

# DEFENCE

## CHAPTER ONE

### OVERVIEW

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Overview of the 2006-07 Budget

Status of Defence White Paper Funding

Strategic Objectives and Environment

Force Structure

#### ORGANISATIONAL STRUCTURE

Senior Executive Changes

Organisational Structure Changes

Organisational Chart



# OVERVIEW

## Overview of the 2006-07 Budget

In *Defence 2000: Our Future Defence Force* (the Defence White Paper) the Government committed to increase Defence spending by an average of 3 per cent real growth a year from 2000-01 to 2010-11. In this budget the Government has decided to continue to increase Defence spending by 3 per cent real growth per-annum until 2015-16. This will mean a 15-year commitment to 3 per cent real growth in Defence funding.

In addition to the \$28.5 billion already committed over the decade to 2010-11, the Government will provide an additional \$10.7 billion over the period 2011-12 to 2015-16. This will fund vital projects such as the Joint Strike Fighters and Air Warfare Destroyers and other priorities set out in the revised 2006-16 Defence Capability Plan to be released in June.

In addition to the \$3.0 billion in Defence White Paper funding provided in 2006-07, Defence will also receive an extra \$1.4 billion in the coming financial year in new budget measures. This is the sixth successive budget in which the Government has met or exceeded its Defence White Paper funding commitment. The \$1.4 billion builds on the additional funds provided in recent Budgets for operations, logistics sustainment, military personnel, single accommodation, and estate upkeep.

All up, the Defence budget will increase to \$19.6 billion in 2006-07 or 9 per cent of Commonwealth outlays and about 1.9 per cent of Gross Domestic Product (GDP).

In addition to the 3 per cent real growth commitment, the Budget provides an additional \$1.9 billion to acquire a new heavy airlift capability (the Boeing C-17 Globemaster III), and a further \$1.5 billion over ten years for the Hardened and Networked Army initiative. The Budget also brings forward \$625.0m in Defence Capability Plan funding, reflecting improved project management by the Defence Materiel Organisation (DMO).

The Government has also provided an additional \$623.0m in the budget for Defence operations comprising:

- \$392.7m over three years from 2006-07 for a continuation of operations in Iraq;
- \$218.2m over three years from 2006-07 for operations including deploying and sustaining our Reconstruction Task Force to Afghanistan; and
- \$12.1m in 2006-07 for the surveillance of Australia's northern approaches as part of Operation Relex II.

Increasing military workforce numbers and enhancing the conditions of service of military personnel and their families is a high priority. Key initiatives include:

- funding to renew the military Workforce Remuneration Agreement;
- funding for a number of recruitment and retention initiatives designed to recover and grow Australian Defence Force (ADF) workforce numbers;
- a number of initiatives to improve conditions of service for Defence personnel and support for ADF families; and
- increased remuneration for Reserve personnel.

Other new measures contained in the Budget include:

- \$26.2m in 2006-07 to sustain and enhance Naval aviation capability;
- about \$300m over four years to modernise propellant manufacturing at the explosives and propellant facility at Mulwala, New South Wales, of which the Government will contribute \$131m in new funding; and
- \$22.1m over four years to enhance maritime surveillance and detection capabilities.

As part of the Budget, Defence's funding allocations have also been adjusted for movements in the non-farm GDP deflator, which is the index used to price update the Defence budget. Funds are to be returned to the Government under the no-win/no-loss arrangements that apply to Defence's foreign exchange exposure. These handbacks do not affect Defence's purchasing power but reflect the strength of the Australian dollar relative to the exchange rates at the time of the original Defence White Paper funding.

After allowing for the handback of \$5.3 billion in foreign exchange supplementation, all up, the Government has provided an additional \$10.4 billion over ten years including \$1.4 billion in 2006-07, as shown in Table 1.1.

**Table 1.1: Additional Funding Provided to Defence in the 2006-07 Budget**

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>New Budget Measures</b>											
Defence capability – heavy airlift	792	518	360	249	222	-44	-140	-57	-	-	1,899
Hardened and Networked Army – phase 2	24	68	152	196	212	220	164	142	174	196	1,548
Iraq – funding for stabilisation and reconstruction activities	310	67	16	-	-	-	-	-	-	-	393
Afghanistan - contributing to a Provincial Reconstruction Team	92	99	27	-	-	-	-	-	-	-	218
Afghanistan - providing aviation support	15	-	-	-	-	-	-	-	-	-	15
Army Reserves - increasing remuneration	36	47	47	52	53	56	65	67	68	70	560
Coastal surveillance - increased patrolling of maritime approaches	24	24	24	24	25	25	26	26	27	27	252
Coastal surveillance - continuation	12	-	-	-	-	-	-	-	-	-	12
Mulwala redevelopment project	-	-	61	29	27	5	5	4	-	-	131
Defence housing - supplementation for competitive neutrality policy	78	-	-	-	-	-	-	-	-	-	78
Defence Headquarters Joint Operations Command	nfp	nfp	nfp	nfp	nfp	nfp	nfp	nfp	nfp	nfp	nfp
Defence funding beyond 2010-11	-	-	-	-	-	652	1,350	2,094	2,888	3,735	10,719
Logistics - additional funding for naval aviation	26	-	-	-	-	-	-	-	-	-	26
<b>National Security</b>											
defence communications project	-35	-31	14	19	20	18	17	17	21	21	80
- improving intelligence connectivity	2	4	1	1	-	-	-	-	-	-	8
<b>Securing Borders against Illegal Foreign Fishing</b>											
- charting and surveying in northern waters	5	6	7	-	-	-	-	-	-	-	19
- enhanced detection capabilities	1	1	1	1	-	-	-	-	-	-	4
Military Superannuation Schemes - removal of inequities	-	-	-	-	-	-	-	-	-	-	-
Australian Defence Force – recovering workforce strength	-	-	-	-	-	-	-	-	-	-	-
<b>1.Sub - Total New Budget Measures</b>	<b>1,380</b>	<b>802</b>	<b>711</b>	<b>571</b>	<b>559</b>	<b>931</b>	<b>1,486</b>	<b>2,293</b>	<b>3,178</b>	<b>4,048</b>	<b>15,961</b>
<b>Savings Measures</b>											
Australian Defence Force command and control structure - rationalisation	-6	-13	-21	-31	-31	-31	-31	-31	-31	-31	-256
Efficiency dividend – broadening of the application in Defence	-4	-11	-20	-29	-38	-46	-53	-60	-68	-75	-405
Crisis communications - improvements	-4	-	-	-	-	-	-	-	-	-	-4
<b>2. Sub - Total Savings Measures</b>	<b>-14</b>	<b>-24</b>	<b>-41</b>	<b>-60</b>	<b>-69</b>	<b>-77</b>	<b>-84</b>	<b>-91</b>	<b>-99</b>	<b>-106</b>	<b>-665</b>
<b>3. Total 2006-07 Budget Measures (1+2)</b>	<b>1,366</b>	<b>779</b>	<b>670</b>	<b>511</b>	<b>490</b>	<b>855</b>	<b>1,402</b>	<b>2,201</b>	<b>3,079</b>	<b>3,942</b>	<b>15,296</b>
<b>Other Budget Adjustments</b>											
Bring forward of Defence Capability Plan funding	154	207	52	212	-	-	-337	-343	-	-	-55
Price Indexation	106	72	39	41	42	44	45	48	52	56	546
Return of Foreign Exchange Supplementation	-258	-257	-333	-491	-591	-653	-736	-736	-638	-651	-5344
<b>4. Sub Total Other Budget Adjustments</b>	<b>2</b>	<b>22</b>	<b>-242</b>	<b>-238</b>	<b>-549</b>	<b>-609</b>	<b>-1,027</b>	<b>-1,031</b>	<b>-586</b>	<b>-595</b>	<b>-4,854</b>
<b>5. Total Increase in Defence Funding (3+4)</b>	<b>1,368</b>	<b>800</b>	<b>428</b>	<b>273</b>	<b>-59</b>	<b>246</b>	<b>375</b>	<b>1,170</b>	<b>2,493</b>	<b>3,347</b>	<b>10,442</b>

The Government commitment to increase Defence funding over the period 2010-11 totals \$10.7 billion and is to be allocated for the purposes outlined in Table 1.2.

**Table 1.2: Allocation of Additional Funding Beyond 2010-11**

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Personnel Costs	147	337	534	741	918	2,678
Living-In Accommodation	48	101	159	221	290	819
Defence Capability Plan	251	374	543	499	683	2,350
Major Capital Facilities Program	17	35	54	74	95	274
Other Capital Purchases	4	8	13	17	23	65
Operating Costs including for New Equipment	49	192	396	854	1,160	2,651
Logistics Sustainment	61	125	192	264	339	980
Facilities Operating Costs/Estate Upkeep	75	178	203	217	228	901
<b>Total Allocation</b>	<b>652</b>	<b>1,350</b>	<b>2,094</b>	<b>2,888</b>	<b>3,735</b>	<b>10,719</b>

## Status of Defence White Paper Funding

Defence's departmental funding in 2006-07 and beyond continues to be based primarily on the allocations approved by the Government in the context of the 2000 Defence White Paper. The additional funding commitment totals \$28.5 billion (Outturned, 2006-07 Budget prices) over 11 years commencing in 2001-02 and represents the most specific long-term funding commitment for Defence for more than 25 years.

The additional Defence White Paper funding is being applied to:

- the Defence Capability Plan, containing a program of capital investment in addition to the investment program already planned at that time (+\$19.8 billion);
- provision for two per cent real per capita growth in personnel costs from 2004-05 onwards, reflecting the cost of maintaining a highly skilled workforce in a sustainable way (+\$4.8 billion);
- provision for the through-life support costs of the capability enhancements in the Defence Capability Plan (+\$2.9 billion); and
- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings (+\$1.0 billion).

After taking account of the reprogramming of the Defence Capability Plan that was agreed by the Government, including in this Budget, additional Defence White Paper funding already provided by the Government totals \$6.3 billion over the period 2001-02 to 2005-06. The 2006-07 Budget includes a further \$3.0 billion in Defence White Paper funding, and an additional \$13.3 billion is

included in the forward estimates. The remaining funding, totalling \$6.0 billion, is to be provided over the period 2010-11 to 2013-14.

Table 1.3 provides details of the current Defence White Paper funding allocations in 2006-07 prices, including the bringing forward of \$625.0m in Defence Capability Plan funding into 2006-07 and the Forward Estimates, as agreed by the Government in the 2006-07 Budget.

**Table 1.3: Current Defence White Paper Funding Allocations (Portfolio Budget Statements 2006-07 prices, Outturned)<sup>(1)</sup>**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Major Capital Equipment</b>														
Original Allocation	510	1,051	1,506	1,552	1,722	2,325	2,411	2,282	2,796	3,429	-	-	-	19,584
Defence Capability Program (DCP) reprogramming agreed in 2002-03 Budget		-200						224						24
DCP reprogramming agreed in 2003-04 Budget			-542	-201	-146	-94	0	159	457	339	167	0	0	139
DCP reprogramming agreed in 2004-05 Budget				-75	-314	-389	-137	0	203	137	194	302	216	138
DCP reprogramming agreed in 2005-06 Budget					300				-106	-108	-111			-25
DCP reprogramming agreed in 2006-07 Budget						154	207	52	212			-337	-343	-55
<b>A Defence Capability Plan</b>	<b>510</b>	<b>851</b>	<b>964</b>	<b>1,276</b>	<b>1,563</b>	<b>1,996</b>	<b>2,481</b>	<b>2,717</b>	<b>3,563</b>	<b>3,797</b>	<b>250</b>	<b>-35</b>	<b>-127</b>	<b>19,805</b>
<b>Through-Life Support Costs for DCP Projects</b>														
Original Allocation	-	-	-	195	242	296	430	509	601	640	-	-	-	2,913
Reprogramming	-	8	21	-134	-64	-5	-	13	84	76	-	-	-	-1
<b>B Through-life Support for DCP Projects</b>	<b>-</b>	<b>8</b>	<b>21</b>	<b>61</b>	<b>178</b>	<b>290</b>	<b>430</b>	<b>522</b>	<b>686</b>	<b>716</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,912</b>
<b>C Two Per Cent Real Growth in Personnel Costs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>238</b>	<b>380</b>	<b>525</b>	<b>668</b>	<b>819</b>	<b>982</b>	<b>1,199</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,812</b>
<b>D Operating Costs</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117</b>	<b>135</b>	<b>143</b>	<b>147</b>	<b>152</b>	<b>158</b>	<b>159</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,009</b>
<b>Total (A+B+C+D)</b>	<b>510</b>	<b>859</b>	<b>985</b>	<b>1,692</b>	<b>2,255</b>	<b>2,954</b>	<b>3,726</b>	<b>4,210</b>	<b>5,388</b>	<b>5,871</b>	<b>250</b>	<b>-35</b>	<b>-127</b>	<b>28,538</b>

**Note**

1. Figures may not add due to rounding.



## Strategic Objectives and Environment

The Government's defence strategy is articulated in the Defence White Paper, and the subsequent reviews *Australia's National Security: A Defence Update 2003* and *Australia's National Security: A Defence Update 2005* (hereafter referred to as the Defence Updates 2003 and 2005).

The most recent strategic review, the Defence Update 2005, confirms and builds on the key judgments made in 2000 and 2003, highlighting the longer-term trends associated with the impacts of globalisation, the threats of terrorism and counter-proliferation, the United States' strategic primacy and the maturing relationships between the major powers of the Asia-Pacific region that will shape Australia's strategic environment into the future.

### STRATEGIC OBJECTIVES

The Defence Update 2005 refined the key roles of the ADF as outlined and endorsed in the Defence White Paper. The ADF will continue to plan to be able to undertake four key tasks: the defence of Australia and its direct approaches; contributing to the security of our immediate neighbourhood; supporting Australia's wider interests and objectives; and contributing to peacetime national tasks. The Defence Update 2005 notes importantly that Australia's security interests are not defined by geography alone, reflecting Australia's extensive and complex role in the global community.

### CHANGING STRATEGIC ENVIRONMENT

The Defence Update 2005 confirms the trends identified in 2003. Defeating the threat of terrorism, countering the proliferation of weapons of mass destruction and supporting regional states in difficulty, remain the Government's highest priorities.

The Defence Update 2005 states that threats will be increasingly interrelated across both national and international environments, and across organisational and jurisdictional boundaries. It also notes that in the years ahead Australia may face challenges that cannot be anticipated or predicted easily. The contribution the ADF makes to future national security is likely to go far beyond traditional warfighting against traditional types of adversaries.

At the same time, the current high demands placed on the ADF in responding to threats and meeting other responsibilities is likely to continue. The ADF can expect to conduct concurrent deployments domestically, regionally and internationally in support of Australia's interests.

To meet these strategic needs, this Government is committed to the development of future forces that are versatile, robust, joint and integrated.

The Government will pursue a defence policy which will:

- shape and build an ADF that is balanced, versatile and adaptable by continuing the capability developments begun in the Defence White Paper, aimed at increasing the ADF's combat weight, mobility, and sustainability; and
- build a strong set of security relationships – regionally and globally – that allow Australia to continue to help shape the international environment towards Australian interests, and to lead, contribute to, support and enable military coalitions as appropriate.

## Force Structure

Defence maintains a force structure to meet the strategic tasks outlined in the Defence White Paper and the Defence Updates 2003 and 2005. The shape of the force structure is influenced, among other things, by lessons learnt during major operations. The force-in-being consists of the following major combat or combat-support elements:

- a surface combatant force of five Adelaide-class guided missile frigates (to be reduced to four by the end of 2007) and seven Anzac-class frigates (increasing to a total of eight by September 2006);
- a naval aviation force comprising 16 Seahawk naval combatant helicopters, six Sea King maritime support helicopters and 13 Squirrel naval training helicopters. The introduction of the Super Seasprite helicopter to operational service has been delayed by the need to resolve a system problem identified during the flight test program. The last Super Seasprite helicopter is scheduled for delivery in March 2007;
- a mix of Fremantle-class and Armidale-class patrol boats to provide patrol, response and surveillance capability in Australia's maritime approaches. The existing Fremantle-class force is being progressively replaced and all will be decommissioned by June 2007 by which time 12 Armidale-class patrol boats will be in service. An additional two Armidale-class patrol boats will be delivered in late 2007;
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships, one heavy landing ship and six heavy landing craft;
- a mine warfare force comprising six Huon-class coastal mine hunter vessels, two auxiliary minesweepers and two clearance diving teams;

- a hydrographic force comprising two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and a deployable geospatial support team;
- an afloat support force comprising one auxiliary oil tanker (to be replaced in September 2006 with a more environmentally-compliant double-hulled tanker) and one fleet replenishment ship;
- nine combined arms battlegroups to provide depth, sustainability, utility and flexibility for the Army;
- a Reserve Force designed to provide specified individual and collective capabilities to support, sustain and reinforce the Army's operational forces;
- three regional force surveillance units;
- a Special Operations Command consisting of the Special Air Services regiment, a Regular Army commando regiment, an Army Reserve commando regiment, an Incident Response Regiment, a Special Forces Training Centre and a Special Forces Combat Service Support Company;
- an air combat force consisting of three front-line F/A-18 Hornet squadrons and one operational F-111 squadron (to be retired from service from 2010), supported by a training wing comprising four units, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements;
- an air lift and air-to-air refueling force that operates two C-130 Hercules airlift squadrons, one squadron each of DHC-4, B-707, and Special Purpose Aircraft (B-737 BBJ and CL-604 Challenger) supported by a training wing, and the Boeing C-17 Globemaster III heavy airlifter which will enter service from late 2006;
- a combat support group consisting of three expeditionary combat support squadrons that provide the essential air base combat support required to conduct deployed air operations on bare bases and in low infrastructure conditions, an airfield defence wing and a health support wing;
- a maritime patrol force comprising two front line AP-3C Orion squadrons and one conversion unit, and the Wedgetail airborne early warning and control aircraft which will enter service from 2007; and
- diverse capabilities for intelligence collection and analysis.

The major combat elements are being integrated through a robust communications network and the information systems required to support the ADF's mission command, intelligence, surveillance, reconnaissance, imagery and military geospatial information sharing requirements. Capabilities such as

satellite communications, tactical information exchange links and the Command Support Environment are being progressed.

The delivery of Defence capabilities continues to be dependent on the support of the Defence Science and Technology Organisation.

# ORGANISATIONAL STRUCTURE

## Senior Executive Changes

Mr Alan Henderson, Deputy Secretary Corporate Services, will depart Defence on 30 June 2006. A replacement is yet to be announced.

## Organisational Structure Changes

On 21 February 2006, the Secretary and the Chief of the Defence Force announced structural changes aimed at streamlining Defence processes that would be introduced on 1 July 2006. These changes were made after consideration and consultation with the Defence Committee in December 2005 and February 2006, and were endorsed by the Minister for Defence. These changes will:

- improve performance of the central policy functions by creating an integrated Australian Defence Headquarters;
- establish more cohesive service delivery with a Defence Support Group; and
- improve coordination and visibility of issues for the Secretary and the Chief of the Defence Force, and for the Government.

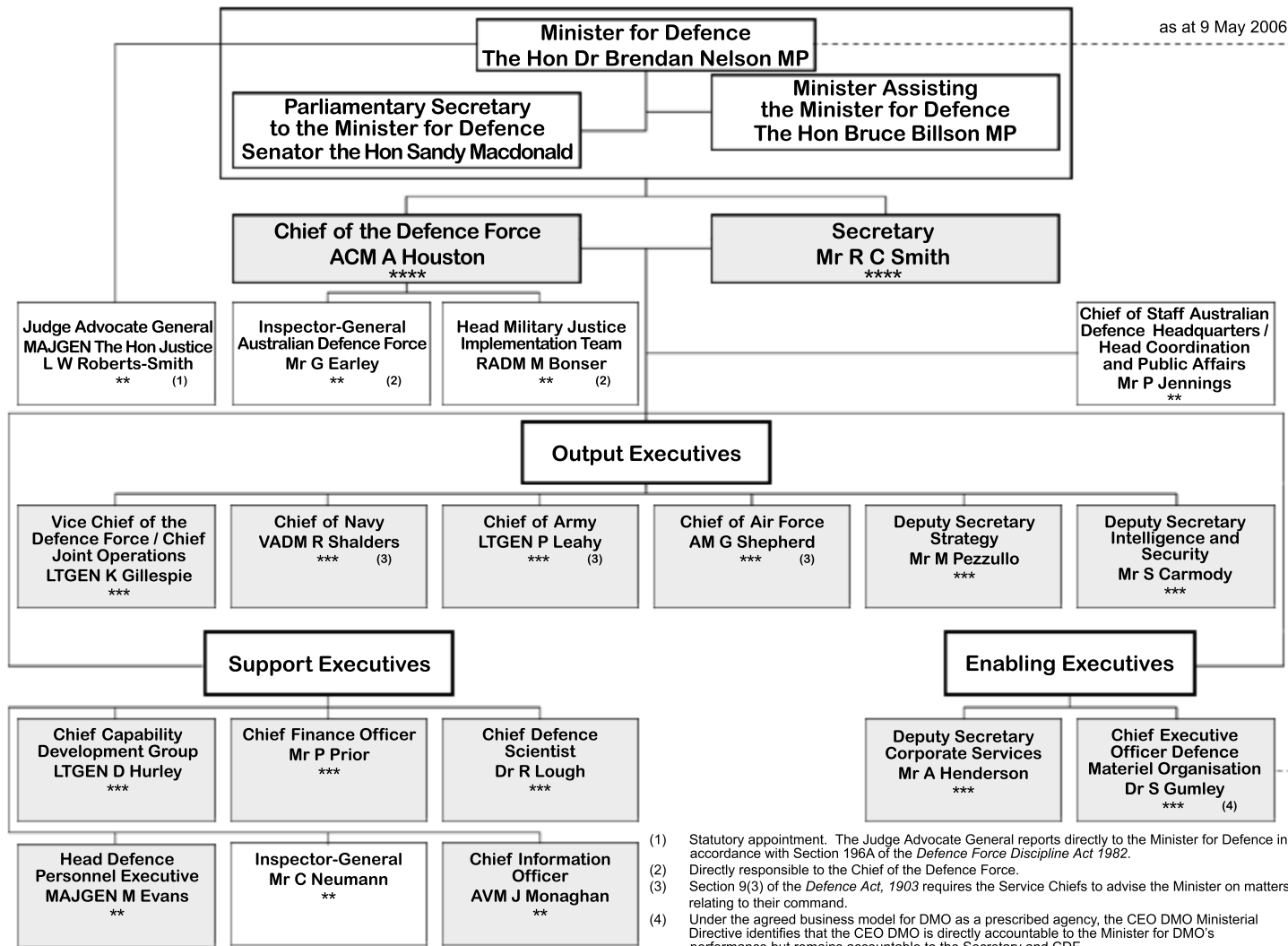
Associated with these structural changes is, from 1 July 2006, the establishment of Joint Logistics Command as a Group. The responsibility for the development of cadet policy has been transferred from the Vice Chief of the Defence Force to the Head Defence Personnel Executive.

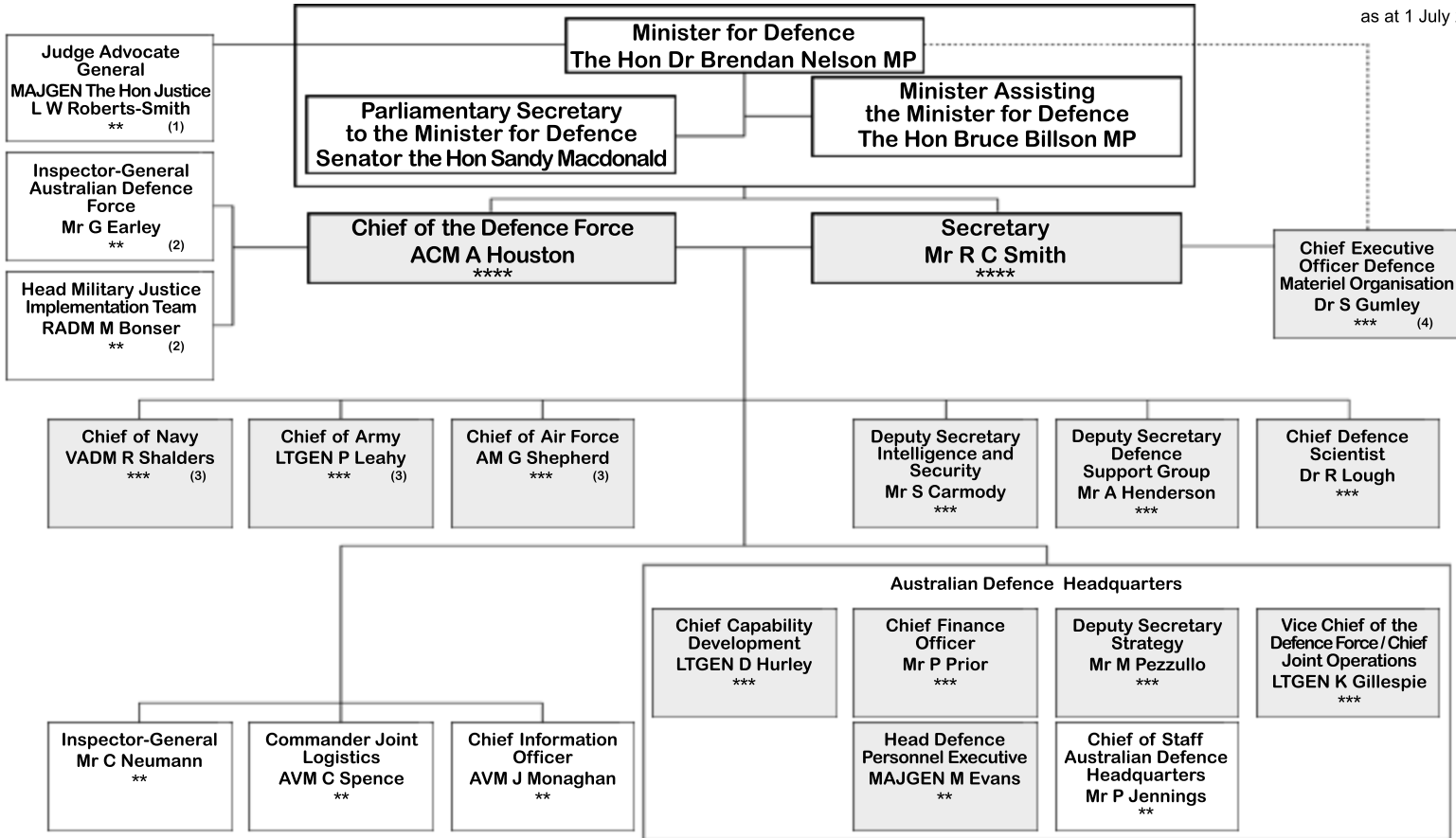
The proposed new organisational structure and initial Australian Defence Headquarters structure is shown in Chart 1.2. The final structure is still being refined, and revised Outcomes and Outputs will be reported in the *Portfolio Additional Estimates Statements 2006-07*.

## Organisational Chart

Chart 1.1 depicts the structure of the organisation as at 9 May 2006.

Chart 1.2 depicts the structure of the organisation as at 1 July 2006.





as at 1 July 2006

- (1) Statutory appointment. The Judge Advocate General reports directly to the Minister for Defence in accordance with Section 196A of the *Defence Force Discipline Act 1982*.
  - (2) Directly responsible to the Chief of the Defence Force.
  - (3) Section 9(3) of the *Defence Act, 1903* requires the Service Chiefs to advise the Minister on matters relating to their command.
  - (4) Under the agreed business model for DMO as a prescribed agency, the CEO DMO Ministerial Directive identifies that the CEO DMO is directly accountable to the Minister for DMO's performance but remains accountable to the Secretary and CDF.
- Defence Committee members

