,304	945,478	684,789	1,056,379	4,926	55,961	2,771,838	-	2,771,838
Value of assets sold	4,088	18,452	43,621	26,538	648	1,716	95,063	-	95,063
Write-down of assets	244	12,654	19,392	27,695	5	9	60,000	-	60,000
Borrowing costs	1,712	7,749	14,400	7,478	304	433	32,075	-	32,075
Other expenses	-	-	-	-	-	-	-	-	-
Total Operating Expenses from Ordinary Activities	903,050	4,467,215	5,619,982	4,785,920	243,173	475,186	16,494,525	-	16,494,525
Revenues									
Sales of goods and services	-9,767	-52,380	-76,828	-43,883	-2,291	-1,532	-186,682	-	-186,682
Revenue from sale of assets	-4,088	-18,452	-43,621	-26,538	-648	-1,716	-95,063	-	-95,063
Assets now recognised	-125	-5,328	-10,696	-13,829	-14	-8	-30,000	-	-30,000
Other revenues ⁽¹⁾	-8,147	-41,898	-75,909	-46,768	-8,890	-4,546	-186,159	-	-186,159
Total Own Source Revenues	-22,126	-118,058	-207,056	-131,018	-11,843	-7,803	-497,904	-	-497,904
Net Cost to Defence Departmental Outcomes⁽²⁾	880,924	4,349,157	5,412,926	4,654,902	231,329	467,384	15,996,621	-	15,996,621
ADMINISTERED									
Expenses	-	-	-	-	-	-	-	2,539,350	2,539,350
Revenues	-	-	-	-	-	-	-	-701,751	-701,751
Net Cost to Defence Administered Outcomes	-	-	-	-	-	-	-	1,837,599	1,837,599

Note

- Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
- Cross-reference to Table 4(e).

NET COST OF DEFENCE OUTCOMES

Table 4c: Net Cost of Defence Outcomes

	Projected Result ⁽¹⁾	PBS Budget Estimate	Variation ⁽²⁾ \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2004-05 \$'000	2005-06 \$'000	\$'000	2006-07 \$'000	2007-08 \$'000	2008-09 \$'000
DEPARTMENTAL						
Operating Expenses						
Employees – Military	5,220,496	5,441,233	220,737	5,539,649	5,829,326	6,435,013
Employees – Civilian	1,372,419	1,146,295	-226,124	1,175,937	1,249,922	1,318,628
Sub-Total Employees	6,592,915	6,587,528	-5,387	6,715,586	7,079,248	7,753,641
Suppliers expense	5,181,594	6,946,746	1,765,152	6,783,916	7,182,546	6,856,493
Inventory consumption	785,615	-	-785,615	-	-	-
Sub-Total Suppliers	5,967,209	6,946,746	979,537	6,783,916	7,182,546	6,856,493
Grants	1,266	1,275	9	1,301	1,327	2,246
Depreciation and amortisation	3,134,337	2,771,838	-362,499	2,829,735	2,925,358	3,028,104
Value of assets sold	142,680	95,063	-47,617	5,792	5,108	4,410
Write-down of assets	800,000	60,000	-740,000	47,500	30,000	30,000
Borrowing costs	31,446	32,075	629	32,716	26,883	25,944
Other expenses	-	-	-	-	-	-
Total Operating Expenses from Ordinary Activities	16,669,853	16,494,525	-175,328	16,416,546	17,250,470	17,700,838
Revenues						
Sales of goods and services	-262,789	-186,682	76,107	-189,900	-193,628	-196,904
Revenue from sale of assets	-142,680	-95,063	47,617	-5,792	-5,108	-4,410
Assets now recognised	-600,000	-30,000	570,000	-12,500	-	-
Other revenues ⁽³⁾	-72,046	-186,159	-114,113	-189,030	-192,624	-197,478
Total Own Source Revenues	-1,077,515	-497,904	579,611	-397,222	-391,360	-398,792
Net Cost of Defence Outcomes	15,592,338	15,996,621	404,283	16,019,324	16,859,110	17,302,046
Approved Allocated Profit/Loss	216,061	-18,900	-234,961	-	-	-
Departmental Appropriation from Government	15,808,399	15,977,721	169,322	16,019,324	16,859,110	17,302,046
ADMINISTERED						
Expenses	2,438,350	2,539,350	101,000	2,539,350	2,639,350	2,639,350
Revenues	-733,505	-701,751	31,754	-704,054	-710,164	-710,164
Net Cost of Administered Outcomes	1,704,845	1,837,599	132,754	1,835,296	1,929,186	1,929,186
Total cost to Government	17,513,244	17,815,320	302,076	17,854,620	18,788,296	19,231,232

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Table 4(b).

Table 4d: Movement in Defence's Outcome Costs Since 2004-05

Outcomes	Actual	PBS Budget	PAES	Projected	PBS Budget
	Result ⁽¹⁾	Estimate ⁽²⁾	Estimate ⁽³⁾	Result ⁽⁴⁾	Estimate
	2003-04	2004-05	2004-05	2004-05	2005-06
	\$'000	\$'000	\$'000	\$'000	\$'000
DEPARTMENTAL OUTCOMES					
Outcome One					
Command of Operations	740,181	693,745	678,764	769,418	880,924
Outcome Two					
Navy Capability	4,177,449	4,325,674	4,350,032	4,255,431	4,349,157
Outcome Three					
Army Capability	5,086,424	5,287,403	5,343,226	5,278,379	5,412,926
Outcome Four					
Air Force Capability	4,500,663	4,620,321	4,697,024	4,622,970	4,654,901
Outcome Five					
Strategic Policy	205,784	242,556	212,780	226,723	231,329
Outcome Six					
Intelligence	457,460	434,992	464,911	439,417	467,384
Total Cost for Defence					
Departmental Outcomes	15,167,962	15,604,691	15,746,737	15,592,338	15,996,621
Outcome Seven					
Superannuation and Housing					
Support Services for Current and					
Retired Defence Personnel	1,457,379	1,688,464	1,711,345	1,704,845	1,837,599
Total Outcomes	16,625,341	17,293,155	17,458,082	17,297,183	17,834,220

Notes

1. Actual Results reflect amounts disclosed in Table 2.3 of the *Defence Annual Report 2003-04* (p. 81).
2. Portfolio Budget Statements Budget Estimates reflect amounts disclosed in Table 4d of the *Portfolio Budget Statements 2004-05* (p. 103). The figure for Outcome Seven is the net of Administered revenues and expenses (pp. 196-197).
3. Portfolio Additional Estimates Statements Estimates reflect amounts disclosed in Table 4.3 of the *Portfolio Additional Estimates Statements 2004-05* (pp. 52-53).
4. Projected Results reflect revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.

GROUP CONTRIBUTIONS TO DEFENCE OUTCOMES

Table 4e: Group Contributions to Defence Outcomes 2005-06

	Outcome 1 – Command of Operations	Outcome 2 – Navy Capability	Outcome 3 – Army Capability	Outcome 4 – Air Force Capability	Outcome 5 – Strategic Policy	Outcome 6 – Intelligence	Total Defence Outcomes
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Vice Chief of the Defence Force/ Chief of Joint Operations	109,536	49,907	125,387	43,841	110	513	329,294
Navy	1,126	2,113,335	42	17	-	682	2,115,202
Army	-	-	2,631,822	-	-	-	2,631,822
Air Force	7,936	13,668	26,638	2,150,618	8,103	5,391	2,212,354
Strategy	-	-	-	-	126,907	-	126,907
Intelligence and Security	3,053	12,367	13,221	12,432	980	325,391	367,443
Corporate Services and Infrastructure Group	102,687	542,456	983,943	582,193	39,576	48,726	2,299,580
Defence Materiel Organisation	299,578	1,060,736	810,754	1,045,073	1,104	8,947	3,226,192
Chief Capability Development	1,979	6,516	6,855	6,528	2,279	1,153	25,311
Chief Finance Officer	9,498	82,893	179,992	73,333	3,155	5,596	354,468
Chief Information Officer	14,994	107,695	218,751	161,982	4,343	9,255	517,020
Defence Personnel Executive	27,850	152,525	271,021	155,066	13,381	14,487	634,331
Defence Science and Technology Organisation	35,535	77,756	52,736	101,531	20,070	22,396	310,023
Secretary/Chief of the Defence Force	1,974	7,995	8,548	8,037	634	847	28,034
Inspector-General	964	3,904	4,173	3,924	309	413	13,688
Portfolio/Corporate ⁽¹⁾	264,215	117,403	79,044	310,325	10,378	23,587	804,952
Total Cost	880,924	4,349,157	5,412,926	4,654,901	231,329	467,384	15,996,621

Note

- Portfolio/corporate includes funds to be allocated to Defence Groups following the announcement of the budget for new budget measures and price supplementation. It also includes funds being held centrally to meet the ADF Military Workforce Remuneration Arrangement and Defence Employees' Certified Agreement pay increases as they occur. It also includes other items such as funding for estate upkeep, information technology, and administrative asset refreshment programs.

OUTCOME ONE – COMMAND OF OPERATIONS

Outcome One – Command of Operations in Defence of Australia and its Interests

Output 1.1 Command of Operations

Output 1.2 Defence Force Military Operations and Exercises

Output 1.3 Contribution to National Support Tasks

Defence conducts a range of activities to satisfy the Government's strategic interests and objectives. These activities include the conduct of military campaigns and operations, the provision of emergency and non-emergency support to the Government and Australian community, overseas deployments and representations, and various joint and combined exercises involving the three Services and allied or regional military forces. Collectively, these activities are referred to as Defence operations.

Successful Defence operations are underpinned by effective command capability and appropriate joint force preparedness. Defence maintains its command capability through joint headquarters with forces assigned under Joint Operations Command. The maritime force, land forces and air force capabilities maintained by the three Services are combined to provide joint forces. Joint force preparedness is developed in accordance with ADF preparedness requirements and evaluated through an exercise program.

The Vice Chief of the Defence Force is appointed as the Chief of Joint Operations. Joint Operations Command consists of a headquarters, three environmental components (maritime, land and air), three specialist components (Special Operations, Joint Logistics and Joint Offshore Protection) and a number of direct command units which provide functional support in the areas of intelligence, movements, joint training, strategic advice, welfare and northern operations.

Planned Performance

ADF operations and activities that will contribute to the security of our immediate neighbourhood in 2005-06 include:

- activities in East Timor, where Operation Spire is expected to conclude, that could include further commitment to the United Nations, and/or activities in support of the Defence Cooperation Program initiatives (see pp. 166-67 for more details on the Defence Cooperation Program);
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway);

- ongoing ADF support (Operation Anode) to the Coalition Police Forces element of the Regional Assistance Mission in the Solomon Islands to re-establish the rule of law will be at a lesser scale as the security situation improves;
- establishment of the Joint Offshore Protection Command; and
- maintenance of the capability to respond to natural disasters in our region.

ADF operations that will support Australia's wider interests in 2005-06 include:

- an ADF contribution (Operation Catalyst) to an Australian whole-of-government effort to assist with the rehabilitation of Iraq;
- a continued ADF commitment (Operation Slipper) to the United States-led operation against international terrorism; and
- ADF contributions to United Nations and other peacekeeping and humanitarian operations (Operations Azure, Paladin, Mazurka, and Valient).

ADF peacetime national tasks that are expected to continue as regular or occasional tasks in 2005-06 include:

- operations to deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia (Operation Relex II);
- ongoing operations to provide surveillance and law enforcement support to Coastwatch in northern Australia (Operation Cranberry);
- cyclical maritime surveillance operations in Australia's region (Operations, Mistral, Estes and Solania). These operations are a lesser priority than Operation Relex II and will be conducted when surveillance capabilities are available; and
- ADF support to the Commonwealth Games in 2006 (Operation Acolyte) and to the Asian-Pacific Economic Conference in 2007 (Operation Deluge).

These ongoing operations and their objectives are summarised in later tables.

ADF joint and combined exercises are conducted to train forces and to evaluate joint force capability. Combined exercises with allies and regional partners enhance and maintain close relationships and develop essential force interoperability. Combined exercises also contribute to the strategic goals of the Defence International Engagement Plan (see also Outcome Five – Strategic Policy). The ADF exercise program is inherently flexible and is likely to be adjusted to allow for strategic circumstances and participant availability during 2005-06. The ADF exercise program for 2005-06, detailing planning dates and exercise objectives, is included in later tables.

Extant ADF policy and internal instructions for Defence assistance to the civil community tasks include counter-disaster and emergency assistance. Small-scale tasks undertaken within local ADF resources are numerous and

generally have minimal impact on ADF resources. Larger tasks involving coordinated activity with state or territory authorities or with Emergency Management Australia (in the Attorney-General's Department) may arise at short notice.

Non-emergency assistance and non-emergency law enforcement, excluding the use of force, is also likely to conform with historic levels of small tasks conducted within local ADF resources, where available.

Existing contingency plans for assistance to Commonwealth or State and Territory governments and their civil authorities in law enforcement tasks where there is the possibility that force may be required are also likely to remain appropriate in 2005-06.

ADF support to national search and rescue authorities, when and as required, will continue under current arrangements, within available resources.

Key Risks and Limitations

The key risks for command of operations are those that constrain commanders at any level in their ability to execute the Government-endorsed plan and meet the designated operational end state.

Concurrent Operations

The Government's highest priorities will continue to be met, including commitment to the Middle East Area of Operations. The overall operational tempo is expected to decrease with a lower commitment of deployed forces in East Timor and the Solomon Islands. There will be a concerted effort to reconstitute capabilities in 2005-06.

Operational Preparedness

The high level of operational tempo in 2004-05 that constrained some training and preparedness levels will be rectified where possible through a revised exercise program in 2005-06.

Geographical Dispersion of Command Elements

Joint Operations Command is a geographically dispersed organisation with sub-components located throughout the country. Physical collocation of units will not occur until completion of the new headquarters for Joint Operations Command at Bungendore, New South Wales scheduled for late 2007.

Logistic Support to Operations

The key risk to capability for logistic support to operations is the erosion of national inventory by the extended commitment to high-intensity operations. The primary challenge in managing the capability for logistic support to operations is managing the repair and procurement process that is undertaken as part of the post-operation remediation phase to ensure that maintenance is undertaken at a rate that is commensurate with a finite commercial capability,

and that any item that faces a global shortage of availability is managed carefully. Both situations need to be analysed closely to ensure that any risk strategies are implemented.

Reduced Exercise Participation

The high operational tempo in 2004-05 restricted the availability of assets for joint and combined exercises scheduled in the Program of Major Service Activities. The range of available ADF core warfare skills must now be reinstated and confirmed by exercise evaluation.

Loss of Skills and Interoperability with Allies and Regional Partners

The loss of structured training activities with allies and regional partners in 2004-05 risks the degradation of combined operational skills and loss of interoperability.

Strategic Initiatives

Concurrent Operations

Risk mitigation will continue during 2005-06 through a strategic-level review of major operational commitments. The ADF contribution to operations will continue in accordance with the Government's direction. Reconstitution of capabilities will be prioritised to address critical areas to reinstate those capabilities eroded through concurrent demands.

Preparedness Reporting

The ADF preparedness reporting system provides monthly assessment of capability options for the ADF to meet the Government's operational objectives. The reporting system identifies deficiencies and indicates remediation priorities. The system continues to be enhanced and will be further developed within the ADF exercise program during 2005-06.

Logistic Support

Inventory levels are being assessed and inventory expenditure for operations is being monitored. This is undertaken by both the Joint Logistics Command and the Defence Materiel Organisation fleet managers. Inventory visibility is likely to be enhanced through developments such as the Joint Theatre Distribution project.

Reduced Exercise Participation

The Program of Major Service Activities is continually reviewed and may continue to be modified in response to changing priorities, world events and to meet specific training deficiencies. Exercise activity will be managed to ensure that the highest priorities are met within resource constraints.

Loss of Skills and Interoperability with Allies and Regional Partners

To mitigate this risk, critical exercises have been emphasised in the Program of Major Service Activities for 2005-06. Where possible, ADF elements will consider participation at a higher level of force commitment than was available in 2004-05.

Cost Summary of Outcome One

Total Budgeted Cost to the Government

Table 4.1.1: Outcome One – Command of Operations

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees – Military	196,494	229,976	33,482	128,372	134,703	144,510
Employees – Civilian	87,794	65,084	-22,710	66,395	69,449	73,528
Sub total employees	284,288	295,060	10,773	194,767	204,152	218,038
Suppliers Expense	420,961	577,578	156,617	389,379	346,978	303,326
Inventory Consumption	50,000	-	-50,000	-	-	-
Sub total suppliers	470,961	577,578	106,617	389,379	346,978	303,326
Grants	64	64	-	66	67	114
Depreciation and amortisation	31,337	24,304	-7,033	22,873	23,118	23,972
Value of assets sold	6,104	4,088	-2,017	258	228	199
Write-down of assets	5,018	244	-4,774	203	135	135
Borrowing costs	1,649	1,712	62	1,745	1,434	1,384
Other expenses	-	-	-	-	-	-
Total operating expenses from ordinary activities	799,421	903,050	103,629	609,291	576,114	547,168
Revenues						
Sale of goods and services	-13,437	-9,767	3,670	-9,961	-10,121	-10,329
Revenue from sale of assets	-6,104	-4,088	2,017	-258	-228	-199
Assets now recognised	-7,335	-125	7,210	-57	-5	-9
Other revenues ⁽³⁾	-3,127	-8,147	-5,020	-8,314	-8,476	-8,731
Total Own Source Revenues	-30,003	-22,126	7,877	-18,590	-18,831	-19,267
Net Cost Outcome One⁽⁴⁾	769,418	880,924	111,505	590,701	557,283	527,901

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Tables 4(a) and 4 (b).

Significant Variations

The major variations to Outcome One are due to:

- a net increase in military employee expenses (+\$33.5m) due to:
 - full and part year effects of the *ADF Workplace Remuneration Arrangement 2004-06* (+\$6.1m),
 - variations in allocations for current operations including in Iraq (+\$15.8m),

- new initiatives contained in the 2005-15 Defence People Plan (+\$2.0m),
- increase in the superannuation contribution rates (+0.3 per cent) (+\$0.5m),
- planned improvements to the standards of housing provided to members (+\$0.4m),
- increased number of members receiving rental allowance (+\$0.3m),
- increased costs for health service sessional fees and the purchase and maintenance of equipment (+\$0.2m),
- other variations following a revision of cost estimates including overseas allowances which have reduced due to foreign exchange variations (-\$0.7m),
- net variation in Fringe Benefits Tax payments (-\$0.6m),
- the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (-\$0.4m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$9.7m);
- a net decrease in civilian employee expenses (-\$22.7m) due to:
 - full and part year effects of the *Defence Employees Certified Agreement 2004-06* (+\$3.6m),
 - transition costs associated with the Business Improvement Project including voluntary redundancy costs (+\$1.9m),
 - additional staffing associated with current operations including in Iraq (+\$1.4m),
 - other variations in staffing numbers including recovery of shortfalls in critical skills areas (+\$0.5m),
 - additional staffing associated with 2004-05 and 2005-06 budget measures (+\$0.4m),
 - the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (+\$0.4m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$0.3m),
 - revision of leave expense estimates (+\$0.2m),
 - transition costs for regional information communications technology market-testing (+\$0.1m),
 - DMO prescription whereby Defence will no longer have an employee expense for those civilian employees working in the DMO (-\$27.3m),

- the full implementation of the outsourcing of the Defence Integrated Distribution System (-\$1.1m),
- decrease in superannuation costs as a result of lower superannuation contribution rates (-\$0.4m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$2.6m);
- a net increase in suppliers expense (+\$156.6m) due to:
 - price variations (+\$25.5m),
 - variation in foreign exchange rates (-\$0.6m),
 - prescription of the DMO including the reclassification of civilian employee expense, some depreciation expense and payment to the DMO for military employees (+\$110.7m),
 - bring forward of \$300m of Defence Capability Plan funding (operating element) (+\$14.2m),
 - net variation in logistics and other through life support costs (+\$5.5m),
 - additional funding for costs associated with Australia-United States Free Trade Agreement (+\$1.0m),
 - increased cost of disposal associated with the revised property sales program (+\$0.4m),
 - variation in expenses associated with current operations (-\$3.7m), and
 - the impact of the application of an efficiency dividend (-\$0.3m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$3.9m);
- a net decrease in inventory consumption due to the reclassification of inventory consumption to suppliers expenses due to the prescription of the DMO (-\$50.0m);
- a net decrease in depreciation and amortisation expense (-\$7.0m) due to:
 - temporary reduction in depreciation estimates expected to be increased at Additional Estimates (-\$2.1m),
 - prescription of the DMO, whereby its funding is now provided as a suppliers expense (-\$0.6m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$4.2m);
- a net decrease in the value of assets sold (-\$2.0m) due to:
 - increase as a result of the revised Property Sales Program (+\$0.5m),

- reduced budget from the sale of assets that will reside on the DMO's statement of financial position (-\$1.4m), and
- revised sales program of other plant and equipment assets (-\$1.1m);
- a net decrease in the write-down of assets (-\$4.8m) due to:
 - expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$2.7m),
 - write-down of inventory now residing on the DMO statement of financial position (-\$0.3m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$1.7m);
- a net decrease in sale of goods and services (+\$3.7m) due to:
 - price variations (-\$0.4m),
 - reduced sales of good and services due to DMO prescription (+\$3.9m),
 - variations in expected revenue between 2004-05 and 2005-06 relating to sale of fuel and sale of Defence Housing Authority annuity properties (+\$0.5m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.3m);
- a net decrease in revenue from sale of assets (+\$2.0m) due to:
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (+\$1.4m),
 - revised sales program of other plant and equipment assets (+\$1.1m), and
 - increase as a result of the revised Property Sales Program (-\$0.5m);
- a net decrease in assets now recognised (+\$7.2m) due to:
 - a net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$2.4m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$4.8m);
- a net increase in other revenues (-\$5.0m) due to:
 - other revenue linked to DMO activities (+\$0.8m),
 - increase due to the DMO's payment for military employees (-\$10.0m),
 - price variations (-\$0.4m), and

- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$4.5m).

Table 4.1.2: Breakdown of Outcome One by Output

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 1.1 – Command of Operations	356,425	371,713	15,288	369,373	395,978	389,147
Output 1.2 – Defence Force Military Operations and Exercises	401,111	499,032	97,921	210,836	137,404	116,175
Output 1.3 – Contribution to National Support Tasks	11,882	10,178	-1,704	10,491	23,901	22,579
Net Cost of Outcome One⁽³⁾	769,418	880,924	111,505	590,701	557,283	527,901

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Cross-reference to Tables 4(a), 4(b) and 4.1.1

OUTPUT STRUCTURE FOR OUTCOME ONE

Output 1.1 – Command of Operations

The Chief of Joint Operations is responsible for the delivery of Outcome One – Command of Operations in defence of Australia and its interests. Through Headquarters Joint Operations Command, the Chief of Joint Operations plans and conducts campaigns, operations, joint exercises and other activities on behalf of the Chief of the Defence Force.

Planning includes maintenance of situational awareness, preparation of operational concepts and assessment of ADF joint preparedness against the military response options that may be made available to the Government.

Effective command relies on clear command arrangements supported by timely and reliable communications and information systems.

Effective conduct of operations is also reliant on the effective contribution of logistic and supporting agencies.

Performance Targets

- Australian operational concepts are further developed to support ADF planning against credible contingencies.
- Joint Operations Command provides guidance for joint force preparedness in accordance with the Chief of the Defence Force's direction.
- Command of ADF forces is effective and the Government's strategic objectives for operations are achieved.
- Development of ADF operational command arrangements introduced in 2004 will continue.

Output 1.2 – Defence Force Military Operations and Exercises

The ADF is required to undertake a range of military operations at the Government's direction to ensure the defence of Australia and its national interests. ADF military operations, exercises and other activities contribute to the achievement of the Government's strategic objectives, defined in the Defence White Paper as defending Australia, contributing to the security of the immediate neighbourhood and supporting wider interests. Peacetime national tasks are included under Output 1.3.

ADF joint and combined exercises are included in the Program of Major Service Activities. Exercise objectives include training in warfighting and related skills, confirmation of interoperability and joint capability and effective engagement with allies and regional partners.

Performance Targets
<ul style="list-style-type: none"> • ADF operations meet their stated objectives within Government guidance. • Forces identified for operational tasks maintain required preparedness levels. • ADF forces are effectively deployed and sustained. • The Program of Major Service Activities is reviewed and modified where required. • The major ADF exercise commitments for 2005-06 are met: Exercise Mercury 05, to test ADF interaction within the national multi-jurisdictional scenario, Exercise Bersama Lima 05 and Bersama Shield 06, exercises in conjunction with the Five Power Defence Arrangements nations, Exercise Deep Sabre 05, an interdiction exercise within a proliferation security initiative scenario, Regional Counter-Terrorist Subject Matter Expert Exchange 2005, to improve regional interoperability in counter-terrorist techniques, Exercise Red Flag 06, to conduct coalition air combat training within the Integrated Air Defence System environment, and Exercise RIMPAC 06, a combined maritime warfare exercise with regional nations.

ADF Operations

Table 4.1.11 in Output 1.3 contains details of operations in support of peacetime national tasks.

Table 4.1.3: Contributing to the Security of the Immediate Neighbourhood

Operation	Objective
Anode Commenced 2003 Forces: ADF	To support the coalition police forces in maintaining the rule of law in the Solomon Islands.
Spire Commenced 2004 Forces: ADF	To contribute to United Nations support to East Timor.
Gateway Commenced 1981 Forces: Air Force	To conduct northern Indian Ocean and South China Sea maritime surveillance patrols.

Table 4.1.4: Supporting Wider Interests

Operation	Objective
Azure Commenced 2005 Forces: ADF	ADF contribution to the United Nations Mission in Sudan.
Catalyst Commenced 2003 Forces: ADF	ADF contribution in support of the rehabilitation of Iraq.
Mazurka Commenced 1982 Forces: ADF	To provide personnel to the Multinational Force and Observers to monitor the security arrangements in the Sinai.

Operation	Objective
Paladin Commenced 1956 Forces: Army	To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervises, observes and reports on the various cease-fire arrangements, truces and peace treaties that have been negotiated between Israel and neighbouring Arab nations since 1948.
Slipper Commenced 2001 Forces: ADF	To contribute to the United States-led operation against international terrorism and to the Multinational Maritime Interception Force in the Persian Gulf.
Valient Commenced 2004 Forces: Army	To equip the Republic of Fiji Military Force United Nations Assistance Mission Iraq contingent for service in Iraq and providing training assistance to the Republic of Fiji Military Force personnel protection details to assist in their preparation for service in Iraq.

Australian Defence Force Exercise Program

Exercises are presented in these statements under the following headings:

- ADF Joint Exercises.
- Combined ADF and United States Exercises.
- Combined ADF and Five Power Defence Arrangements Exercises.
- Combined ADF and New Zealand Exercises.
- Other Combined Exercises.

A number of exercises expected to be scheduled in the Program of Major Service Activities are yet to be confirmed. It is expected that further exercises will be scheduled for 2005-06 and these will be reported in the *Portfolio Additional Estimates Statements 2005-06*.

Table 4.1.5: ADF Joint Exercises

Exercise	Australian Forces	Objective
Mercury 05 October 2005	Navy, Army, Air Force and Special Forces	To test ADF interaction within the national multi-jurisdictional exercise.
Sea Eagle 05 October- November 2005	Navy and Army	To plan and conduct a basic amphibious operation in a non-hostile environment.
Sea Eagle 06 March 2006	Navy and Army	To plan and conduct a basic amphibious operation in a non-hostile environment.

Table 4.1.6: Combined ADF/United States Exercises

Exercise	Australian Forces	Objective
Pacific Reserve 05 July 2005	Army	To foster relations and interoperability between Australian and United States Army Reserve sub-units.
Tamex 05-4 July – August 2005	Navy and Air Force	To practise combined Anti-Submarine Surveillance/ Anti-Submarine Warfare operations with Royal Australian Navy guided missile conventional submarine.
Extendex 05 August 2005	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Tacit Response 2005 September 2005	Special Forces	To conduct the Australian portion of a United States-led multilateral activity. Special Forces elements will deploy to a Forward Operating Base and conduct tactical training in surrounding training areas.
Tamex 05-5 October 2005	Navy and Air Force	To practise combined Anti-Submarine Surveillance/ Anti-Submarine Warfare operations with a Royal Australian Navy guided missile conventional submarine.

Exercise	Australian Forces	Objective
Lungfish 05 September - October 2005	Navy and Air Force	To practise undersea warfare with joint independent maritime patrol aircraft cooperation and to practise and develop combined Royal Australian Navy / United States Navy submarine operations.
Dugong 05 October - November 2005	Navy	To practise mine warfare and explosive ordnance disposal.
Tricrab 06 April 2006	Navy	To improve interoperability with the United States Navy by conducting explosive ordnance demolition and mine clearance diving exercise.
Aces North 06 May - June 2006	Air Force	To practise combined / joint strike operations as part of a fighter combat instructors' course.
Gold Eagle 06 June - July 2006	Army	To further develop interoperability between the Australian Army and the United States Marine Corps in combined operations by conducting a field training or amphibious exercise.

Table 4.1.7: Combined ADF/Five Power Defence Arrangement Exercises

Exercise	Australian Forces	Participating Countries	Objective
Bersama Lima 05 September 2005	Navy, Army and Air Force	Malaysia, New Zealand, Singapore, United Kingdom	To practise and develop operational procedures and tactics with Five Power Defence Arrangement units in a joint / combined maritime exercise.
Suman Warrior 05 September - October 2005	Army	Malaysia, New Zealand, Singapore, United Kingdom	To exercise elements of the Five Power Defence Arrangement Armies / Land Forces in combined Land operations in a Command Post Exercise.
Bersama Shield April 2006	Air Force and Navy	Malaysia, New Zealand, Singapore, United Kingdom	To practise and develop Air Defence procedures and tactics with Five Power Defence Arrangement units in a joint / combined air exercise.

Table 4.1.8: Combined ADF/New Zealand Exercises

Activity; Dates	Australian Forces	Objective
PWO Sea Assessment Week 05-1 July 2005	Navy and Air Force	To ensure the ability of students to act as Defence Watch Principal Warfare Officers at sea, by conducting training and subsequent assessment.
Tasman Exchange 05 September 2005	Army	To further develop interoperability between the Australian and New Zealand armies by conducting a field training exercise.
ASWEX 05 October - November 2005	Navy and Air Force	To improve undersea warfare skills in all participating maritime units and exercise interoperability between maritime undersea warfare platforms.
PWO Sea Assessment Week 05-2 November 2005	Navy and Air Force	To ensure the ability of students to act as Defence Watch Principal War Officers at sea, by conducting training and subsequent assessment.

Activity; Dates	Australian Forces	Objective
Tasman Reserve 06 January - February 2006	Army	To further develop interoperability between the Australian and New Zealand armies by conducting a field training exercise.
Ocean Protector 06-1 January - February 2006	Navy and Air Force	To return the surface combatant, major amphibious and afloat support, submarine and mine counter measures force element groups to the minimum level of capability following a reduced activity period.
Tasmanex 06 February 2006	Navy and Air Force	To elevate closer defence relations between Australia and New Zealand in a maritime warfare exercise environment.

Table 4.1.9: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Northern Trident Deployment 2005 March - August 2005	Navy	Crete, Egypt, France (incl. La Reunion), India, Turkey, Germany, Malta, South Africa, Spain, United Kingdom	HMAS <i>Anzac</i> to conduct an extended overseas deployment to the Indian, European and African sub-continent, to conduct multi-national exercises and attend events including the 90 th Anniversary of the landing at Gallipoli, 200 th Anniversary of the Battle of Trafalgar and the death of Lord Nelson.
Long Look 05	ADF	United Kingdom and New Zealand	To broaden the experience and professional knowledge of the ADF, United Kingdom and New Zealand armed forces through mutual exchange.
Dawn Caracha 05 July 2005	Special Forces	Philippines	To develop relations and enhance interoperability with elements of Philippines Special Forces.
Temple Jade 05 July 2005	Army	Thailand	To provide an opportunity for training and exercising with a Thai rifle company exchange.
Dawn Panther 2005 July - August 2005	Special Forces	Thailand	To develop relations and interoperability between the Thai Special Forces and Australian Special Forces/Commando Regiment.
Kakadu VII / 05 July - August 2005	Navy and Air Force	Indonesia, Malaysia, New Zealand, Brunei, Philippines, Thailand, Singapore, Papua New Guinea	To develop relations and interoperability with participating regional nations.

Chapter Four

Exercise	Australian Forces	Participating Countries	Objective
Night Panther 2005 July - August 2005	Special Forces	Thailand	To develop relations and interoperability between the Thai Special Forces and Australian Special Forces / Commando Regiment.
Star Panther July - August 2005	Special Forces	Thailand	To develop relations and interoperability between the Thai Special Forces and Australian Special Forces/Commando Regiment.
Deep Sabre 05 Proliferation security initiative 05-1 August 2005	Navy	Canada, France, Germany, Holland, Japan, New Zealand, Russia, Singapore, United Kingdom, United States	To conduct a maritime weapons of mass destruction interdiction exercise in Singapore.
Mastex 05 August 2005	Navy and Air Force	Malaysia	To improve the interoperability of the ADF and the Republic of Malaysian forces in combined maritime procedures and tactics.
Pacific Airlift Rally 2005 August 2005	Air Force	Bangladesh, Brunei, Canada, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Philippines, Papua New Guinea, Republic of Korea, Russia, Singapore, Sri Lanka, Thailand, United States, Vietnam	To enhance regional engagement and coalition airlift development through a military airlift symposium and command post exercise, to exchange humanitarian airlift, airland and airdrop delivery techniques for specific regional aircraft.
Regional Counter-Terrorist Subject Matter Expert Exchange August 2005	Special Forces	Cambodia, China, India, Indonesia, Japan, Malaysia, New Zealand, Papua New Guinea, Philippines, Singapore, Thailand, United States, Vietnam	To improve interoperability by sharing counter-terrorist methodology and policy and to align tactics, techniques and procedures.
Ex Chimera Beaver August - September 2005	Special Forces	Canada	To conduct Chemical Biological Defence live-agent training.
Thai Boomerang 05 August – September 2005	Air Force	Thailand	To develop relations and interoperability between the Royal Thai Air Force and the Royal Australian Air Force.

Outcome One: Command of Operations

Exercise	Australian Forces	Participating Countries	Objective
Night Leopard September 2005	Special Forces	Brunei	To improve interoperability by conducting training with the Brunei Armed Forces Special Combat Squadron.
Night Falcon 2005 September – October 2005	Special Forces	Papua New Guinea	To develop relations and enhance interoperability with elements of Papua New Guinea Defence Force.
Equateur 05 October 2005	Joint	France (New Caledonia), New Zealand, Tonga, Vanuatu and Papua New Guinea (observers only)	To conduct operational-level planning for a non-combatant evacuation operation (protection and evacuation of several hundred civilians) in a permissive environment with French Armed Forces - New Caledonia.
Southern Tiger 05 October 2005	Army	Malaysia	To enhance interoperability between the Australian and Malaysian armies at the tactical level, in an environment unfamiliar to the Malaysian troops.
Taa Nok In Sii 05-2 October 2005	Navy and Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and Royal Australian Air Force surveillance procedures.
Vigilant Pacific 05 October 2005	Joint	Canada, United Kingdom, United States	To practice command, control and combined joint intelligence using a reality-based scenario, and incorporating a high-level threat (ie. Terrorism) in a country within the Asia-Pacific region.
Wantok Warrior 05 October 2005	Army	Papua New Guinea	To develop relations and enhance interoperability with elements of Papua New Guinea Army.

Exercise	Australian Forces	Participating Countries	Objective
Exploring Themis Psi 05-2 November 2005	To be determined	United Kingdom, United States, other Proliferation Security Initiative nations	To conduct a maritime weapons of mass destruction interdiction exercise in the Indian Ocean.
Red Flag 06 February 2006	Air Force	United States, United Kingdom	To conduct coalition air combat training within the Integrated Air Defence System environment.
Pacific Kukri 06 April 2006	Army	United Kingdom	To promote cross-army relationships and identify any training gap requirements.
Western Protector 06 Proliferation security initiative 06-1 April 2006	Navy and Air Force	Proliferation Security Initiative nations will be invited to participate	To conduct an air/ground interdiction exercise hosted by Australia.
Rimpac 06 June - July 2006	Navy and Air Force	Canada, Chile, Japan, Peru, Republic of Korea, United Kingdom, United States	To improve interoperability with regional forces to operate in coalition arrangements by conducting a combined maritime warfare exercise.

Table 4.1.10: Trilateral Exercises

Activity; Dates	Australian Forces	Participating Countries	Objective
Vital Prospect 06 May 2006	ADF	United Kingdom and United States	To practise the Deployable Joint Force Headquarters' role of planning and conducting a combined joint task force operation.

Output 1.3 – Contribution to National Support Tasks

The ADF can be called upon to provide emergency and non-emergency assistance to the Government and the Australian community in non-combat related roles. The tasks the ADF may be requested to undertake could include emergency assistance, search and rescue, disaster recovery, surveillance, security or non-emergency law enforcement roles. Tasks may be directed by the Government or requested by other civil authorities or government departments. The Government may also require the ADF to support significant international events being conducted in Australia.

The ADF also contributes to the Coastwatch civil surveillance program and Joint Offshore Protection Command tasking, providing maritime surveillance assets that are tasked routinely in accordance with the Government's direction.

Peacetime national tasks undertaken by the ADF may include the security of the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty, counter-terrorism responses, search and rescue and natural disaster relief.

Performance Targets	
•	The ADF contribution to peacetime national tasks meets Government directives.
•	Forces identified to provide Defence Assistance to the Civil Community, Defence Assistance to Civil Authorities and search and rescue maintain required preparedness levels.
•	ADF forces are effectively deployed and sustained.
•	The ADF response to requests for search and rescue and emergency assistance tasks are effectively managed and reported.
•	ADF support to the civil surveillance program, in consultation with Coastwatch, is provided at the following resource levels: <ul style="list-style-type: none"> - 250 flying hours by P-3 Orion surveillance aircraft; - 240 Regional Force Surveillance Unit patrol days; and - 1,800 patrol boats days.
•	The ADF continues to conduct minor emergency and non-emergency assistance tasks from local resources, where feasible.
•	National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively managed and reported.
•	National support tasks undertaken by the ADF as Defence Assistance to Civil Authorities are effectively managed and reported.

ADF Operations

Table 4.1.4 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and operations supporting wider interests.

Table 4.1.11: Peacetime National Tasks

Operation	Objective
Acolyte Commenced 2005 Forces: ADF	To support the 2006 Melbourne Commonwealth Games.
Cranberry Commenced 1997 Forces: ADF	To conduct surveillance in northern Australia.
Deluge Commenced 2005 Forces: ADF	To support the Asian-Pacific Economic Conference in 2007.
Estes Commenced 1980 Forces: Navy	To conduct surface patrols in Bass Strait.
Mistral Commenced 1998 Forces: Navy and Air Force	To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by contributing to Southern Ocean fisheries patrols.
Relex II Commenced 2002 Forces: ADF	To conduct air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals.

Chapter Four

Operation	Objective
Solania Commenced 1988 Forces: Navy and Air Force	To conduct South-West Pacific maritime surveillance patrols.

OUTCOME TWO – NAVY CAPABILITY

Outcome Two – Navy Capability for the Defence of Australia and its Interests

- Output 2.1 Capability for Major Surface Combatant Operations
- Output 2.2 Capability for Naval Aviation Operations
- Output 2.3 Capability for Patrol Boat Operations
- Output 2.4 Capability for Submarine Operations
- Output 2.5 Capability for Afloat Support
- Output 2.6 Capability for Mine Warfare
- Output 2.7 Capability for Amphibious Lift
- Output 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations

The Navy provides maritime forces that contribute to the defence of Australia and the security of the immediate region, support wider interests and international engagement, and conduct national tasks. This is done by providing maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, collection and evaluation of maritime intelligence, and escort duties. National tasks include maritime surveillance and response within Australia's offshore maritime zones, hydrographic, oceanographic and meteorological support operations, border protection, humanitarian assistance, and maritime search and rescue.

Planned Performance

In 2005-06, the Navy expects to continue supporting the ADF's involvement in the global war against terrorism and national tasks. Sufficient maritime combatant forces will be maintained to deploy on operations as required in military preparedness directives. The Navy will also continue to devote effort to meeting international engagement and interoperability requirements with allied and regional maritime forces. Area air warfare and anti-ship missile defence, afloat support and amphibious lift remain the Navy's highest priority for capability development, followed by undersea and littoral warfare capabilities.

A major personnel retention program, 'Sea Change', will focus on improving individual choice and better management of people's careers. The program will transform the way junior people, in particular, are managed in the Navy.

Key Risks and Limitations

Personnel

The overall uniformed workforce strength will need to be managed carefully given the recent increase in separation rates and lower recruiting achievement.

Shortages in some employment workgroups, particularly technical categories, continue to be a risk to Navy capability. The national skill shortage will impact on the Navy's ability to attract suitable candidates for technical trade positions and any increase in separation rates will be a risk to maintaining the Navy's workforce structure.

Logistic Support

Any future logistic shortfalls have the potential to affect the long-term ability of the Navy to sustain the existing force structure. The establishment of the Defence Materiel Organisation as a prescribed agency will progressively expose possible shortfalls and assist the Navy in developing appropriate remediation strategies.

Support to Operations - Renewal of Forces on Completion

The nature and tempo of concurrent ADF operations undertaken during the last few years presents a continuing challenge to the Navy, particularly with respect to the erosion of individual and collective higher end warfighting skills, as a result of the reduced availability of training assets and opportunities. Part of this challenge is to accurately capture and understand the breakdown of costs associated with operations and post-operation reconstitution periods.

Air Warfare Capability

The ageing primary air warfare system of the surface combatant force remains suitable for a range of operations, but the ability to provide long-range air warfare protection for ADF forces in higher level contingencies is limited. The anticipated operational release of HMAS *Sydney* in late 2005 following upgrade, and ongoing delivery of new short-range missiles for both frigate classes, are important early milestones in redressing the area air warfare and anti-ship missile defence deficiencies of the surface combatant force.

Submarine

The overall submarine capability continues to improve following the operational release of the Collins-class submarines in 2004. Existing programs that will maintain the 'capability edge' in a region experiencing a proliferation of submarine and anti-submarine capabilities will remain a strong focus. Retention and lateral recruiting of submariners and the management of logistic requirements to maintain the submarine capability remains a challenge.

Anti-Ship Strike

The surface combatant force is well served with the Harpoon missile as an open ocean anti-ship weapon, but this system is less effective in the littoral. Progressive upgrade to the Harpoon missile from 2005 and expected delivery of the Super Seasprite helicopter armed with the Penguin missile in 2005 will redress this shortcoming.

Undersea Warfare

Improvements in the ability of maritime surface and air forces to provide anti-submarine protection for ADF forces or maritime trade in higher level contingencies will be achieved with the planned upgrades of the Seahawk helicopter, delivery of upgraded guided missile frigates with torpedo defence systems with the lead ship due in the second half of 2005, delivery of new lightweight torpedoes from 2007, and the continuous improvement of the Collins-class submarines.

Risk Mitigation

Personnel

The Navy's ongoing strategy is to recover personnel shortfalls through a concentrated effort to improve retention, recruitment and optimise trainee throughput, while sustaining operations. Initiatives already in place to target segments of the workforce that are difficult to recruit, including seaman officers, aviators, engineering officers, doctors and technical tradespeople, will be monitored and further initiatives examined. The high national employment rate and competitive market-place will require the Navy to focus heavily on personnel retention strategies.

Logistic Support

The implementation of the Materiel Sustainment Agreements will enable the Navy, in consultation with the Defence Materiel Organisation, to review the total logistic support requirement and associated cost. This process will assist the Navy to identify any logistic shortfalls and develop mitigation strategies.

Support to Operations - Renewal of Forces on Completion

Operations, exercises and training will continue to improve the Navy's core skills and through a renewal program the Navy will reshape to ensure continued success. The renewed focus on personnel management issues will complement measures already in place to manage the operational and personnel effects on preparedness. Assets will be concentrated for effective collective skills training and personnel will be released for recreational leave and individual training to maintain the Navy's high-end warfighting skills to meet preparedness requirements for current and future operations. The Navy's Fleet Activity Management Tool, which is part of the Navy Capability Costing System, will be rolled out to Navy outputs to provide the basis for accurately capturing costs associated with operations and reconstitution periods.

Air Warfare Capability

The Navy is introducing more capable sensor and weapon systems for both the Anzac-class and guided missile frigates. The upgrade programs will enhance the air warfare effectiveness of these units leading up to the planned

introduction of the air warfare destroyer in 2013. The delivery of the Standard Missile 2 area air defence missile with mid-course guidance mode in the guided missile frigates is planned for 2009 and will significantly improve the Navy's capability for air defence.

Submarine

Submarine capability enhancements will accrue, with major improvements to warfighting capabilities, through continued development of the combat system, improved communications, sonar upgrades, and the introduction into service of a new heavyweight torpedo. Personnel risks and limitations will be mitigated through workforce sustainment plans and initiatives, including those within the Navy's 'Sea Change' program. Submarine logistic support will be managed to ensure that the submarine force is capable of meeting the preparedness requirements directed by the Chief of the Defence Force.

Anti-Ship Strike

The introduction into service of the Super Seasprite helicopters, armed with the Penguin missile, will complement the open ocean capabilities of the Harpoon missile. Upgrading the Anzac-class frigates with a Harpoon capability, as well as the approved acquisition of an enhanced Harpoon missile, will further overcome deficiencies in the littoral environment.

Undersea Warfare

A partial Seahawk helicopter sensor upgrade will occur in 2005-07 and be followed by a further mid-life upgrade from 2010-12 of sensors, communications, avionics, and airframe that will enhance the Seahawk's effectiveness in undersea warfare. The planned phasing into service of a new lightweight torpedo from 2005 will enhance the effectiveness of air and surface anti-submarine assets. The ongoing combat system, sonar, communications, and weapon improvements to the Collins-class submarines will increase their anti-submarine capability.

Cost Summary of Outcome Two

Total Budgeted Price to the Government

Table 4.2.1: Outcome Two – Navy Capability for the Defence of Australia and its Interests

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾ \$'000	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees – Military	1,261,617	1,302,810	41,192	1,344,582	1,404,676	1,547,051
Employees – Civilian	331,213	258,097	-73,116	262,968	279,399	295,917
Sub total employees	1,592,830	1,560,907	-31,924	1,607,549	1,684,075	1,842,968
Suppliers Expense	1,464,381	1,921,679	457,298	1,968,826	2,112,546	2,030,473
Inventory Consumption	148,492	-	-148,492	-	-	-
Sub total suppliers	1,612,873	1,921,679	308,806	1,968,826	2,112,546	2,030,473
Grants	295	297	2	303	309	523
Depreciation and amortisation	1,086,046	945,478	-140,568	930,608	979,770	995,096
Value of assets sold	27,529	18,452	-9,078	1,220	1,088	954
Write-down of assets	169,878	12,654	-157,224	10,005	6,320	6,320
Borrowing costs	7,619	7,749	130	7,904	6,495	6,268
Other expenses	-1	-	1	-	-	-
Total operating expenses from ordinary activities	4,497,069	4,467,215	-29,855	4,526,414	4,790,602	4,882,601
Revenues						
Sale of goods and services	-59,867	-52,380	7,487	-53,037	-54,120	-54,786
Revenue from sale of assets	-27,529	-18,452	9,078	-1,220	-1,088	-954
Assets now recognised	-135,302	-5,328	129,974	-690	1,303	1,104
Other revenues ⁽³⁾	-18,940	-41,898	-22,958	-42,508	-43,327	-44,431
Total Own Source Revenues	-241,639	-118,058	123,581	-97,455	-97,232	-99,067
Net Cost Outcome Two⁽⁴⁾	4,255,431	4,349,157	93,726	4,428,959	4,693,370	4,783,534

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Tables 4(a) and 4(b).

Significant variations

The major variations to Outcome Two are due to:

- a net increase in military employee expenses (+\$41.2m) due to:
 - full and part year effects of the *ADF Workplace Remuneration Arrangement 2004-06* (+\$34.6m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$11.5m),
 - increase in the superannuation contribution rates (+0.3 per cent) (+\$2.8m),

- planned improvements to the standards of housing provided to members (+\$2.4m),
- increased number of members receiving rental allowance (+\$1.9m),
- increased costs for health service sessional fees and the purchase and maintenance of equipment (+\$1.1m),
- other variations following a revision of cost estimates including overseas allowances which have reduced due to foreign exchange variations (-\$4.0m),
- net variation in Fringe Benefits Tax payments (-\$3.1m),
- the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (-\$2.2m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$10.9m);
- a net decrease in civilian employee expenses (-\$73.1m) due to:
 - full and part year effects of the *Defence Employees Certified Agreement 2004-06* (+\$14.1m),
 - transition costs associated with the Business Improvement Project including voluntary redundancy costs (+\$7.4m),
 - the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (+\$2.2m),
 - other variations in staffing numbers including recovery of shortfalls in critical skills areas (+\$1.9m),
 - additional staffing associated with 2004-05 and 2005-06 budget measures (+\$1.7m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$1.1m),
 - revision of leave expense estimates (+\$0.8m),
 - DMO prescription whereby Defence will no longer have an employee expense for those civilian employees working in the DMO (-\$100.7m),
 - transition costs for regional information communications technology market-testing (+\$0.3m),
 - the full implementation of the outsourcing of the Defence Integrated Distribution System (-\$4.0m),
 - decrease in superannuation costs as a result of lower superannuation contribution rates (-\$1.6m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$3.7m);

- a net increase in suppliers expense (+\$457.3m) due to:
 - price variations (+\$74.3m),
 - variation in foreign exchange rates (-\$1.7m),
 - prescription of the DMO including the reclassification of civilian employee expense, some depreciation expense and payment to the DMO for military employees (+\$353.2m),
 - bring forward of \$300m of Defence Capability Plan funding (operating element) (+\$41.5m),
 - net variation in logistics and other through life support costs (+\$16.0m),
 - additional funding for costs associated with Australia-United States Free Trade Agreement (+\$2.8m),
 - increased cost of disposal associated with the revised property sales program (+\$1.1m),
 - the application of an efficiency dividend on Defence (-\$0.9m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$29.1m);
- a net decrease in inventory consumption due to the reclassification of inventory consumption to suppliers expenses due to the prescription of the DMO (-\$148.5m);
- a net decrease in depreciation and amortisation expense (-\$140.6m) due to:
 - temporary reduction in depreciation estimates expected to be increased at Additional Estimates (-\$82.7m),
 - prescription of the DMO, whereby its funding is now provided as a suppliers expense (-\$24.9m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$14.0m);
- a net decrease in the value of assets sold (-\$9.1m) due to:
 - increase as a result of the revised Property Sales Program. (+\$2.4m),
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (-\$6.5m),
 - revised sales program of other plant and equipment assets (-\$5.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.2m);

- a net decrease in the write-down of assets (-\$157.2m) due to:
 - expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$141.3m),
 - write-down of inventory now residing on the DMO statement of financial position (-\$14.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$1.2m);
- a net decrease in sale of goods and services (+\$7.5m) due to:
 - price variations (-\$2.2m),
 - variations in expected revenue between 2004-05 and 2005-06 relating to sale of fuel and sale of Defence Housing Authority annuity properties (+\$2.7m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$13.9m);
- a net decrease in revenue from sale of assets (+\$9.1m) due to:
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (+\$6.5m),
 - revised sales program of other plant and equipment assets (+\$5.1m),
 - increase as a result of the revised Property Sales Program (-\$2.4m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.2m);
- a net decrease in assets now recognised (+\$130.0m) due to:
 - a net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$101.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$28.7m);
- a net increase in other revenues (-\$23.0m) due to:
 - other revenue linked to DMO activities (+\$4.2m),
 - increase due to the DMO's payment for military employees (-\$42.6m),
 - price variations (-\$1.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.2m).

Table 4.2.2: Breakdown of Outcome Two by Output

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 2.1 – Capability for Major Surface Combatant Operations	1,614,053	1,605,701	-8,351	1,630,527	1,739,482	1,773,750
Output 2.2 – Capability for Naval Aviation Operations	491,596	504,698	13,101	599,695	631,935	647,718
Output 2.3 – Capability for Patrol Boat Operations	241,596	277,648	36,052	291,179	307,524	322,538
Output 2.4 – Capability for Submarine Operations	774,183	779,765	5,582	708,121	745,606	728,873
Output 2.5 – Capability for Afloat Support	201,017	214,290	13,273	216,717	228,895	234,427
Output 2.6 – Capability for Mine Warfare	357,641	355,832	-1,809	360,946	380,780	393,078
Output 2.7 – Capability for Amphibious Lift	369,173	370,160	987	372,965	394,524	405,524
Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	206,172	241,063	34,891	248,810	264,625	277,625
Net Cost of Outcome Two ⁽³⁾	4,275,431	4,349,157	93,726	4,428,959	4,693,370	4,783,534

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Cross-reference to Tables 4(a), 4(b) and 4.2.1.

OUTPUT STRUCTURE FOR OUTCOME TWO

Output 2.1 – Capability for Major Surface Combatant Operations

The major surface combatant force consists of twelve frigates made up of six Adelaide-class guided missile frigates (FFG) and six Anzac-class frigates. A seventh Anzac-class frigate will be delivered in 2005, with all eight planned to be in service by the end of 2006. In accordance with the Government's decision taken after the 2003 Defence Capability Review, two guided missile frigates will be withdrawn from service by end of 2006, maintaining surface combatant numbers at 12. For those remaining, the FFG Upgrade Implementation project will ensure guided missile frigate survivability in the increasingly sophisticated maritime warfare environment. This rolling program commenced in late 2003 and is due to complete in 2008. Work has begun to provide an air warfare destroyer capability by 2013 to be delivered by Project Sea 4000, Air Warfare Destroyer.

The surface combatants possess combat capabilities in all three primary warfare areas (air, surface and undersea) and can also provide limited combined and joint ADF command and control facilities for ADF operations. They are fully

aviation capable and are able to sustain independent operations in remote areas for prolonged periods of time. They are essential force elements in any task group where the ADF deploys for maritime operations activity at all levels. Their flexibility and versatility, particularly with an aviation flight embarked, make them a first resort in contingencies throughout the broad spectrum of maritime operations.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Guided missile frigates	6	1,262 URD ⁽¹⁾
Anzac-class frigates	6	1,787 URD

Note

1. Unit Ready Days (URD) is the number of days that a force element is available for tasking, by the Maritime Commander, either outside of major maintenance and within planned readiness requirements or in accordance with contracted availability (see *Glossary* for further explanation).

Output 2.2 – Capability for Naval Aviation Operations

The naval aviation force comprises 16 Seahawk helicopters, six Sea King helicopters and 13 Squirrel helicopters. The force is being enhanced by the introduction of 11 Super Seasprite helicopters, which are being accepted progressively with limited operational capabilities and are completing flight trials and initial squadron training. The 11th Super Seasprite is expected to be delivered in August 2005. Super Seasprite helicopters with full mission capability should begin deployment to sea in early 2006. Organic frigate-based naval aviation assets are part of, and extend substantially, the sensor and weapons systems of the parent ship. Seahawks and, in the future, Super Seasprites contribute to the Navy’s capability for surface warfare (strike), undersea warfare, reconnaissance, surveillance, maritime support, search and rescue, medical evacuation, electronic warfare and aircrew training. The provision of maritime aviation support is the primary role of the Sea King helicopters, although all naval aviation assets can contribute. Amphibious operations from HMA Ships *Success*, *Kanimbla*, *Manoora* or *Tobruk* are supported by the Sea Kings.

Naval aviation is dependent on the Air Force for the initial training of aviation technicians and general flying training for officer aircrew. Initial helicopter aircrew training is subsequently conducted by the Navy using the Squirrel helicopters. The Squirrel has nearly reached its planned withdrawal date. A proposal to replace the Squirrel with a training system that satisfies Navy

helicopter aircrew training needs is being progressed as part of Project AIR 9000. The new training system will, in time, become a joint Navy and Army Helicopter Aircrew Training System. Naval aviation also manages the operation of the Kalkara aerial target system, which supports fleet and Air Force training. An extension of the contract, which supports the Kalkara, is being negotiated to maintain the aerial target system for a further three years until the Joint Project 66, Replacement for Air Defence Targets, can fulfil the ADF aerial target system function.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Aircraft	Number	Flying Hours
Seahawks	16	4,200
Sea Kings	6 ⁽¹⁾	2,000
Squirrels	13 ⁽²⁾	4,000
Super Seasprites	11	1,800
Kalkaras	10	39 presentations ⁽³⁾

Notes

1. One Sea King helicopter was lost during Operation Sumatra Assist II in April 2005.
2. Twelve aircraft are operated, the thirteenth aircraft is held for attrition purposes.
3. Kalkara is an unmanned aerial target system used for Fleet and Air Force support. Presentations refer to the number of instances during which the system is used as a target in training or system testing exercises.

Output 2.3 – Capability for Patrol Boat Operations

During 2005-06 the patrol boat force will consist of a combination of Fremantle-class patrol boats and Armidale-class patrol boats. By the end of 2005-06 ten (of an original 15) Fremantle-class patrol boats will have been decommissioned, and five Armidale-class patrol boats with seven crews will have been brought into service. The last Fremantle-class patrol boat is due to be decommissioned in January 2007. The remaining seven Armidale-class patrol boats and eleven crews are due to be progressively brought into service by July 2007. The combination of crews and hulls establishes a multi-crewing patrol system, which will result in an overall increase in operational availability for the force.

The Government has announced the approval to procure an additional two Armidale-class patrol boats for North West Shelf Protection. This will be delivered through an amendment to the current contract with Defence Maritime Services, subject to successful contract negotiation.

The patrol boat force makes a large and effective contribution to the civil surveillance program (managed by Coastwatch), to Joint Offshore Protection

Command tasking and to the protection of Australia’s sovereignty, through the provision of a patrol, response and surveillance capability in Australia’s maritime approaches. Patrol boats contribute to regional engagement and security through the conduct of operations, port visits and exercises with regional nations.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Fremantle-class patrol boats ⁽¹⁾	14 ⁽²⁾	3,906 URD
Armidale-class patrol boats	1 ⁽³⁾	928 URD

Notes

1. Fremantle-class patrol boats were formerly referred to as Patrol Boats. The Fremantle-class is being replaced with the Armidale-class patrol boats.
2. The number of Fremantle-class patrol boats will reduce from 14 to five during 2005-06. The *Portfolio Budget Statements* 2004-05 (p. 136) reported that the number of hulls would reduce to 12. The number of vessels planned for decommissioning during 2004-05 was changed from three to one, to increase operational performance.
3. The number of Armidale-class patrol boats will increase from one to five during 2005-06 and the five vessels will have seven crews. Multi-crewing will be used to enhance availability of the vessels.

Output 2.4 – Capability for Submarine Operations

The Navy has six Collins-class submarines. Two of the six submarines have been enhanced to provide a higher level of capability. Projects are in place to progressively enhance the combat capability of all six submarines. HMAS *Collins* will re-enter service in August 2005 after completing a protracted full-cycle docking.

The submarine force is capable of fulfilling the roles of maritime strike and interdiction, maritime surveillance, reconnaissance and intelligence collection, undersea warfare, and special forces operations. Submarines may be employed to operate independently either as an element of the ongoing national intelligence collection effort or as a forward reconnaissance unit in an area of heightened tension. They may also be employed as one of a number of key elements in task group operations that deny opponents the use of Australia’s maritime approaches. The submarine force is also able to conduct operations in a combined or coalition force.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Submarines	6 ⁽¹⁾	1,560 URD

Note

1. HMAS *Waller* will remain in full-cycle docking for all of 2005-06.

Output 2.5 – Capability for Afloat Support

This output provides a capability for afloat support consisting of an oil tanker and a replenishment ship. This capability has a major role in the provision of afloat tactical logistics, particularly underway replenishment. It also has the capacity for logistic support to land forces and utility in a range of peacetime national tasks. The afloat support capability through the provision of logistic support contributes significantly to the performance of Output 2.1 Capability for Major Surface Combatant Operations. The afloat support units provide important logistic support to operations and exercises and contribute to Defence international engagement through these activities. Project SEA 1654 is being progressed to provide an improved afloat support capability, which will see the environmentally compliant, double-hulled, HMAS *Sirius*, commissioned into the Navy during 2006-07 and the concurrent phase out of HMAS *Westralia*.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Oil tanker	1	365 URD
Replenishment ship	1	365 URD

Output 2.6 – Capability for Mine Warfare

The mine warfare force comprises six Huon-class coastal mine hunters, two auxiliary minesweepers and two clearance diving teams.

The Huon-class mine hunters provide an advanced mine hunting and clearance capability, and a limited maritime patrol and surveillance capability. The mine hunters contribute to regional engagement and security through the conduct of

port visits and exercises with regional nations. Two auxiliary minesweepers deliver influence mine and moored minesweeping capabilities. Clearance diving teams support the full spectrum of mine warfare operations, including explosive ordnance and improvised explosive device disposal.

Two Huon-class coastal mine hunters will be placed in extended readiness, a change in operational status, in January and April 2006 with the ability to bring them back into service should the need arise.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Coastal mine hunters	6 ⁽¹⁾	1,826 URD
Auxiliary minesweepers	2	730 URD
Clearance diving teams	2	730 URD

Note

1. Two coastal mine hunters will be placed in extended readiness in January and April 2006, reducing the number of operational vessels to four.

Output 2.7 – Capability for Amphibious Lift

The output provides capability for amphibious lift consisting of two amphibious landing ships, a heavy landing ship, and six heavy landing craft. These elements provide the core of the ADF amphibious capability. The major fleet units provide amphibious lift and support to landing forces. They also have utility in a broad range of peacetime national tasks including evacuation operations, disaster relief, and humanitarian assistance and peace support operations. The ships inherent capability for command and control, communications, helicopter operations and medical support facilities make them extremely versatile. This capability is a key contributor to the ADF joint amphibious capability.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Heavy landing ship	1	219 URD
Amphibious landing ships	2	577 URD
Heavy landing craft	6	2,013 URD

Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations

The hydrographic survey force comprises two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne depth-sounder aircraft and a deployable geospatial support team, all supported by the Australian Hydrographic Office in Wollongong, New South Wales.

Oceanographic operations are conducted by the Operational Meteorological and Oceanographic Centre, the Defence Oceanographic Data Centre, the Fleet Weather and Oceanographic Centre in Sydney, New South Wales and the Naval Air Station Weather and Oceanographic Centre in Nowra, New South Wales.

All elements provide outcomes to the Navy and national and international authorities, with a primary Defence focus on military geospatial information and rapid environmental assessment initiatives. The national tasking supports navigation safety, infrastructure development, preservation of the marine environment and obligations to manage hydrographic and oceanographic data.

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards to conduct survey tasking, produce navigational information and provision of oceanographic and meteorological support. • Achieve mission capability for assigned tasks. • Achieve <i>HydrOcscheme 2004-07</i> data and surveying tasking requirements to meet national hydrographic surveying and charting obligations.

Chapter Four

Vessel/Aircraft/Unit/Chart Production	Number	Budget Estimate
Hydrographic ships	2	730 URD
Survey motor launches	4	1,178 URD
Laser airborne depth sounder aircraft	1	810 hours
Deployable geospatial support team	1	Availability 365 days; planned deployments 113 days
Australian Hydrographic Office ⁽¹⁾	1	Availability 365 days; Chart production 245 days
Fleet Weather and Oceanographic Centre ⁽¹⁾	1	Availability 365 days ⁽²⁾
Naval Air Station Weather and Oceanographic Centre ⁽¹⁾	1	Availability 240 days
Mobile meteorological and oceanographic teams ⁽¹⁾⁽³⁾	1	Availability 730 days; Planned deployments 300 days
Chart production: - New charts/editions - New charts/diagrams for Navy use only - Electronic navigational chart cells		30 8 103
Environmental brief production ⁽¹⁾ : - New briefs/updates - Exercise-specific briefs		8 2
Oceanographic database production ⁽¹⁾ : - Complete database updates		6

Notes

1. A new quantitative performance target associated with preparedness and/or HydrOcscheme 2004-07 outputs.
2. The Fleet Weather Oceanographic Office is available 24 hours per day.
3. Mobile meteorological and oceanographic teams are operational units of the Operational Meteorological and Oceanographic Centre.

OUTCOME THREE – ARMY CAPABILITY

Outcome 3 – Army Capability for the Defence of Australia and its Interests

- Output 3.1 Capability for Special Operations
- Output 3.2 Capability for Medium Combined Arms Operations
- Output 3.3 Capability for Light Combined Arms Operations
- Output 3.4 Capability for Army Aviation Operations
- Output 3.5 Capability for Ground-Based Air Defence
- Output 3.6 Capability for Combat Support Operations
- Output 3.7 Capability for Regional Surveillance
- Output 3.8 Capability for Operational Logistic Support to Land Forces
- Output 3.9 Capability for Motorised Combined Arms Operations
- Output 3.10 Capability for Protective Operations

The Army contributes to the achievement of the Government's defence objectives through the provision of capabilities for land and special operations. The Army also provides forces for peacetime national tasks, including forces with a capability to enhance the national domestic security response to terrorist, chemical, biological, radiological or explosive incidents.

The Army provides capabilities that centre around special forces; light, medium and motorised combined arms operations; army aviation; ground-based air defence; combat and logistic support; and units for regional surveillance and protective operations.

The Army's capabilities provide the capacity to conduct:

- shaping and influencing operations, including operations to prevent the effective operational command and control of adversary forces by influencing, degrading, or destroying their operational systems;
- land-focused offensive operations through pre-emptive or reactive operations to destroy enemy forces or power projection assets, including command, control and communications nodes;
- ground-based air defence;
- peace support operations with the intention of establishing a stable security environment through the presence of military forces, either armed or unarmed;
- operational logistic support to sustain forces through the maintenance of lines of communications to a forward operating base and by providing distribution, materiel support, support engineering, health services support, personnel services and civil affairs;

- counter-terrorism operations to defeat terrorism throughout the entire threat spectrum, including protection from terrorist acts, offensive measures taken to prevent, deter and respond to terrorism, and providing support to incidents involving the use of chemical, biological or radiological materials;
- consequence management operations to provide detection, identification, marking, warning, reporting and decontamination of chemical, biological or radioactive material;
- non-combatant evacuation operations to protect Australian nationals and approved foreign nationals where host nations are unwilling or unable to provide security; and
- humanitarian assistance operations in support of the civil populace in times of significant need and disaster.

Planned Performance

The Army intends to achieve its performance milestones in 2005-06 by balancing the requirements to support operations with the need to meet extant preparedness requirements and to develop the Army's core capabilities.

Support to Operations

In 2005-06, the Army's first priority will be to continue to support forces and individuals deployed on operations. These include forces and individuals deployed to the Middle East Area of Operations, Israel, Syria, Lebanon, Egypt and the Solomon Islands.

Meeting Preparedness Requirements

The Army will continue to provide ready forces as directed by the Government and the Chief of the Defence Force Preparedness Directive, including five infantry battalion groups and one commando unit at 90 days readiness or less. In addition, the Army has developed a High Readiness Reserve capability which includes seven company-sized Reserve Response Forces to enhance the Army's domestic security response capability. Meeting preparedness requirements will be the Army's primary performance measure.

Developing the Army's Core Capabilities

The Army will continue to enhance its ability to sustain a brigade group offshore for extended periods and a battalion group for short-notice contingency operations. In particular, the development of the Army's core capabilities in 2005-06 will focus on the concept of 'Hardening and Networking the Army', enhancing its ability to generate its combat weight, to support deployed forces and to contribute to domestic security.

The Army will continue to develop its combat weight through developments in the mobility, firepower and protection of existing force elements by:

- continuing the procurement of the Abrams M1A1 main battle tank through a Foreign Military Sales case with the United States for introduction into service in 2007;
- accepting the Bushmaster infantry mobility vehicle into service during 2005;
- procuring additional Javelin direct fire guided weapons for the remainder of the land forces by 2006;
- continuing procurement activities for the MRH-90 helicopter to provide additional troop lift;
- implementing the operational capability of the Army's armed reconnaissance helicopters;
- continuing the upgrade of the M113 armoured personnel carrier fleet for delivery in 2006;
- submitting a first pass proposal to the Government for acquisition of an indirect fire support system; and
- enhancing the existing Black Hawk helicopter fleet with ballistic protection and self-protection capabilities.

The Army will continue to maximise its ability to sustain deployed forces through:

- developing an Army sustainment model designed to ensure that a brigade and battalion groups can be deployed continually;
- enhancing a deployable medical facility for deployed forces for delivery in 2005;
- introducing into service an advanced water purification and bulk liquid distribution system; and
- developing a detailed second pass proposal to the Government to replace the field vehicle and trailer capability for submission in 2006-07.

The Army will continue to develop its contribution to domestic security operations, primarily through its ongoing development of the Tactical Assault Group (East) and the Incident Response Regiment.

The Army will continue to develop its intelligence capabilities through the delivery of:

- additional ground surveillance radar, thermal imagery and unattended ground sensors; and
- a tactical unmanned aerial vehicle for land forces in 2009.

Key Risks and Limitations

The Army will seek to achieve its planned performance through the mitigation of key risks identified in the Defence Management and Finance Plan, including the remediation of personnel and logistic deficiencies within the Army.

Personnel

To support the introduction of new capabilities while maintaining preparedness requirements, the Army's average paid strength for the year is forecast at 25,484 for 2005-06, and is projected to grow to 26,442 by 2009-10. Recruiting and retention is becoming more challenging. Some ranks and trades, such as health services, engineers, technicians and linguists, remain a concern.

Logistic Support

The Army has experienced logistic challenges over the past year with some ammunition shortages and difficulties in maintaining the general service vehicle fleet. Remediation plans, including increases in ammunition holdings, enhanced maintenance programs for key Army fleets, and the replacement of a range of ageing equipment, will continue.

Infrastructure

The construction industry has experienced strong growth in the past few years resulting in real cost increases. This, coupled with increases in Defence's statutory compliance requirements, has created challenges to the delivery of the Army's infrastructure requirements.

Introducing New Capabilities

New Army capabilities are delivered through a combination of major and minor capital procurement projects that either replace or enhance existing capabilities or introduce new capabilities. ANAO *Audit Report No. 25 2004-05* highlighted the need for the Army to maintain a strong focus on the successful integration of capabilities due for delivery through the Defence Capability Plan.

Risk Mitigation

Personnel

The development of an Army Sustainment Model will help the Army identify and develop its personnel for operations. The Army Capability Implementation Plan and Army Personnel Establishment Plan will help the Army to manage its personnel requirements to enable timely recruitment and training, and to build new capabilities as specified in the Defence White Paper. Army continues to pursue initiatives to improve recruiting and retention, and to remediate critical workforce areas.

Logistic Support

The Army continues to develop the Army Equipment Establishment Plan that will inform the Army's equipment planning process and set the priorities for equipping the Army. The Army is also benefiting in the short-term from additional funding in support of logistic shortfalls for the general service B vehicles and explosive ordnance.

Infrastructure

The Army is working with other Defence Groups to develop strategies to relieve the pressures on capability delivery associated with infrastructure. Recent initiatives have included the development of strategic planning guidance for the Army's future use of the Defence estate and other estate planning initiatives. The Army has also recently adopted an advocacy / sponsorship role for Defence training areas within Australia in order to advance their continued development to meet current and emerging ADF capability needs.

Introducing New Capabilities

The Army has identified the issues that affect the successful introduction of a new or enhanced capability into service. Generically these are titled the 'Fundamental Inputs to Capability' and the Army seeks to ensure that the development of facilities, training and personnel are considered along with the capital equipment. To ensure the timely consideration of these issues, the Army holds a number of reviews at various stages of each project's life-cycle to synchronise these issues and prepare the way for successful introduction of the capability. Additionally, the Army is in the process of developing a formalised system for acceptance of new capabilities into service. The process will be based on an operational evaluation of the delivered capability prior to operational release by the Chief of Army.

Cost Summary for Outcome Three

Total Budgeted Price to the Government

Table 4.3.1: Outcome Three – Army Capability for the Defence of Australia and its Interests

	Projected Result ⁽¹⁾ 2004-05 \$'000	PBS Budget Estimate 2005-06 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
Operating expenses						
Employees – Military	2,504,416	2,604,211	99,795	2,714,465	2,866,097	3,183,390
Employees – Civilian	414,145	348,657	-65,488	352,265	375,736	399,513
Sub total employees	2,918,561	2,952,868	34,307	3,066,731	3,241,833	3,582,903
Suppliers Expense	1,347,339	1,904,309	556,970	2,096,551	2,258,890	2,184,495
Inventory Consumption	317,108	-	-317,108	-	-	-
Sub total suppliers	1,664,447	1,904,309	239,862	2,096,551	2,258,890	2,184,495
Grants	598	602	4	614	626	1,060
Depreciation and amortisation	740,905	684,789	-56,115	707,584	743,674	756,626
Value of assets sold	65,610	43,621	-21,988	2,567	2,251	1,930
Write-down of assets	262,798	19,392	-243,406	15,324	9,657	9,657
Borrowing costs	14,173	14,400	227	14,689	12,071	11,649
Other expenses	6	-	-6	-	-	-
Total operating expenses from ordinary activities	5,667,098	5,619,982	-47,116	5,904,060	6,269,003	6,548,319
Revenues						
Sale of goods and services	-111,313	-76,828	34,485	-78,356	-79,903	-81,431
Revenue from sale of assets	-65,610	-43,621	21,988	-2,567	-2,251	-1,930
Assets now recognised	-188,081	-10,696	177,384	-5,972	-972	-1,101
Other revenues ⁽³⁾	-23,715	-75,909	-52,194	-77,568	-79,107	-81,150
Total Own Source Revenues	-388,719	-207,056	181,663	-164,463	-162,233	-165,612
Net Cost Outcome Three⁽⁴⁾	5,278,379	5,412,926	134,547	5,739,597	6,106,770	6,382,707

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Tables 4(a) and 4(b).

Significant variations

The major variations to Outcome Three were due to:

- a net increase in military employee expenses (+\$99.8m) due to:
 - full and part year effects of the *ADF Workplace Remuneration Arrangement 2004-06* (+\$69.2m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$23.0m),
 - increase Average Funded Strength in the Army of 95 positions (+\$6.8m),

- increase in the superannuation contribution rates (+0.3 per cent) (+\$5.6m),
- planned improvements to the standards of housing provided to members (+\$4.8m),
- increased number of members receiving Rental Allowance (+\$3.8m),
- increased costs for health service sessional fees and the purchase and maintenance of equipment (+\$2.2m),
- other variations following a revision of cost estimates including overseas allowances which have reduced due to foreign exchange variations (-\$8.0m),
- net variation in Fringe Benefits Tax payments (-\$6.3m),
- estimated lower Army Reserve days due to recruitment difficulties and increased Full Time Service (-\$5.0m),
- the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (-\$4.3m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$8.0m);
- a net decrease in civilian employee expenses (-\$65.5m) due to:
 - full and part year effects of *the Defence Employees Certified Agreement 2004-06* (+\$19.1m),
 - transition costs associated with the Business Improvement Project including voluntary redundancy costs (+\$9.9m),
 - the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (+\$4.3m),
 - other variations in staffing numbers including recovery of shortfalls in critical skills areas (+\$2.6m),
 - additional staffing associated with 2004-05 and 2005-06 budget measures (+\$2.3m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$1.5m),
 - revision of leave expense estimates (+\$1.1m),
 - transition costs for regional information communications technology market-testing (+\$0.4m),
 - DMO prescription whereby Defence will no longer have an employee expense for those civilian employees working in DMO (-\$100.2m),
 - the full implementation of the outsourcing of the Defence Integrated Distribution System (-\$4.0m),

- decrease in superannuation costs as a result of lower superannuation contribution rates (-\$2.2m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.3m);
- a net increase in suppliers expense (+\$557.0m) due to:
 - price variations (+\$79.4m),
 - variation in foreign exchange rates (-\$1.8m),
 - prescription of the DMO including the reclassification of civilian employee expense, some depreciation expense and payment to DMO for military employees (+\$388.8m),
 - bring forward of \$300m of Defence Capability Plan funding (operating element) (+\$44.3m),
 - net variation in logistics and other through life support costs (+\$17.1m),
 - increased cost of disposal associated with the revised property sales program (+\$1.2m),
 - additional funding for costs associated with Australia-United States Free Trade Agreement (+\$3.0m),
 - the impact of the application of an efficiency dividend (-\$1.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$25.8m);
- a net decrease in inventory consumption due to a reclassification of inventory consumption to suppliers expenses due to the prescription of the DMO (-\$317.1m);
- a net decrease in depreciation and amortisation expense (-\$56.1m) due to:
 - temporary reduction in depreciation estimates expected to be increased at Additional Estimates (-\$59.9m),
 - prescription of DMO, whereby its funding is now provided as a suppliers expense (-\$18.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$21.8m);
- a net decrease in the value of assets sold (-\$22.0m) due to:
 - increase as a result of the revised Property Sales Program (+\$5.7m),
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (-\$15.4m),
 - revised sales program of other plant and equipment assets (-\$12.2m), and

- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.1m);
- a net decrease in the write-down of assets (-\$243.4m) due to:
 - expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$216.5m),
 - write-down of inventory now residing on the DMO statement of financial position (-\$22.6m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$4.2m);
- a net increase in borrowing costs due to progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.2m);
- a net decrease in sale of goods and services (+\$34.5m) due to:
 - price variations (-\$3.3m),
 - reduced sales of good and services due to DMO prescription (+\$30.6m),
 - variations in expected revenue between 2004-05 and 2005-06 relating to sale of fuel and sale of Defence Housing Authority annuity properties (+\$4.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$3.2m);
- a net decrease in revenue from sale of assets (+\$22.0m) due to:
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (+\$15.4m),
 - revised sales program of other plant and equipment assets (+\$12.2m),
 - increase as a result of the revised Property Sales Program (-\$5.7m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.1m);
- a net decrease in assets now recognised (+\$177.4m) due to:
 - decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$203.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$25.8m);

- a net increase in other revenues (-\$52.2m) due to:
 - price variations (-\$3.3m),
 - other revenue linked to DMO activities (+\$7.6m),
 - non-recurrence of insurance settlement relating to the damage at Holsworthy Barracks (+\$4.0m),
 - increase due to DMO's payment for military employees (-\$53.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$6.7m).

Table 4.3.2: Breakdown of Outcome Three by Output

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 3.1 – Capability for Special Operations	449,178	500,281	51,103	519,363	552,621	577,865
Output 3.2 – Capability for Medium Combined Arms Operations	900,989	926,273	25,285	953,871	1,013,268	1,054,450
Output 3.3 – Capability for Light Combined Arms Operations	1,010,334	1,030,887	20,554	1,118,808	1,191,943	1,260,513
Output 3.4 – Capability for Army Aviation Operations	540,343	577,197	36,854	594,598	634,667	653,690
Output 3.5 – Capability for Ground-Based Air Defence	121,359	129,625	8,266	134,823	143,414	152,274
Output 3.6 – Capability for Combat Support Operations	410,551	384,632	-25,919	397,833	423,003	446,364
Output 3.7 – Capability for Regional Surveillance	147,388	124,492	-22,896	127,319	135,442	139,695
Output 3.8 – Capability for Operational Logistic Support to Land Forces	561,968	575,652	13,683	595,586	630,355	664,860
Output 3.9 – Capability for Motorised Combined Arms Operations	575,264	550,510	-24,754	567,524	603,955	634,554
Output 3.10 – Capability for Protective Operations	561,005	613,377	52,372	729,871	778,103	798,443
Net Cost of Outcome Three⁽³⁾	5,278,379	5,412,926	134,547	5,739,597	6,106,770	6,382,707

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Cross-reference to Tables 4(a), 4(b) and 4.3.1.

OUTPUT STRUCTURE FOR OUTCOME THREE

Output 3.1 – Capability for Special Operations

The special operations capability contributes to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. This capability exploits deception and surprise and employs techniques which are discreet, non-escalatory, avoid collateral damage and which span the continuum of specialist conventional to unconventional operations.

The capability for special operations is grouped in Special Operations Command and is commanded through Headquarters Special Operations. Special Operations Command consists of:

- a command headquarters;
- a Special Air Service regiment;
- a Regular Army commando regiment;
- an Army Reserve commando regiment;
- an Incident Response regiment; and
- a combat service support company.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, and• Achieve a level of training that maintains core skills and professional standards across all warfare (and counter-terrorist) areas.

Output 3.2 – Capability for Medium Combined Arms Operations

The medium combined arms operations capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability provides light mechanised and light armoured forces for more demanding contingencies using the effects of surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces' plans, cohesion and morale. It achieves this through engaging with the enemy in close combat using mobility, protection and integral firepower, all of which arise from the employment of the combined arms team.

The capability for medium combined arms operations is grouped in 1st Brigade and is commanded through Headquarters 1st Brigade. The 1st Brigade consists of:

- a brigade headquarters;
- an armoured regiment;
- a cavalry regiment;
- a medium artillery regiment;
- a combat engineer regiment;
- a command support regiment;
- a mechanised infantry battalion; and
- a combat service support battalion.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness notice, and• Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.3 – Capability for Light Combined Arms Operations

The light combined arms operations capability contributes to the strategic tasks of securing our immediate neighbourhood, defending Australia and supporting peacetime national tasks. The capability provides light, parachute and air-mobile forces available for immediate deployment and is supported by specialist components drawn from combat support, fire support and logistic units. It uses strategic, operational and tactical mobility to exploit its flexibility, adaptability and utility across the spectrum of conflict. The capability achieves this through surprise, rapidity of execution, and a capacity to seize and hold ground.

The capability for light combined arms operations is grouped in the 3rd Brigade, is commanded through Headquarters 3rd Brigade and consists of:

- a brigade headquarters;
- an armoured personnel carrier squadron;
- a field artillery regiment;
- a combat engineer regiment;

- a command support regiment;
- three infantry battalions; and
- a combat service support battalion.

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months including the provision of three battalion-sized groups within 90 days readiness notice, and • Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.4 – Capability for Army Aviation Operations

The Army aviation operations capability contributes primarily to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. The capability provides aircraft, which are maintained at high readiness, for mobility through tactical troop lift, command and liaison, and reconnaissance operations.

The capability for army aviation operations is grouped in the 16th Brigade (Aviation), is commanded through Headquarters 16th Brigade, and consists of:

- a brigade headquarters; and
- two aviation regiments.

Table 4.3.3: Army Aviation Aircraft

Aircraft	Number	Flying Hours 2005-06
CH-47D Chinook	6	1,270
S-70A9 Black Hawk	35	8,600
B-206 Kiowa	41	9,505
UH-1H Iroquois	25	3,550
Armed Reconnaissance Helicopter Tiger	9	1,740
B200 King Air	-	-
DHC-6 Twin Otter	-	-
B300 King Air 350	3	2000

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months; and • Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.5 – Capability for Ground-Based Air Defence

The ground-based air defence capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability is versatile and able to defend airspace in conjunction with other land and joint elements. The capability provides weapon systems that can be deployed on land or on board ships, to protect high-value targets from air attack.

The capability for ground-based air defence resides in the 16th Air Defence Regiment and consists of:

- a regimental headquarters;
- an RBS-70 battery; and
- a Rapier battery.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months readiness, and• Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.6 – Capability for Combat Support Operations

The capability for combat support operations contributes primarily to supporting combat forces. This capability is designed to enhance the conduct of operations through effective communications, surveillance and specialist support, in particular construction engineering, topographical support and electronic warfare operations.

The capability for combat support operations is grouped in Land Command. It consists of:

- a surveillance and target acquisition battery;
- an engineer support regiment headquarters;
- two Army Reserve engineer construction regiments;
- two Regular Army engineer construction squadrons;
- a construction engineer works section;
- a topographical survey squadron;
- a signals regiment;
- an intelligence battalion;

- a military police battalion; and
- a combat training centre.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, and
- Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.7 – Capability for Regional Surveillance

The regional surveillance operations capability contributes to the strategic tasks of defending Australia and supporting peacetime national tasks by providing forces to patrol the north of Australia in support of the national surveillance effort. The capability is maintained through the employment of Army Reserve personnel drawn from the local communities and indigenous population throughout the north of Australia, from the Pilbara to Cape York.

The capability for regional surveillance resides in three regional force surveillance units.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, and
- Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.8 – Capability for Operational Logistic Support to Land Forces

The capability for operational logistic support to land forces contributes primarily to the strategic tasks of defending Australia, contributing to the security of our immediate neighbourhood, supporting our wider interests and peacetime national tasks. It provides supply, transportation, repair and health functions in support of combat operations.

The capability for operational logistic support to land forces is grouped in the Logistic Support Force and is commanded through Headquarters Logistic Support Force. It consists of:

- two logistic force headquarters;
- two signals squadrons;

- a petroleum company;
- a recovery company;
- two Regular Army and one Army Reserve force support battalions;
- a deployed forces support unit;
- three health support battalions; and
- a psychology unit.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, and• Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.9 – Capability for Motorised Combined Arms Operations

The motorised combined arms operations capability contributes to the strategic tasks of defending Australia and securing our immediate neighbourhood. The capability complements the 1st and 3rd Brigades by providing a range of highly mobile forces to conduct land manoeuvre operations utilising surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces' plans, cohesion and morale.

The capability for motorised combined arms operations is grouped in the 7th Brigade which is an integrated formation of Regular and Army Reserve personnel and consists of:

- a brigade headquarters;
- a cavalry regiment;
- a field artillery regiment;
- a combat engineer regiment;
- a command support regiment;
- a Regular Army infantry battalion;
- two Army Reserve infantry battalions; and
- a combat service support battalion.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness notice, and
- Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Output 3.10 – Capability for Protective Operations

The protective operations capability contributes to the strategic tasks of defending Australia and supporting peacetime national tasks. This capability also meets contemporary needs by providing reinforcements for deployed regular units and a mobilisation base for subsequent rotations in the event of protracted operations. Elements of these forces are also trained to assist in the event of a domestic security incident.

The capability for protective operations is grouped in the 4th, 5th, 8th, 9th, 11th and 13th Brigades. These are predominantly Army Reserve formations and each consists of:

- a brigade headquarters;
- two or three infantry battalions;
- an armoured reconnaissance unit; and
- combat and logistic support units.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, and
- Achieve a level of training that maintains core skills and professional standards across all warfare areas.

OUTCOME FOUR – AIR FORCE CAPABILITY

Outcome Four – Air Force Capability for the Defence of Australia and its Interests

- Output 4.1 Capability for Air Combat Operations
- Output 4.2 Capability for Combat Support of Air Operations
- Output 4.3 Capability for Surveillance and Response Operations
- Output 4.4 Capability for Airlift Operations

The Air Force contributes to the achievement of the Government's Defence outcomes through the provision of flexible capabilities for air operations focusing on air combat, combat support of air operations, surveillance and response and airlift. The Air Force's capabilities are critical to the ADF's key tasks of defending Australia, contributing to the security of our region and supporting Australia's wider interests through participation in coalition operations. In particular, the Air Force's air combat capability is essential for securing control of the air, a prerequisite for most other ADF operations.

The Air Force's capabilities enable the conduct of offensive and defensive counter air operations, land and maritime strike operations, offensive air support, airlift which enables quick deployment of forces over large distances, including within Australia, and sustaining them once deployed, information operations through linking systems to enable rapid dissemination of information, and search and rescue operations.

Planned Performance

The Air Force will continue to support the Government's border control initiatives including, if required, providing additional surge surveillance and response capabilities. During 2005-06, the Air Force will continue to support the war against terrorism and conduct operational deployments as directed by the Government. In particular, the Air Force will support:

- Operations Catalyst and Slipper, through P-3 Orion surveillance activities, C-130 transport support and expeditionary combat support elements;
- Operation Relex II, with P-3 Orion surveillance of Australia's northern border approaches; and
- the 2006 Commonwealth Games.

As part of the Air Force's long-term goal of transitioning to a modern, networked force, the F-111 will be withdrawn from service to provide the necessary resources to undertake the transition to the replacement capability. In the interim period between the withdrawal of the F-111 and the introduction of

the new air combat capability, the strike role will be transferred to the F/A-18 Hornet and, to a lesser degree, the P-3 Orion fleet. This role transfer will depend on:

- upgrading and refurbishing the F/A-18 Hornet aircraft;
- introducing new air-to-air refuelling aircraft;
- introducing airborne early warning and control aircraft;
- acquiring long-range stand-off weapons for both the F/A-18 Hornet and P-3 Orion aircraft; and
- acquiring improved short-range, day and night, all-weather precision guided weapons.

A plan for withdrawing the F-111 from service in 2010 has been developed and includes a risk mitigation strategy to delay the withdrawal to 2012 in the event of delays to the above projects to ensure there is no strike capability gap.

A sustained commitment to personnel issues has resulted in good retention. The high retention of Air Force personnel over the last three years has reduced training and recruitment rates and increased experience and expertise levels. In 2005-06, retention is expected to be more challenging. The emphasis will, however, be on consolidating the benefits of previous targeted and broad-based personnel initiatives, and seeking to improve the capacity of the Service to withstand increased market competition for trained personnel through remuneration initiatives, like the Remuneration Reform Program and the Flying Allowance Review. A wide-ranging review of the technical workforce, including the skills required for such personnel as new capabilities are introduced, will commence. Other employment groups will be similarly reviewed as resources allow to ensure that the personnel capability is capable of supporting a networked, expeditionary Air Force in the more challenging personnel environment of the future.

Key Risks and Limitations

Personnel

Although overall personnel numbers remain high, and both retention and recruitment are very healthy, there is a risk that a buoyant domestic economy and demand for skilled personnel could result in a marked increase in separations. This could stretch recruiting and training capacity and increase the current mismatches in either numbers, rank and/or experience in areas such as air traffic controllers, aviation technicians, and health professionals.

Regional Capability Edge

Aerospace combat capability within Australia's region continues to develop rapidly, placing pressure on the Air Force to maintain its capability edge. This

risk will be heightened during the period following the withdrawal of the F-111 and the introduction of the new air combat capability. In particular, the Air Force's interim air combat capability will depend on both a number of projects delivering capability before the F-111 is withdrawn and on the timely introduction of the new air combat capability.

Enabling Support

The delivery of Air Force capabilities is highly dependent on the ongoing support of the Defence Materiel Organisation, and other Enabling Groups such as the Corporate Services and Infrastructure Group and the Defence Science and Technology Organisation.

Risk Mitigation

Personnel

The challenge for the Air Force is to sustain high retention rates so as to maintain high levels of expertise, reduce workforce turnover costs, and not strain recruiting capacity. The Air Force has both internal and external surveys and assessments to gauge the likelihood of increased separations, and successfully uses both broad-based and targeted personnel initiatives to influence personnel, particularly those in employment groups that are critical to capability, to remain in the Service. These initiatives, together with the introduction of the workforce flow management system known as temporal discipline (initially for aircrew), and the greater flexibility in remuneration that should result from the implementation of the Remuneration Reform Program for officers, will provide some protection from the expected demand in the civilian sector for skilled personnel. In some cases, it may be necessary to implement short-term financial or other incentives to deal with particular threats to retention of specific groups of personnel. Further integration of Reserve personnel into permanent force organisations will also increase the capacity to use Reserves to substitute for shortfalls in permanent force personnel.

Regional Capability Edge

The Air Force will maintain the desired regional capability edge with the development of a networked air force over the next decade that will enhance the combat effect of individual platforms and capabilities through the synergistic effects of the total system. The final capability will be based on the new air combat capability, expected to be fifth generation stealth Joint Strike Fighter, armed with modern, precision weapons. This capability will be supported by other combat and surveillance platforms, such as airborne early warning and control and air-to-air refuelling aircraft and operate within an enhanced surveillance, communications and information network.

Enabling Support

The Air Force will continue to work closely with all Defence Groups to ensure that appropriate support is available when and where required. In particular, the Air Force will further develop its relationship with the Defence Materiel Organisation as a prescribed agency, and refine the agreements to ensure they clearly set out the level of support sought and the performance measures which will be applied.

Cost Summary of Outcome Four

Total Budgeted Price to the Government

Table 4.4.1: Outcome Four – Air Force Capability for the Defence of Australia and its Interests

	Projected Result ⁽¹⁾ 2004-05 \$'000	PBS Budget Estimate 2005-06 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
Operating expenses						
Employees – Military	1,164,995	1,212,529	47,534	1,255,914	1,322,758	1,449,293
Employees – Civilian	337,832	263,118	-74,714	272,777	289,980	307,141
Sub total employees	1,502,827	1,475,647	-27,180	1,528,691	1,612,738	1,756,434
Suppliers Expense	1,636,956	2,191,900	554,943	1,989,021	2,111,751	1,991,321
Inventory Consumption	270,015	-	-270,015	-	-	-
Sub total suppliers	1,906,971	2,191,900	284,928	1,989,021	2,111,751	1,991,321
Grants	280	282	2	288	294	497
Depreciation and amortisation	1,204,464	1,056,379	-148,085	1,107,456	1,109,636	1,181,939
Value of assets sold	40,107	26,538	-13,569	1,454	1,262	1,066
Write-down of assets	360,782	27,695	-333,087	21,943	13,867	13,866
Borrowing costs	7,227	7,478	250	7,624	6,265	6,046
Other expenses	-4	-	4	-	-	-
Total operating expenses from ordinary activities	5,022,656	4,785,919	-236,736	4,656,477	4,855,812	4,951,169
Revenues						
Sale of goods and services	-69,784	-43,883	25,902	-44,656	-45,508	-46,338
Revenue from sale of assets	-40,107	-26,538	13,569	-1,454	-1,262	-1,066
Assets now recognised	-266,454	-13,829	252,626	-5,767	-330	2
Other revenues ⁽³⁾	-23,340	-46,768	-23,428	-46,892	-47,694	-48,775
Total Own Source Revenues	-399,686	-131,018	268,668	-98,768	-94,794	-96,176
Net Cost Outcome Four⁽⁴⁾	4,622,970	4,654,901	31,931	4,557,709	4,761,017	4,854,993

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Tables 4(a) and 4(b).

Significant Variations

The major variations to Outcome Four are due to:

- a net increase in military employees expenses (+\$47.5m), as a result of:

- full and part year effects of *ADF Workplace Remuneration Arrangement 2004-06* (+\$32.2m),
- new initiatives contained in the 2005-15 People Plan (+\$10.7m),
- an increase in average funded strength of 105 Air Force positions (+\$8.1m),
- increase in the superannuation contribution rates (+\$2.6m),
- planned improvements to the standards of housing provided to members (+\$2.2m),
- increased numbers of members receiving Rental Allowance (+\$1.8m),
- increased costs for health service sessional fees and the purchase and maintenance of equipment (+\$1.0m),
- other variations following a revision of cost estimates including overseas allowances which have reduced due to foreign exchange variations (-\$3.7m),
- net variation in Fringe Benefits Tax payments (-\$2.9m),
- the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (-\$2.0m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$2.5m);
- a net decrease in civilian employees expenses (-\$74.7m), as a result of:
 - full and part year effects of the *Defence Employees Certified Agreement 2004-06* (+\$14.4m),
 - transition costs associated with the Business Improvement Project including voluntary redundancy costs (+\$7.5m),
 - the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (+\$2.0m),
 - other variations in staffing numbers including recovery in critical skills areas (+\$2.0m),
 - additional staffing associated with 2004-05 and 2005-06 budget measures (+\$1.8m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$1.1m),
 - revision of leave expense estimates (+\$0.8m),
 - transition costs for regional information communications technology market-testing (+\$0.3m),
 - DMO prescription whereby Defence will no longer have an employee expense for those civilian employees working in the DMO (-\$103.2m),

- the full implementation of the outsourcing of the Defence Integrated Distribution System (-\$4.1m),
- decrease in superannuation costs as a result of lower superannuation contribution rates (-\$1.7m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$4.4m);
- a net increase in suppliers expenses (+\$554.9m), as a result of:
 - price variations (+\$75.8m),
 - variation in foreign exchange rates (-\$1.7m),
 - prescription of the DMO including the reclassification of civilian employee expense, some depreciation expense and payment to the DMO for military employees (+\$401.6m),
 - bring forward of \$300m of Defence Capability Plan funding (operating element) (+\$42.3m),
 - net variation in logistics and other through life support costs (+\$16.4m),
 - additional funding for costs associated with Australia-United States Free Trade Agreement (+\$2.9m),
 - increased cost of disposal associated with the revised property sales program (+\$1.1m),
 - the application of an efficiency dividend on Defence (-\$1.0m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$17.4m);
- a net decrease in inventory consumption as a result of the reclassification of inventory consumption to supplier expenses due to the prescription of the DMO (-\$270.0m);
- a net decrease in depreciation expense (-\$148.1m), as a result of:
 - temporary reduction in depreciation estimates expected to be increased at Additional Estimates (-\$92.4m),
 - prescription of the DMO, whereby its funding is now provided as a supplier expense (-\$27.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$27.8m);
- a net decrease in value of assets sold (-\$13.6m), as a result of:
 - increase as a result of the revised Property Sales Program (+\$3.5m),

- reduced budget from the sale of assets that will reside on the DMO's balance sheet (-\$9.4m),
- revised sales program of other plant and equipment assets (-\$7.4m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.3m);
- a net decrease in write-down of assets (-\$333.1m), as a result of:
 - expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$309.3m),
 - write-down of inventory now residing on the DMO statement of financial position (-\$32.3m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$8.5m);
- a net increase in borrowing costs as a result of the progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.3m);
- a net decrease in sale of goods and services (+\$25.9m), as a result of:
 - price variations (-\$1.9m),
 - reduced sales of good and services due to DMO prescription (+\$17.5m),
 - variations in expected revenue between 2004-05 and 2005-06 relating to sale of fuel and sale of Defence Housing Authority annuity properties (+\$2.3m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$8.0m);
- a net decrease in revenue from sale of assets (+\$13.6m), as a result of:
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (+\$9.4m),
 - revised sales program of other plant and equipment assets (+\$7.4m),
 - increase as a result of the revised Property Sales Program (-\$3.5m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.3m);

- a net decrease in assets now recognised (+\$252.6m), as a result of:
 - a net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$262.8m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$10.1m);
- a net increase in other revenue (-\$23.4m), as a result of:
 - price variations (-\$2.0m),
 - other revenue linked to DMO activities (+\$4.7m),
 - increase due to the DMO's payment for military employees (-\$43.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$17.0m).

Table 4.4.2: Breakdown of Outcome Four by Output

	Projected Result ⁽¹⁾ 2004-05	PBS Variation ⁽²⁾ Budget Estimate 2005-06	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09	
	\$'000	\$'000	\$'000	\$'000	\$'000	
Output 4.1 – Capability for Air Combat Operations	1,815,426	1,769,462	-45,964	1,396,033	1,463,318	1,478,011
Output 4.2 – Capability for Combat Support of Air Operations	742,603	761,662	19,058	932,193	970,131	1,024,279
Output 4.3 – Capability for Surveillance and Response Operations	1,077,257	1,104,931	27,674	1,172,559	1,226,575	1,233,367
Output 4.4 – Capability for Airlift Operations	987,684	1,018,846	31,163	1,056,924	1,100,994	1,119,335
Net Cost of Outcome Four⁽³⁾	4,622,970	4,654,901	31,931	4,557,709	4,761,017	4,854,993

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Cross-reference to Tables 4(a), 4(b) and 4.4.1.

OUTPUT STRUCTURE FOR OUTCOME FOUR

Output 4.1 – Capability for Air Combat Operations

The Air Combat Group provides the ADF's air combat capability and includes three squadrons of F/A-18 Hornet and one squadron of F-111 aircraft, crews, weapon systems and support infrastructure to deliver required capability to support air control, maritime and land strike, offensive air support for land and maritime operations and limited reconnaissance roles. The Hawk Lead-in fighter and PC-9 aircraft also contribute to this capability.

The ongoing upgrade of the F/A-18 Hornet fleet and acquisition of six airborne early warning and control and five air-to-air refuelling aircraft will ensure that Australia retains an effective air control capability until the introduction of the new air combat capability.

Performance Targets		
<ul style="list-style-type: none"> Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. Achieve levels of training that maintains core skill and professional standards across all assigned warfare areas. 		
Aircraft	Number	Flying Hours 2005-06
F/A-18	71 (55 F/A-18A and 16 F/A-18B)	13,000
F-111	28 ⁽¹⁾	3,800
Hawk Lead-in Fighter	33	9,000
PC-9 Forward Air Control training aircraft	4	1,030

Note

- An additional five F-111G aircraft are in long-term storage and a further two F-111G have been broken down for spares.

Output 4.2 – Capability for Combat Support of Air Operations

Combat support of air operations is provided by the Combat Support Group and is primarily concerned with the provision and maintenance of air bases essential for the mounting of air operations both in Australia and overseas during contingencies.

Air Force fixed bases will continue to be supported by a mixture of regular Air Force personnel and, largely, civilian staff working in conjunction with Corporate Services and Infrastructure Group and civilian contractors. The three bare bases in the north of Australia will, if required, be activated and run by regular Air Force personnel drawn from the three Expeditionary Combat Support Squadrons.

Performance Targets	
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
•	Achieve a level of training that maintains core skills and professional standards in conjunction with Corporate Services and Infrastructure Group and the Defence Materiel Organisation across all operations support areas.
•	Provide the level of preparedness required based on a force structure of: <ul style="list-style-type: none"> - two combat support wings; - one expeditionary combat support wing; - one combat Reserve wing; - one airfield defence wing; and - one health services wing.

Output 4.3 – Capability for Surveillance and Response Operations

The Air Force’s capability for surveillance and response operations is provided through the Surveillance and Response Group. It includes aircraft, personnel, sensors and battlespace management elements to deliver the required level of capability to support a wide range of capabilities linked to intelligence, surveillance and reconnaissance systems and infrastructure necessary to exploit the force multiplier effects of network centric warfare operations. In addition, the P-3 Orion is capable of conducting anti-surface and underwater warfare operations.

Performance Targets		
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	
•	Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas.	
•	Maintain the Jindalee Over the Horizon Radar Network.	
Aircraft	Number	Flying Hours 2005-06
P-3 Orion	19	8,200

Output 4.4 – Capability for Airlift Operations

The capability for airlift support to enable rapid mobility of personnel and cargo to, from and within, a battlefield to aid effect manoeuvre is provided by the Air Lift Group. It encompasses aircraft, crews and weapons systems at the level of required capability to achieve air logistic support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance,

special purpose flights, air-to-air refuelling, navigator training and surveillance operations.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas. 		
Aircraft	Number	Flying Hours 2005-06
C-130H and C-130J Hercules	12 C-130H 12 C-130J	15,000
B-707	4	1,400
DHC-4 Caribou	14	5,080
B-737 BBJ	2	1,200
CL604 Challenger	3	2,400
B300 Beechcraft King Air Navigator Training aircraft	8 ⁽¹⁾	5,700

Note

1. An additional aircraft has been leased to meet training requirements.

OUTCOME FIVE – STRATEGIC POLICY

Outcome Five – Strategic Policy for the Defence of Australia and its Interests

Output 5.1: International Policy, Activities and Engagement

Output 5.2: Strategic Policy and Military Strategy

The Strategy Group provides strategic guidance, policy advice and military strategy to enable the Government to make sound judgements on, and respond to, changes in Australia's strategic environment. This includes managing international defence relationships and expanding Australia's counter-proliferation efforts. The work of the Group also supports operations, exercises and the development of future Defence capability.

Through Defence Attaches and liaison officers overseas and by working with foreign defence representatives in Australia, Strategy Group advances Australia's relationships with overseas defence partners and allies. The Group manages the Defence Cooperation Program, which provides financial and military assistance in our region.

Planned Performance

Strategy Group's principal objectives for 2005-06 are to:

- monitor the external environment and ensure the currency of strategic planning;
- produce a strategic update, the *Defence Update 2005*;
- enhance the United States alliance, improve access to United States technology, and influence United States activities in our region;
- recalibrate regional defence cooperation;
- strengthen defence export controls; and
- invest in and develop Defence's strategic policy workforce.

Key Risks and Limitations

The key risks and limitations to the Group achieving these objectives are:

- failure to detect changes in Australia's strategic environment, both generally and with respect to specific potential crises;
- failure to act in a timely manner to changes in Australia's strategic environment;

- an inadequate policy response to any changes in Australia's strategic environment; and
- external factors affecting the achievement of Defence Cooperation Program objectives in regional countries.

Risk Mitigation

To varying degrees, these risks and limitations will be mitigated by:

- continuously monitoring the strategic environment to enable the shaping of appropriate policies;
- continuing the development of Defence's international relationships;
- developing staff skills and ensuring personnel management practices focused on balancing competing priorities; and
- ensuring alignment between Defence's policy and its operational objectives.

Cost Summary for Outcome Five

Total Budgeted Cost to the Government

Table 4.5.1: Outcome Five – Strategic Policy

	Projected Result ⁽¹⁾ 2004-05	PBS Variation ⁽²⁾ Budget Estimate 2005-06		Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees – Military	44,355	42,869	-1,485	44,726	46,740	50,406
Employees – Civilian	46,507	44,548	-1,959	47,257	50,333	53,568
Sub total employees	90,861	87,417	-3,444	91,983	97,073	103,974
Suppliers Expense	134,386	149,860	15,474	143,794	147,456	147,062
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	134,386	149,860	15,474	143,794	147,456	147,062
Grants	12	12	-	12	12	21
Depreciation and amortisation	6,214	4,926	-1,288	4,769	4,687	4,834
Value of assets sold	784	648	-135	167	163	159
Write-down of assets	416	5	-411	9	9	9
Borrowing costs	305	304	-1	310	254	245
Other expenses	-	-	-	-	-	-
Total operating expenses from ordinary activities	232,978	243,173	10,195	241,044	249,653	256,304
Revenues						
Sale of goods and services	-4,006	-2,291	1,714	-2,319	-2,363	-2,357
Revenue from sale of assets	-784	-648	135	-167	-163	-159
Assets now recognised	-158	-14	144	-6	2	2
Other revenues ⁽³⁾	-1,308	-8,890	-7,582	-9,085	-9,266	-9,511
Total Own Source Revenues	-6,255	-11,843	-5,589	-11,577	-11,790	-12,025
Net Cost Outcome Five⁽⁴⁾	226,723	231,329	4,606	229,467	237,863	244,279

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Tables 4(a) and 4(b).

Significant Variations

The major variations to Outcome Five are due to:

- a net decrease in military employees expenses (-\$1.5m), primarily due to:
 - full and part year effects of the *ADF Workplace Remuneration Arrangement 2004-06* (+\$1.1m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$0.4m),
 - increase in the superannuation contribution rates (+0.3 per cent) (+\$0.1m),

- planned improvements to the standards of housing provided to members (+\$0.1m),
 - increased numbers of members receiving rental allowance (+\$0.1m),
 - planned improvements to the standards of housing provided to members (+\$0.1m),
 - increased numbers of members receiving rental allowance (+\$0.1m),
 - other variations following a revision of cost estimates including overseas allowances which have reduced due to foreign exchange variations (-\$0.1m),
 - the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (-\$0.1m),
 - net variation in Fringe Benefits Tax payments (-\$0.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$3.0m);
- a net decrease in civilian employees expenses (-\$2.0m), primarily due to:
 - full and part year effects of the *Defence Employees Certified Agreement 2004-06* (+\$2.4m),
 - transition costs associated with the Business Improvement Project including voluntary redundancy costs (+\$1.3m),
 - other variations in staffing numbers including recovery of shortfalls in critical skills areas (+\$0.3m),
 - additional staffing associated with 2004-05 and 2005-06 budget measures (+\$0.3m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$0.2m),
 - the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (+\$0.1m),
 - transition costs for regional information communications technology market-testing (+\$0.1m),
 - revision of leave expense estimates (+\$0.1m),
 - the full implementation of the outsourcing of the Defence Integrated Distribution System (-\$0.2m),
 - DMO prescription whereby Defence will no longer have an employee expense for those civilian employees working in the DMO (-\$4.7m),
 - decrease in superannuation costs as a result of lower superannuation contribution rates (-\$0.3m), and
 - Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$1.6m);

- a net increase in suppliers expense (+\$15.5m), primarily due to:
 - price variations (+\$5.8m),
 - prescription of the DMO including the reclassification of civilian employee expense, some depreciation expense and payment to the DMO for military employees (+\$7.3m),
 - bring forward of \$300m of Defence Capability Plan funding (operating element) (+\$3.2m),
 - net variation in logistics and other through life support costs (+\$1.3m),
 - additional funding for costs associated with Australia-United States Free Trade Agreement (+\$0.2m),
 - increased cost of disposal associated with the revised property sales program (+\$0.1m),
 - variation in foreign exchange rates (-\$0.1m),
 - the application of an efficiency dividend on Defence (-\$0.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$2.2m);
- a net decrease in depreciation expense (-\$1.3m), primarily due to:
 - temporary reduction in depreciation estimates expected to be increased at Additional Estimates (-\$0.4m),
 - prescription of the DMO, whereby its funding is now provided as a suppliers expense (-\$0.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.7m);
- a net decrease in the value of assets sold (-\$0.1m), primarily due to:
 - increase as a result of the revised Property Sales Program (+\$0.1m),
 - reduced budget from the sale of assets that will reside on the DMO's balance sheet (-\$0.2m),
 - revised sales program of other plant and equipment assets (-\$0.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.2m);
- a net decrease in the write-down of assets (-\$0.4m), primarily due to:
 - a net decrease in the write-down of assets as a result of expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$0.1m), and

- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.3m);
- a net decrease in the sale of goods and services (+\$1.7m), primarily due to:
 - price variations (-\$0.1m),
 - reduced sales of good and services due to DMO prescription (+\$0.9m),
 - variations in expected revenue between 04-05 and 05-06 relating to sale of fuel and sale of Defence Housing Authority annuity properties (+\$0.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$0.8m);
- a net decrease in revenue from the sale of assets (+\$0.1m), primarily due to:
 - revised sales program of other plant and equipment assets (+\$0.2m),
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (+\$0.2m),
 - increase as a result of the revised Property Sales Program (-\$0.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.2m);
- a net decrease in assets now recognised (+\$0.1m), primarily due to:
 - a net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$0.3m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$0.1m);
- a net increase in other revenue (-\$7.6m), primarily due to:
 - price variations (-\$0.4m),
 - other revenue linked to DMO activities (+\$0.9m),
 - increase due to the DMO's payment for military employees (-\$0.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$8.0m).

Table 4.5.2: Breakdown of Outcome Five by Output

	Projected Result ⁽¹⁾ 2004-05 \$'000	PBS Variation ⁽²⁾ Budget Estimate 2005-06 \$'000		Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
Output 5.1 – International Policy, Activities and Engagement	185,488	188,067	2,579	186,140	192,080	196,821
Output 5.2 – Strategic Policy and Military Strategy	41,235	43,262	2,027	43,327	45,783	47,458
Net Cost of Outcome Five ⁽³⁾	226,723	231,329	4,606	229,467	237,863	244,279

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Cross-reference to Tables 4(a), 4(b) and 4.5.1.

OUTPUT STRUCTURE FOR OUTCOME FIVE

Output 5.1 – International Policy, Activities and Engagement

This output provides international policy advice to the Government to enable it to make sound judgements on, and develop appropriate responses to, changes in Australia's strategic circumstances, and on specific security issues as they arise. It also applies strategic policy guidance to assist the development of recommendations to the Government on international engagement activities and initiatives.

Performance Targets
<ul style="list-style-type: none"> • Provide the Government with comprehensive and timely policy advice on current and emerging international Defence issues. • Manage Defence's international engagement activities to support Australia's efforts to promote regional and global security. • Ensure Defence's overseas representatives contribute to the effective management of Australia's defence interests in the context of overall bilateral relationships. • Achieve the Defence Cooperation Program.

Output 5.2 – Strategic Policy and Military Strategy

This output provides input into the development of Defence White Papers and strategic reviews; policy advice on national, defence and military strategy; guidance for the development of long-term defence capability; defence aspects of non-proliferation and arms control; and advice and management of export controls for defence and dual use items.

Performance Targets	
•	Provide the Government and Defence with comprehensive and timely strategic policy advice on current and emerging strategic issues in the international, national and domestic environment that affect Defence.
•	Provide comprehensive and timely advice to the Government and Defence on military strategy and future military concepts that reflect the changing strategic environment.
•	Provide comprehensive and timely advice to the Government and Defence on proliferation issues and administer counter-proliferation and export control activities as required by legislation.
•	Provide the Government and Defence with improved policy input to the whole-of-government domestic security and counter-terrorism programs.
•	Develop and enhance Defence's policy workforce.

DEFENCE COOPERATION

Overview

The Defence International Engagement Plan provides a robust policy for business planning and management of Defence's international engagement and particularly for the Defence Cooperation Program over the next five years. The aims and objectives of the Defence Cooperation Program are to support the Government's strategic objectives by:

- contributing to the maintenance of regional security;
- working with allies, regional partners and others to shape the global and regional environment in a way favourable to Australia and the ADF;
- consolidating acceptance of Australia as an obvious and legitimate participant in deliberations on issues that affect regional security; and
- encouraging and assisting with the development of the defence self-reliance of regional countries.

These activities encompass assistance to regional security forces in the areas of strategic planning, education and training, command and control, infrastructure, counter-terrorism, communications and logistic support. A key element of the

Defence Cooperation Program is the Pacific patrol boat program, comprising 22 vessels in 12 countries. The program is designed to help Pacific island countries to improve their ability to independently police their maritime zones.

The Defence Cooperation Program also supports the conduct of combined exercises to improve the ability of regional countries to contribute to regional security. Two important areas of focus are the development of the nascent East Timor Defence Force and the Papua New Guinea Defence reform program. Australian assistance includes a range of training initiatives and infrastructure projects.

A breakdown of the \$76.512m allocated to the program in 2005-06 is shown in the following table.

Table 4.5.3: Defence Cooperation Funding

	Estimated Actual 2004-05 \$m	Budget Estimate 2005-06 \$m
Papua New Guinea⁽¹⁾	14.456	19.389
South Pacific		
East Timor	9.850	7.396
Vanuatu	1.436	1.508
Solomon Islands	1.076	2.037
Tonga	1.187	1.242
Western Samoa	0.720	0.875
Cook Islands	0.332	0.362
Fiji	3.622	3.387
Marshall Islands	0.976	0.838
Federated States of Micronesia	1.052	0.867
Tuvalu	0.745	0.659
Kiribati	0.688	0.585
Palau	1.040	0.748
Multilateral General Assistance ⁽²⁾	13.563	13.563
Sub-total	36.287	34.067
South-East Asia		
Singapore	0.204	0.205
Philippines	2.682	2.411
Thailand	3.320	2.916
Malaysia	4.352	4.348
Indonesia	4.600	4.800
Vietnam	1.562	1.622
Cambodia and Laos	0.865	0.969
Brunei	0.055	0.036
Sub-total	17.640	17.307
Other regional activities	5.417	5.749
Total	73.800	76.512

Notes

1. Includes funding for the second tranche of the Papua New Guinea Defence Force reform program of \$5.032m in 2004-05 and \$9.418m in 2005-06.
2. Predominantly relates to support of the Pacific patrol boat project, including the Life Extension Program.

OUTCOME SIX – INTELLIGENCE

Outcome Six – Intelligence for the Defence of Australia and its Interests

Output 6.1 Intelligence

The Intelligence and Security Group provides intelligence collection and analysis to support the planning and conduct of ADF operations, Defence policy making and planning, capability development, and wider Government decision making.

Planned Performance

Intelligence remains critical to Australia's strategic posture in a complex and rapidly changing international, political and security environment. Defence will maintain an intelligence capability to inform Government policy and planning, to support the planning and conduct of ADF operations, and to underpin the development of future ADF capability. Defence conducts intelligence operations, maintains intelligence capabilities and provides analysis in order to provide timely intelligence products to Defence and to a range of other government departments and agencies. Support to counter-terrorism and the enhancement of counter-proliferation capability continue to be high priorities for Defence intelligence.

Defence will continue to implement the recommendations of the Inquiry into Australian Intelligence Agencies completed by Mr Philip Flood AO in 2004. Implementation of the Flood Inquiry recommendations includes programs of legislative change and improvement in coordination across the intelligence community. Defence is playing a key role in ensuring that the new measures are being implemented smoothly.

For those recommendations where Defence has a lead role, significant progress has already been made, and in many cases has already been completed. Changes to the Defence Intelligence Organisation's mandate to focus it more closely on Defence and strategic assessment have been agreed by the Government and have been implemented. Definition of the extent of legislative change required to bring Defence agencies into the proposed new intelligence oversight framework is in the final stages of development.

The principal new coordination committee, the Foreign Intelligence Coordination Committee, has instituted a number of initiatives with regard to intelligence priorities, foreign liaison arrangements, agency performance evaluation and intelligence training.

Some of the more challenging issues, including the requirement for increased numbers of ADF personnel in Defence intelligence agencies and upgrading

information technology commonality and business processes, are progressing satisfactorily.

Defence's intelligence functions include:

- maintenance of intelligence capabilities, including skilled and experienced personnel, databases and collection, production and dissemination systems, to meet national and Defence priority requirements;
- production of signals intelligence reports and electronic warfare databases, imagery and geospatial products and databases, and all-source intelligence assessments, reports and databases;
- provision of national communications and information security capabilities and services to meet whole-of-government requirements;
- a tangible and continuous contribution to alliances and to other important Defence relationships; and
- provision of specialist assistance to counter-terrorism and counter-proliferation efforts.

Key Risks and Limitations

The continued war against terrorism, the increased tempo of ADF operations, and increased demand for intelligence and security advice, have placed pressure on Defence intelligence resources. Through specific supplementation and the reallocation of resources, the highest priority intelligence requirements continue to be met.

Defence's ability to preserve its capability edge in intelligence collection and analysis is critically dependent on the availability of skilled and experienced personnel to support ongoing operations, the acquisition and exploitation of new technology, and the maintenance of effective security.

Risk Mitigation

A number of strategies have been developed to mitigate risks. These include progressing carefully targeted capital investment and personnel development programs, strengthening agency partnerships, an increased customer focus, the implementation of a security renewal agenda and development of business continuity plans. Significant initiatives have been implemented to enhance intelligence capabilities as part of the Defence Capability Plan. These include substantial and sustained investment in signals intelligence collection and imagery intelligence capabilities, enhanced geospatial information systems and improved intelligence processing and dissemination systems. These initiatives are progressing, and will assist in meeting increased requirements for intelligence support.

Output 6.1 – Intelligence

Performance Targets

- Provide quality intelligence products and services.
- Ensure effective and sustainable intelligence support for the planning and conduct of ADF operations and for decision makers.
- Maintain and develop first-rate defence intelligence and geospatial information capabilities.
- Maintain the knowledge edge by exploiting new technology.
- Strengthen the intelligence contribution to the United States alliance, and to relationships with other intelligence partners.
- Improve investment and capability planning, accountability and resource and security management.
- Develop motivated, adaptable and skilled teams of highly competent professionals.

Cost Summary for Outcome Six

Total Budgeted Cost to the Government

Table 4.6.1: Outcome Six – Intelligence

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾ \$'000	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees – Military	48,619	48,838	219	51,590	54,352	60,363
Employees – Civilian	154,928	166,791	11,863	174,275	185,025	188,962
Sub total employees	203,547	215,629	12,082	225,865	239,377	249,325
Suppliers Expense	177,569	201,420	23,851	196,346	204,926	199,816
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	177,569	201,420	23,851	196,346	204,926	199,816
Grants	18	18	-	18	19	32
Depreciation and amortisation	65,371	55,961	-9,410	56,444	64,474	65,637
Value of assets sold	2,546	1,716	-830	127	115	102
Write-down of assets	1,107	9	-1,098	15	13	13
Borrowing costs	472	433	-39	443	364	352
Other expenses	-	-	-	-	-	-
Total operating expenses from ordinary activities	450,631	475,186	24,556	479,260	509,287	515,277
Revenues						
Sale of goods and services	-4,382	-1,532	2,850	-1,571	-1,613	-1,663
Revenue from sale of assets	-2,546	-1,716	830	-127	-115	-102
Assets now recognised	-2,670	-8	2,662	-9	1	1
Other revenues ⁽³⁾	-1,616	-4,546	-2,931	-4,662	-4,754	-4,880
Total Own Source Revenues	-11,214	-7,803	3,411	-6,369	-6,481	-6,644
Net Cost Outcome Six⁽⁴⁾	439,417	467,384	27,967	472,891	502,807	508,633

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Tables 4(a) and 4(b).

Significant Variations

The major variations to Outcome Six are due to:

- military employee expenses will increase by \$0.2m due to:
 - full and part year effects of the *ADF Workplace Remuneration Arrangement 2004-06* (+\$1.3m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$0.4m),
 - increase in the superannuation contribution rates (+0.3 per cent) (+\$0.1m),
 - other variations following a revision of cost estimates including overseas allowances which have reduced due to foreign exchange variations (-\$0.2m),

- planned improvements to the standards of housing provided to members (+\$0.1m),
- increased numbers of members receiving rental allowance (+\$0.1m),
- the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (-\$0.1m),
- net variation in Fringe Benefits Tax payments (-\$0.1m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$1.4m);
- civilian employee expenses will increase by \$11.9m due to:
 - full and part year effects of the *Defence Employees Certified Agreement 2004-06* (+\$9.1m),
 - transition costs associated with the Business Improvement Project including voluntary redundancy costs (+\$4.8m),
 - new intelligence operations measures (+\$4.7m),
 - other variations in staffing numbers including recovery of shortfalls in critical skills areas (+\$1.2m),
 - additional staffing associated with 2004-05 and 2005-06 budget measures (+\$1.1m),
 - new initiatives contained in the 2005-15 Defence People Plan (+\$0.7m),
 - revision of leave expense estimates (+\$0.5m),
 - transition costs for regional information communications technology market-testing (+\$0.2m),
 - the conversion of more expensive health service Professional Service Provider positions to more cost effective civilian positions (+\$0.1m),
 - DMO prescription whereby Defence will no longer have an employee expense for those civilian employees working in the DMO (-\$5.8m),
 - decrease in superannuation costs as a result of lower superannuation contribution rates (-\$1.1m),
 - the full implementation of the outsourcing of the Defence Integrated Distribution System (-\$0.2m),
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$3.5m);
- suppliers expenses will increase by \$23.9m as a result of:
 - price variations (+\$7.8m),
 - variation in foreign exchange rates (-\$0.2m),

- prescription of the DMO including the reclassification of civilian employee expense, some depreciation expense and payment to the DMO for military employees (+\$11.4m),
- bring forward of \$300m of Defence Capability Plan funding (operating element) (+\$4.4m),
- supplementation for counter-proliferation intelligence activities (+\$2.7m),
- net variation in logistics and other through life support costs (+\$1.7m),
- additional funding for costs associated with Australia-United States Free Trade Agreement (+\$0.3m),
- increased cost of disposal associated with the revised property sales program (+\$0.1m),
- the application of an efficiency dividend on Defence (-\$0.1m),
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$4.2m);
- depreciation and amortisation expenses are expected to reduce by \$9.4m due to:
 - temporary reduction in depreciation estimates expected to be increased at Additional Estimates (-\$4.9m),
 - prescription of the DMO, whereby its funding is now provided as a suppliers expense (-\$1.5m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$3.0m);
- value of assets sold expenses will decrease by \$0.8m due to:
 - the estimate for the value of assets revenue from the sale of assets has decreased as a result of the revised Property Sales Program (+\$0.2m),
 - reduced budget from the sale of assets that will reside on the DMO's balance sheet (-\$0.6m), and
 - revised sales program of other plant and equipment assets (-\$0.5m);
- write-down of assets expenses will decrease by \$1.1m due to:
 - expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$0.1m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$1.0m);
- reduced revenue from sale of goods and services (+\$2.9m) due to:
 - price variations (-\$0.1m),

- reduced sales of good and services due to DMO prescription (+\$0.6m),
- variations in expected revenue between 2004-05 and 2005-06 relating to sale of fuel and sale of Defence Housing Authority annuity properties (+\$0.1m), and
- progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$2.2m);
- revenue from sale of assets will decrease by \$0.8m due to:
 - reduced budget from the sale of assets that will reside on the DMO's statement of financial position (+\$0.6m),
 - revised sales program of other plant and equipment assets (+\$0.5m), and
 - the estimate for revenue from the sale of assets has increased by \$0.2m as a result of the revised Property Sales Program (-\$0.2m);
- a net decrease in assets now recognised (+\$2.7m) due to:
 - a net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$0.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (+\$2.5m);
- an increase in revenues from other activities (-\$2.9m) due to:
 - other revenue linked to DMO activities (+\$0.5m),
 - the DMO's payment for military employees (-\$0.3m),
 - price variations (-\$0.2m), and
 - progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other variations (-\$2.9m).

Table 4.6.2: Breakdown of Outcome Six by Output

	Projected Result ⁽¹⁾ 2004-05 \$'000	PBS Budget Estimate 2005-06 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000
Output 6.1 – Intelligence	439,417	467,384	27,967	472,891	502,807	508,633
Net Cost of Outcome Six⁽³⁾	439,417	467,384	27,967	472,891	502,807	508,633

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Cross-reference to Tables 4(a), 4(b) and 4.6.1.

OUTCOME SEVEN – SUPERANNUATION AND HOUSING SUPPORT SERVICES FOR CURRENT AND RETIRED DEFENCE PERSONNEL

Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

- Output 7.1 Superannuation Support Services for Current and Retired Defence Personnel
- Output 7.2 Housing Assistance for Current Defence Personnel
- Output 7.3 Other Administered Revenues and Expenses

Administered Activities

Outcome Seven covers activities that Defence performs on behalf of the Government relating mainly to the provision of superannuation and housing support services to current and retired Defence personnel. Defence also administers reimbursements from the United Nations for costs associated with East Timor and returns the receipts to the Government.

The outcome, as reported in the *Portfolio Budget Statements 2004-05*, consisted of one output: Superannuation and Housing Support Services for Current and Retired Defence Personnel. Since then the outcome has been distributed over three outputs as described below.

Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel, provides for the administered costs associated with superannuation services provided to current and retired Defence personnel under the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme. These schemes are managed on Defence's behalf by ComSuper.

Output 7.2 – Housing Assistance for Current Defence Personnel, deals with the administered costs associated with housing assistance. This output covers dividends received from the Defence Housing Authority, the Defence housing subsidy payments, and any other administered items relating to military personnel housing assistance that may occur.

In 2005-06, Defence and the Defence Housing Authority will complete the sixth year of a 10-year agreement for the delivery of housing services to ADF members. The overall aim of the Defence Housing Authority is to provide a single point for housing and re-location services to ADF members and their

families including housing assistance provided for current and retired Defence personnel under the Defence HomeOwner Scheme. This scheme provides a subsidy of the interest payable on a home loan for members of the ADF and is covered by the *Defence Force (Home Loans Assistance) Act 1990*.

Output 7.3 – Other Administered Revenues and Expenses, includes interest received on official bank accounts maintained by Defence to support its activities, interest received from the United States Government on foreign military sales advances, United Nations revenues and receivables, and associated net foreign exchange losses and gains

Cost Summary for Outcome Seven

Table 4.7.1: Outcome Seven: Superannuation and Housing Support Services for Current and Retired Defence Personnel

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Expenses						
Housing subsidies	9,250	9,250	-	9,250	9,250	9,250
Retention benefits	29,100	30,100	1,000	30,100	30,100	30,100
Military Superannuation benefits	2,400,000	2,500,000	100,000	2,500,000	2,600,000	2,600,000
Other expenses	-	-	-	-	-	-
Total Administered Expenses	2,438,350	2,539,350	101,000	2,539,350	2,639,350	2,639,350
Administered Revenues						
Foreign government and the United Nations reimbursements for East Timor	-8,500	-4,000	4,500	-2,500	-2,500	-2,500
Foreign exchange gain	-	-	-	-	-	-
Housing dividends	-52,600	-15,276	37,324	-19,079	-25,189	-25,189
Military superannuation contributions	-672,405	-682,475	-10,070	-682,475	-682,475	-682,475
Other revenues ⁽³⁾	-	-	-	-	-	-
Total Administered Revenues	-733,505	-701,751	31,754	-704,054	-710,164	-710,164
Net Cost of Outcome Seven⁽⁴⁾	1,704,845	1,837,599	132,754	1,835,296	1,929,186	1,929,186

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Other revenues include interest and dividends, net foreign exchange gains/losses and resources received free of charge.
4. Cross-reference to Tables 4(a) and 4(b).

Significant Variations

Expenses administered on behalf of the Government will increase by \$101.0m from \$2,438.4m in 2004-05 to \$2,539.4m in 2005-06. This represents an increase of five per cent from the 2004-05 projected result. This variation is due to an

increase of \$101.0m for Military Superannuation and Retention benefits due to pension indexation and an increase in recipients.

Revenue administered on behalf of the Government will decrease by \$31.8m from \$733.5m in 2004-05 to \$701.8m in 2005-06 representing a decrease of five per cent. The major variations are due to:

- revised numbers of ADF personnel and rates of salary resulting in the differences in Military Superannuation Contributions (+\$10.1m);
- expected reduction in dividend revenue from the Defence Housing Authority to the Government (-\$37.3m); and
- revised estimates of reimbursements from foreign government and the United Nations (-\$4.5m).

More detail on the administered appropriations is shown in Tables 7.6, 7.7 and 7.8 in Chapter Seven – Budgeted Financial Statements.

Table 4.7.2: Breakdown of Outcome Seven by Output

	Projected Result ⁽¹⁾ 2004-05	PBS Budget Estimate 2005-06	Variation ⁽²⁾	Forward Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel	1,756,695	1,847,625	90,930	1,847,625	1,947,625	1,947,625
Output 7.2 – Housing Assistance for Current Defence Personnel	-43,350	-6,026	37,324	-9,829	-15,939	-15,939
Output 7.3 – Other Administered Revenues and Expenses	-8,500	-4,000	4,500	-2,500	-2,500	-2,500
Net Cost of Outcome Seven⁽³⁾	1,704,845	1,837,599	132,754	1,835,296	1,929,186	1,929,186

Notes

1. Projected Result reflects revisions made to the previously published *Portfolio Additional Estimates Statements 2004-05* figures.
2. The variation figures are the difference between the Portfolio Budget Statements (PBS) Budget Estimate and the Projected Result.
3. Cross-reference to Tables 4(a), 4(b) and 4.7.1.