



MINISTER FOR DEFENCE
THE HON DR BRENDAN NELSON MP

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

4 MAY 2006

The Hon David Hawker MP
Speaker of the House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr President and Mr Speaker

I hereby submit Portfolio Budget Statements in support of the 2006-07 Budget for the Department of Defence, the Defence Materiel Organisation and Defence Housing Authority.

These statements have been developed, and are submitted to the Parliament, as a statement of the outcomes for the Defence portfolio. They also cover the purpose of portfolio budget measures.

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

Yours sincerely

BRENDAN NELSON

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USER GUIDE TO THE PORTFOLIO BUDGET STATEMENTS

Purpose of the Portfolio Budget Statements

The purpose of the *Portfolio Budget Statements 2006-07* is to inform Senators and Members of Parliament of the proposed allocation of resources to government outcomes, by agencies, within the portfolio. Agencies receive resources from the annual appropriations bills, special appropriations, standing appropriations (including special accounts), and revenue from other sources.

A key role of the Portfolio Budget Statements is to facilitate the understanding of proposed annual appropriations in Appropriation Bills No. 1 and No. 2 2006-07 (or Appropriation Bill [Parliamentary Departments] No. 1 2006-07 for the parliamentary departments). In this sense, the Portfolio Budget Statements are officially Budget Related Papers and are declared by the Appropriation Bills to be 'relevant documents' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.

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

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

How to read the Portfolio Budget Statements

The Portfolio Budget Statements are presented in three sections, aligned in several ways to the Budget Papers, as outlined below.

| SECTION ONE: DEFENCE | |
|--------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chapter One — Overview | An overview of Defence's strategic objectives and environment, force structure and Defence's organisational structure. |
| Chapter Two — Resourcing | Defence's financial outlook for 2006-07, including a budget summary and measures, and Defence's purchaser-provider arrangements. |
| Chapter Three — Capital Investment Program | A summary of Defence's capital budget, including projects to be considered in 2006-07, medium and major capital facilities projects, other capital purchases and capital receipts. |
| Chapter Four — People | This chapter provides a summary of personnel initiatives for 2006-07 and a summary of Defence's workforce. |
| Chapter Five — Planned Outcome Performance | A brief overview of Defence's outcomes and outputs for 2006-07. It details the estimated cost of Defence's outputs and outcomes and describes each outcome and output including planned performance targets. |

| | |
|---------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Chapter Six — Management Reforms and Efficiencies | Information on the implementation of internal business processes in 2006-07, designed to ensure sustainable delivery of outcomes. |
| Chapter Seven — Budgeted Financial Statements | Defence's budgeted financial statements, in accrual format, covering 2006-07, the current year and three out-years. |
| SECTION TWO: DEFENCE MATERIEL ORGANISATION | |
| Chapter One — Overview | An overview of the organisation, including the challenges and opportunities facing the Defence Materiel Organisation (DMO) and the organisational structure. |
| Chapter Two — Resourcing | The DMO's financial outlook for 2006-07, including DMO's Purchaser-Provider Arrangements. |
| Chapter Three — Planned Outcome Performance | An overview of the DMO's outcome and outputs, including the Top 30 Projects. |
| Chapter Four — Governance and Materiel Reform | This chapter contains a summary of the DMO's governance activities and reform initiatives. |
| Chapter Five — People | This chapter provides a summary of personnel initiatives for 2006-07 and a summary of the DMO's workforce. |
| Chapter Six — Budgeted Financial Statements | The DMO's budgeted financial statements, in accrual format, covering 2006-07 and three out-years. |
| SECTION THREE: DEFENCE HOUSING AUTHORITY | |
| | An overview of the Authority, including performance forecasts for 2006-07, the Authority's outcome and output, and its 2006-07 budgeted financial statements. |
| APPENDICES | |
| | A list of tables and charts, a glossary, acronyms and abbreviations, and an alphabetical index. |

PORTFOLIO BUDGET STATEMENTS AND BUDGET PAPERS

Comprehensive information on all government decisions announced in the Budget are in Budget Paper No. 2, *Budget Measures 2006-07*. The Portfolio Budget Statements include Budget appropriations for this Budget in each agency's Table 2.2, 2006-07 Budget Measures.

The following chart shows the parts of Portfolio Budget Statements which relate to specific Budget papers.

| Budget Paper | Portfolio Budget Statements |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Budget Paper No. 1: Budget Strategy and Outlook | |
| Statement 1: Fiscal Strategy and Budget Priorities Overview of the fiscal and economic outlook | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |
| Statement 2: Fiscal Outlook Budget aggregates and variations to the fiscal balance estimates | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |
| Statement 10: AAS Financial Statements Accrual financial statements for the general government sector | Defence – Section One, Chapter Seven DMO – Section 2, Chapter Six |
| Budget Paper No. 2: Budget Measures | |
| Budget revenue, expense and capital measures | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |

| Budget Paper | Portfolio Budget Statements |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Budget Paper No. 3: Federal Financial Relations | |
| Information on the Australian Government's relations with States, Territories and local government, in particular, Specific Purpose Payments (SPPs) | Defence – Section One, Chapters Two and Chapter Five |
| Budget Paper No. 4: Agency Resourcing | |
| Resourcing for Australian Government agencies, including Appropriation Bills | Defence – Section One, Chapter Two DMO – Section Two, Chapter Two |

Departmental and Administered items

Under the Australian Government's accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies decide (departmental transactions) are separately budgeted for and reported on from transactions agencies make on behalf of others (administered transactions). This ensures that the transactions decided by agencies are reported separately from other transactions in their accounts.

Departmental items

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

Administered items

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

Appropriations in the accrual budgeting framework

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

- Departmental price of outputs appropriations: representing the Government's funding for outputs from agencies;
- Departmental capital appropriations for investments by the Government for either additional equity or loans to agencies or payments from previous years' outputs;
- Administered expense appropriations: for the estimated administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the States and Territories; and
- Administered capital appropriations: for increases in administered equity through funding non-expense administered payments.

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to State governments). The appropriation framework is discussed further in the introduction to Budget Paper No. 4, *Agency Resourcing 2006-07*.

Components of agency financial statements

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

The budgeted financial statements contain the estimates prepared in accordance with the requirements of the government’s financial budgeting and reporting framework, including the principles of the Australian Accounting Standards and Statements of Accounting Concepts, as well as specific guidelines issued by the Department of Finance and Administration. They show the planned financial performance for the 2006-07 Budget year and each of the forward years from 2007-08 to 2009-10. The statements also include the estimated actual for 2005-06 for comparative purposes.

The schedules included in the budgeted financial statements for 2006-07 are as follows.

| Schedule | Purpose |
|-----------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Budgeted departmental income statement | Shows the expected financial results for the agency. Identifies full accrual expenses and revenues, which highlights whether the agency is operating at a sustainable level. |
| Budgeted departmental balance sheet | The financial position of the agency. It helps decision makers to track the management of assets and liabilities. |
| Budgeted departmental statement of cash flows | Provides information on the extent and nature of cash flows by categorising them into expected cash flows from operating activities, investing activities and financing activities. |
| Budgeted departmental statement of changes in equity — summary of movement | This is a new statement for Portfolio Budget Statements that represents the movement of parent entity (the Commonwealth) interest in the agency. The statement has been prepared to reflect the net operating result, movements of capital return and additional capital injections from the Commonwealth. |
| Departmental capital budget statement | Shows all planned departmental capital expenditure (capital expenditure on non-financial assets), whether funded through capital appropriations for additional equity or borrowings, or from funds from internal sources. |
| Departmental property, plant, equipment and intangibles — summary of movement | Shows budgeted acquisitions and disposals of non financial assets during the Budget year. |
| Schedule of budgeted income and expenses administered on behalf of government | Identifies the main revenues and expenses administered on behalf of government. |
| Schedule of budgeted assets and liabilities administered on behalf of government | Shows the assets and liabilities administered on behalf of government. |
| Schedule of budgeted administered cash flows | Shows cash flows administered on behalf of government. |

| Schedule | Purpose |
|--------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| Schedule of administered capital budget | Shows details of planned administered capital expenditure. |
| Schedule of administered property, plant, equipment and intangibles — summary of movement | Discloses details of movements in administered non financial assets. |

Abbreviations and conventions

The following notations may be used:

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

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

Enquiries

Should you have any enquiries regarding this publication, please contact:

Director
 Statutory Reporting and Accountability
 R1-5-A036
 Department of Defence
 CANBERRA ACT 2600

Telephone: (02) 6265 6277
 Email: dsra@defence.gov.au

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

References

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

The Defence Update 2005 can be found at: www.defence.gov.au/update2005