

DEFENCE

CHAPTER TWO

RESOURCING

2006-07 BUDGET SUMMARY

2006-07 BUDGET MEASURES

FUNDING FOR OPERATIONS

2006-07 FINANCIAL STATEMENTS

**PAYMENTS TO THE DEFENCE MATERIEL
ORGANISATION**

DISCRETIONARY GRANTS

INDIGENOUS PROGRAMS

SAVINGS AND EFFICIENCY MEASURES

PURCHASER-PROVIDER ARRANGEMENTS

Defence Materiel Organisation

Defence Housing Authority

Department of Foreign Affairs and Trade

Comcare

ComSuper

2006-07 BUDGET SUMMARY

Defence has budgeted to receive \$22,251.1m in total resourcing in 2006-07, comprising departmental funding of \$19,619.1m and a further \$2,632.0m for the administered appropriation.

The total departmental funding is provided from four sources, comprising:

- revenue from the Government for the price of outcomes (\$17,063.4m);
- an equity injection (\$1,937.9m);
- own source revenue (\$594.6m); and
- net capital receipts (\$23.2m).

The total level of departmental funding of \$19,619.1m represents:

- an increase of \$1,866.9m compared with the estimated actual in 2005-06 of \$17,752.2m; and
- an increase of \$1,397.5m or 7.7 per cent in 2006-07 compared with the Forward Estimate published at the time of the *Portfolio Additional Estimates Statements 2005-06*.

Total Defence resourcing is summarised in Table 2.1.

The total departmental funding allocation of \$19,619.1m (serial 7), maintains Defence funding at about 1.9 per cent of GDP and is the most common way of measuring Defence's budget. The method is consistent with the presentation of the Defence White Paper. The various ways in which the Defence budget is presented are explained in Chapter Seven.

Table 2.1: Total Defence Resourcing

Serial No	2005-06	2006-07	2006-07			2007-08	2008-09	2009-10
	Estimated Actual \$'000	Previous Estimate ⁽¹⁾ \$'000	Budget Estimate \$'000	Variation \$'000	%	Forward Estimate \$'000	Forward Estimate \$'000	Forward Estimate \$'000
Departmental								
1	16,133,541	16,362,110	17,063,404	701,294	4.3	17,424,698	17,498,316	18,089,342
2	972,080	1,369,024	1,937,879	568,855	41.6	1,588,444	1,880,401	2,379,642
3	17,105,621 (1+2)	17,731,134	19,001,283	1,270,149	7.2	19,013,142	19,378,717	20,468,984
4	621,752	484,706	594,645	109,939	22.7	600,432	610,408	637,832
5	24,863	5,792	23,192	17,400	300.4	22,508	21,810	4,599
6	646,615 Sub Total (4+5)	490,498	617,837	127,339	26.0	622,940	632,218	642,431
7	17,752,236 Departmental Funding (3+6)	18,221,632	19,619,120	1,397,488	7.7	19,636,082	20,010,935	21,111,415
Administered								
8	2,618,000	2,616,100	2,632,000	15,900	0.6	2,713,000	2,801,000	2,893,000
9	20,370,236 (7+8)	20,837,732	22,251,120	1,413,388	6.8	22,349,082	22,811,935	24,004,415

Notes

- As reported in *the Portfolio Additional Estimates Statements 2005-06* (p. 17).
- Own-source revenue (serial 4) excludes revenue from 'assets now recognised' and 'net gains from sales of assets'.
- The Administered appropriation (serial 8) of \$2,632.0m covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed on Defence's behalf by the Department of Finance and Administration in respect of military superannuation schemes and by the Defence Housing Authority in respect of housing subsidies.

Included in Defence's \$19,619.1m in departmental funding is:

- \$2,954.0m relating to the Government's Defence White Paper funding commitment (further details on the status of the White Paper funding allocation are provided in Chapter One - Overview);
- an additional \$1,380.5m relating to new budget measures, the details of which are provided in Table 2.2; and
- new savings measures totalling \$14.4m, the details of which are also shown in Table 2.2.

2006-07 BUDGET MEASURES

The new budget measures announced by the Government total \$1,380.5m in 2006-07 and \$3,465.0m over four years, including \$440.5m for the Hardened and Networked Army, \$181.6m for the Reserve Remuneration Review and \$1,918.6m for the acquisition of an enhanced heavy airlift capability. Additional funding has also been provided for operations, including for continuation of operations in Iraq and Afghanistan.

In addition to these funding decisions, new savings measures totalling \$138.8m over four years are to be implemented through the rationalisation of the ADF's Command and Control structure, the broadening of the efficiency dividend and Defence's contribution to a whole-of-government communications initiative. The combination of the new funding and savings measures result in a net increase in Defence funding levels of \$1,366.1m in 2006-07 and \$3,326.2m over four years. The new funding and savings measures are shown in Table 2.2.

Table 2.2: Summary of New Budget Measures Disclosed in the 2006-07 Budget

		2006-07	2007-08	2008-09	2009-10	Total	
	Defence Outcome	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate		
		\$'000	\$'000	\$'000	\$'000	\$'000	
New funding measures:							
	Defence capability - heavy airlift	4	792,277	517,621	360,132	248,541	1,918,571
	Hardened and Networked Army - phase 2	3	24,064	67,919	152,072	196,424	440,479
	Iraq - funding for stabilisation and reconstruction activities	1	309,975	67,106	15,610	-	392,691
	Afghanistan - contributing to a Provincial Reconstruction Team	1	91,520	99,350	27,280	-	218,150
	Afghanistan - providing aviation support ⁽¹⁾	1	14,627	-	-	-	14,627
	Army Reserves - increasing remuneration	Various	36,064	46,912	46,844	51,778	181,598
	Coastal surveillance - increased patrolling of maritime approaches	2	23,508	23,755	23,937	24,431	95,631
	Coastal surveillance - continuation	1	12,110	-	-	-	12,110
	Mulwala redevelopment project	Various	-	-	61,000	29,100	90,100
	Defence housing - supplementation for competitive neutrality policy	Various	78,000	-	-	-	78,000
	Defence Headquarters Joint Operations Command - delivering through a public private partnership ⁽²⁾	1	nfp	nfp	nfp	nfp	nfp
	Defence funding beyond 2010-11	Various	-	-	-	-	-
	Logistics - additional funding for naval aviation	2	26,200	-	-	-	26,200
	National Security						
	- defence communications project	Various	-35,000	-31,000	14,497	18,505	-32,998
	- improving intelligence connectivity	6	1,559	3,578	1,283	1,308	7,728
	Securing Borders against Illegal Foreign Fishing						
	- charting and surveying in northern waters	2	5,000	6,200	7,300	-	18,500
	- enhanced detection capabilities	6	615	998	993	1,012	3,618
	Sub-total New Budget Measures		1,380,519	802,439	710,948	571,099	3,465,005

	Defence Outcome	2006-07 Budget Estimate \$'000	2007-08 Forward Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	Total \$'000
New savings measures:						
Australian Defence Force command and control structure – rationalisation	1	-5,900	-12,700	-20,500	-31,000	-70,100
Efficiency dividend – broadening the application in Defence	Various	-4,481	-11,182	-20,077	-28,997	-64,737
Crisis communications - improvements	Various	-4,000	-	-	-	-4,000
Sub-total New Savings Measures		-14,381	-23,882	-40,577	-59,997	-138,837
Budget Measures to be Offset or Absorbed						
Australian Defence Force - recovering workforce strength	2,3,4	-	-	-	-	-
Military Superannuation Schemes - removal of inequities	2,3,4	-	-	-	-	-
Total		1,366,138	778,557	670,371	511,102	3,326,168

Note

1. As reported in the Portfolio Additional Estimates Statements 2005-06 (p. 20).
2. Not for publication due to commercial sensitivities.

OTHER BUDGET ADJUSTMENTS

In addition to the above Budget measures, the Government has agreed a number of other Budget adjustments and these are detailed below.

Defence Capability Plan Reprogramming

The Government has agreed to bring forward \$625.0m of Defence Capability Plan funding from beyond the forward estimates, including \$153.9m into 2006-07. This is as a result of improvements in project management performance of the Defence Materiel Organisation.

Price Indexation

The Government has approved a revision to price parameters provided in the 2005-06 Additional Estimates reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07. The rate for 2006-07 is 2.4 per cent.

Foreign Exchange Adjustments

Defence is required to return to the Government any surplus foreign exchange supplementation under the no-win/no-loss arrangements. Since the White Paper funding injection in 2001-02, Defence's budget allocations have been adjusted on a year by year basis for foreign exchange rate fluctuations compared to the rates prevalent at the time of the White Paper. Rather than adjusting the out years, the Department of Finance and Administration has held in a contingency reserve, the projected impact across the forward estimates. During the development of this Budget, the Government decided that Defence's appropriations would be adjusted in the forward estimate years, as well as the

budget year. All future exchange updates will be done on the same basis, resulting in the discontinuation of the contingency reserve. While this results in a decrease in Defence's funding of \$257.4m in 2006-07 and a further \$1,081.7m across the forward estimates, it has no impact on Defence's purchasing power.

MOVEMENT IN FUNDING (REVENUE) PROVIDED BY THE GOVERNMENT

Table 2.3 (p. 21) of the *Portfolio Additional Estimates Statements 2005-06* detailed how Defence's total revenue from appropriations had varied by Government decisions since the 2005-06 Budget. Table 2.3 below shows further movements in funding since the 2005-06 Additional Estimates.

Table 2.3: Defence Revenue from Government⁽¹⁾⁽²⁾

Serial No.	2005-06 \$m	2006-07 \$m	Variation \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Published in the <i>Portfolio Additional Estimate Statements 2005-06</i> (refer serial 3 of Table 2.1)						
	17,105.6	17,731.1	625.5	18,300.6	18,992.0	20,195.6
2006-07 Budget Measures						
1		24.1	24.1	67.9	152.1	196.4
2		-	-	-	61.0	29.1
3		310.0	310.0	67.1	15.6	
4		91.5	91.5	99.4	27.3	-
5		36.1	36.1	46.9	46.8	51.8
6		26.2	26.2	-	-	-
7		12.1	12.1	-	-	-
8		-35.0	-35.0	-31.0	14.5	18.5
9		1.6	1.6	3.6	1.3	1.3
10		0.6	0.6	1.0	1.0	1.0
11		78.0	78.0	-	-	-
12		5.0	5.0	6.2	7.3	-
13		-5.9	-5.9	-12.7	-20.5	-31.0
14		-4.0	-4.0			
15		792.3	792.3	517.6	360.1	248.5
16		-4.5	-4.5	-11.2	-20.1	-29.0
17		23.5	23.5	23.8	23.9	24.4
18		-83.5	-83.5	-87.7	-41.6	0.2

Serial No.		2005-06 \$m	2006-07 \$m	Variation \$m	2007-08 \$m	2008-09 \$m	2009-10 \$m
Other Budget Adjustments:							
19	Defence Capability Plan Reprogramming		153.9	153.9	206.8	52.1	212.2
20	Price Indexation		105.6	105.6	72.1	38.9	41.3
21	Exchange adjustment		-257.4	-257.4	-257.2	-333.1	-491.4
Published in the <i>Portfolio Budget Statements 2006-07</i> (refer serial 3 of Table 2.1)			19,001.3	1,895.6	19,013.1	19,378.7	20,469.0

Notes

1. Funding from the Government is the sum of revenue for price of outputs and the equity injection.
2. The funding baseline at each published budget milestone reflects the Forward Estimates at that time.

FUNDING FOR OPERATIONS

The ADF has approximately 1,900 personnel deployed on 11 concurrent operations, including United Nations peacekeeping and regional assistance missions. The 2006-07 Budget provides an additional \$623.0m over three financial years for operations in Iraq (\$392.7m), Afghanistan (\$218.2m) and deterring unauthorised boat arrivals – Operation Relex II (\$12.1m). Together with funds already approved in prior budgets, including commitments to operations in Iraq to 30 June 2006, a total of \$724.9m is provided in the Budget and forward estimates including \$496.8m in 2006-07 for all operations as shown in Table 2.4.

Table 2.4: Revised Net Additional Cost of Current Operations

Operation	Budget 2005-06	Estimated Actual 2005-06	Variation	Budget Estimate 2006-07	Forward Estimate 2007-08	Forward Estimate 2008-09
	\$m	\$m	\$m	\$m	\$m	\$m
Operations in Iraq to 30 June 2006	402.5	390.3	-12.2	37.4	3.9	-
Continuation of Operations in Iraq to 30 June 2007	-	-	-	310.0	67.1	15.6
Sub-total Iraq (Operation Catalyst)	402.5	390.3	-12.2	347.4	71.0	15.6
Special Forces Task Group ⁽¹⁾	-	57.6	57.6	18.4	3.5	-
CH-47D Aviation Support Element ⁽¹⁾	-	37.0	37.0	14.6	-	-
Reconstruction Task Force	-	-	-	91.5	99.4	27.3
Sub-total Afghanistan (Operation Slipper)	-	94.6	94.6	124.5	102.9	27.3
Coastal Surveillance (Operation Relex II)	16.4	13.6	-2.8	12.1	-	-
Operation in Solomon Islands (Operation Anode)	8.9	10.9	2.0	3.4	-	-
Tsunami Assistance (Operation Sumatra Assist)	11.1	11.1	-	-	-	-
Commonwealth Games 2006 (Operation Acolyte)	11.4	11.9	0.5	1.0	-	-
APEC 2007 (Operation Deluge)	-	-	-	8.4	11.3	-
Operations in Timor-Leste (Operation Spire)	4.1	4.1	-	-	-	-
Total	454.4	536.5	82.1	496.8	185.2	42.9
Pakistan Assistance (Operation Pakistan Assist) ⁽²⁾	-	13.7	13.7	-	-	-
Total⁽³⁾	454.4	550.2	95.8	496.8	185.2	42.9

Notes

1. An amount of \$17.2m is held in the appropriation receivable (refer to Table 2.10) and will, subject to Government agreement, now be spent in 2006-07.
2. Defence will be reimbursed \$13.4m for the net additional cost of the operation by the Department of Foreign Affairs and Trade through the existing aid budget.
3. Including funding from the Department of Foreign Affairs and Trade.

OPERATION CATALYST

Operation Catalyst is the ADF's contribution to Multinational Force Efforts to develop a secure and stable environment in Iraq and assist national recovery programs. In 2005-06, Australia's contribution to Coalition operations in Iraq under Operation Catalyst included strategic airlift and maritime patrol assets, a Major Fleet Unit in the North Arabian Gulf, a Security Detachment in Baghdad, an Embedded Support Group, Force Level Logistic Assets and a Headquarters element. Australia's commitment to Iraq also included a Task Group to the southern Iraqi province of Al Muthanna to provide security support to the Japanese reconstruction personnel and to continue Australia's commitment to train new Iraqi army personnel in the province.

As part of the 2006-07 Budget, the Government has decided to continue operations in Iraq at about the same levels until 30 June 2007, and has provided Defence with an additional \$392.7m over three financial years for this purpose.

OPERATION SLIPPER

Operation Slipper is the ADF's contribution to the international coalition against terrorism. In September 2005, a Special Forces Task Group of about 190 personnel was deployed for 12 months to support the reconstruction and stability of Afghanistan by providing combat patrols of remote regions, reconnaissance and surveillance operations with coalition partners. The Government has provided funds over three financial years including \$18.4m in 2006-07 for the net additional cost of the deployment including personnel allowances, communications and logistics support.

An aviation support element comprising two CH-47D helicopters and 140 personnel has also been deployed as part of the Combined Forces Command in Afghanistan, to provide additional aero-medical evacuation and air mobility support to the Special Forces Task Group and a Reconstruction Task Force until November 2006. Defence has been provided with funds over two financial years for the net additional cost of this deployment, including \$14.6m in 2006-07.

Additionally the Government has agreed to the deployment of a Reconstruction Task Force comprising approximately 240 ADF personnel as part of a Netherlands-led Provincial Reconstruction Team. The ADF contribution will be a mixed security and reconstruction task force to work on reconstruction and community based projects to assist Afghanistan to achieve a stable and secure future. The Government have since approved, as part of the 2006-07 Budget, additional supplementation for the deployment of a Reconstruction Task Force of \$218.2m across three financial years, including \$91.5m in 2006-07, bringing the total net additional cost of Operation Slipper in 2006-07 to \$124.5m.

OPERATION RELEX II

Operation Relex II involves the conduct of air and surface surveillance and interception operations to protect Australia's northern and western borders from unauthorised boat arrivals. The Government has provided \$12.1m in 2006-07 for the net additional costs involved in this operation.

Through the multi-tasking nature of the activities within Operations Relex II and Cranberry, the ADF's contribution to civil agencies involved in maritime security activities will be further enhanced. This will ensure that Defence assets are effectively employed against a wide range of recognised threats, including illegal foreign fishing.

OPERATION ANODE

Operation Anode is the ADF's contribution to the Regional Assistance Mission to the Solomon Islands. The Government has provided \$3.4m in 2006-07 for the continuation of an ADF presence until 30 December 2006 and the remediation of ADF vehicles returned from operation in the Solomon Islands.

OPERATION ACOLYTE

Operation Acolyte was the ADF's contribution to the whole-of-government support to the conduct of the Melbourne 2006 Commonwealth Games in March 2006. The Government provided \$1.0m in 2006-07 for the remediation of equipment and reconstitution of stores used during the operation.

OPERATION DELUGE

Operation Deluge is the ADF's contribution to the whole-of-government support for hosting the Asia Pacific Economic Cooperation forum in Australia in 2007. The ADF contribution deals primarily with the provision of counter-terrorism, security and ceremonial capabilities. The Government has provided \$19.7m for the net additional cost of security support to be provided by Defence over two financial years, including \$8.4m in 2006-07.

MINOR OPERATIONS

The ADF also participates in a number of minor United Nation peacekeeping operations, the costs of which are absorbed by Defence within its annual funding allocation. These include operations based in Sudan, Sinai and the Middle East.

STATUS OF FUNDING FROM ALL OPERATIONS

Table 2.5 provides a summary of the actual and planned expenditure on operations for which Defence has been supplemented covering the period 1999-00 to 2008-09. To date, the Defence budget has been supplemented by \$6,047.7m for these operations.

Table 2.5: Summary of the Net Additional Cost of Operations for which Defence has been Supplemented.

Operation	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2005-06	2006-07	2007-08	2008-09	Total ⁽¹⁾
	Actual	Actual	Actual	Actual	Actual	Actual	Original	Estimated	Budget	Budget	Budget	
	Result	Result	Result	Result	Result	Result	Budget	Actual	Estimate	Estimate	Estimate	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Operation Spire (Timor-Leste) ⁽²⁾	598.1	798.5	632.9	579.3	554.0	27.4	4.1	4.1	-	-	-	3,194.3
Operation Bel Isi	-	20.0	10.1	14.6	3.0	-	-	-	-	-	-	47.7
Operation Slipper ⁽³⁾	-	-	320.0	176.0	-5.0	-	-	94.6	124.5	102.9	27.3	840.3
Operation Relex and Relex II Operations	-	-	22.2	27.8	15.9	11.9	16.4	13.6	12.1	-	-	103.5
Bastille/Falconer/Catalyst	-	-	-	285.3	240.6	284.9	402.5	390.3	347.4	71.0	15.6	1,635.1
Operation Anode	-	-	-	-	90.4	27.6	8.9	10.9	3.4	-	-	132.3
Operation Sumatra Assist	-	-	-	-	-	37.0	11.1	11.1	-	-	-	48.1
Operation Acolyte	-	-	-	-	-	0.1	11.4	11.9	1.0	-	-	13.0
Operation Deluge	-	-	-	-	-	-	-	-	8.4	11.3	-	19.7
Sub total Defence Supplementation	598.1	818.5	985.2	1,083.0	898.9	388.9	454.4	536.5	496.8	185.2	42.9	6,034.0
Operation Pakistan Assist	-	-	-	-	-	-	-	13.7	-	-	-	13.7
Total Supplementation	598.1	818.5	985.2	1,083.0	898.9	388.9	454.4	550.2	496.8	185.2	42.9	6,047.7

Notes

1. Total Net Additional Cost of Operations includes the Actual Results for 1999-2005, the 2005-2006 Estimated Actual and Estimates for 2006-2009.
2. Includes force generation funding from 1999-2000 to 2003-2004, with an ongoing amount of \$448.9m included in Defence's funding base from 2004-2005.
3. An amount of \$17.2m is held in the appropriation receivable (refer to Table 2.10) and will, subject to Government agreement, now be spent in 2006-07.

2006-07 FINANCIAL STATEMENTS

Income Statement

Defence is budgeting for a balanced operating result in 2006-07 which is consistent with the operating result planned at the time of the *Portfolio Additional Estimate Statements 2005-06*. Since then, total income and total expenses have increased by \$938.7m. Details are shown in Table 2.6.

Table 2.6: Variation in Planned Income Statement 2006-07⁽¹⁾

	2006-07			
	Previous Estimate ⁽²⁾ \$'000	Budgeted Estimate \$'000	Variation \$'000	%
INCOME				
Revenue				
Revenue from Government for Outcomes	16,362,110	17,063,404	701,294	4.3
Goods and services	258,130	530,482	272,352	105.5
Other Revenue	228,076	65,663	-162,413	-71.2
Total Revenue	16,848,316	17,659,549	811,233	4.8
Gains				
Reversals of previous asset write-downs	72,500	200,000	127,500	175.9
Total Gains	72,500	200,000	127,500	175.9
Total Income	16,920,816	17,859,549	938,733	5.5
EXPENSES				
Employees ⁽³⁾	6,549,692	6,609,082	59,390	0.9
Suppliers	6,885,384	7,649,136	763,752	11.1
Grants	5,201	5,592	391	7.5
Depreciation and amortisation	3,336,323	3,336,323	-	-
Finance costs	32,716	20,412	-12,304	-37.6
Write-down of assets and impairment of assets	107,500	235,000	127,500	118.6
Other	4,000	4,004	4	0.1
Total Expenses	16,920,816	17,859,549	938,733	5.5
Operating Result	-	-	-	-

Notes

1. See also Table 7.1.
2. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 141).
3. Further details on employee expenses can be found in Chapter Four – People.

Income (+\$938.7m)

Income is estimated to increase by \$938.7m due to:

- increased revenue from the Government of \$701.3m, as a result of:
 - continuation of operations in Iraq – operating element (+\$264.4m)
 - the operating element of Defence Capability Plan funding brought forward from beyond the Forward Estimates to 2006-07 (+\$102.6m);

- supplementation for the operating element of Operation Slipper for the deployment and sustainment of personnel and equipment comprising a Reconstruction Task Force to Afghanistan (+\$87.4m);
- continued supplementation for the increased costs associated with the Government's Competitive Neutrality policy to the Defence Housing Authority (+\$78.0m);
- revision to the price parameter estimates reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 (+\$71.5m);
- the Reserve Remuneration Review initiative to build a more capable Reserve Force (+\$36.1m);
- implementation of Phase 2 of the Hardened and Networked Army initiative to improve the sustainability and survivability of the Army in operational conditions (+\$24.1m);
- supplementation for increased patrolling of Australia's maritime approaches (+\$23.5m);
- the operating element of additional funding to allow the Naval Aviation capability to be maintained to meet its directed levels of capability (+\$19.1m);
- increased disposal costs associated with the 2006-07 Property Disposals Program (+\$17.4m);
- the operating element of continuation of Operation Relex II beyond 30 June 2006 (+\$10.0m);
- the operating element of funding to purchase C-17 Globemaster III heavy airlifters to enhance Defence's heavy airlift capability (+\$6.2m);
- Defence's contribution to Australian Fisheries and Maritime Surveillance (+\$5.0m);
- supplementation for enhancements to the connectivity of the Australian Intelligence Community (+\$0.8m);
- increased funding associated with changes in intelligence priorities (+\$0.6m);
- Broadening of the Efficiency Dividend (-\$4.5m);
- savings associated with the Rationalisation of the Australian Defence Force's Command and Control structure (-\$5.9m); and
- savings achieved in a communications project (-\$35.0m).
- increased revenue from sales of goods and services of \$272.4m comprising:
 - reclassification from Other Revenue of the payments that the DMO makes back to Defence for the cost of the military workforce provided to that organisation (+\$163.8m);

- revenue received from the DMO associated with the Defence Integrated Distribution System contract and additional maintenance revenue which had not been included at the time of the last estimates (+\$82.0m);
 - additional revenue received from the DMO for project related work undertaken by the Defence Science and Technology Organisation (+\$25.0m); and
 - revision to the price parameter estimates reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 (+\$1.6m).
- a reduction in Other Revenue of \$162.4m is primarily due to the reclassification of the payments that the DMO makes back to Defence for the cost of the military workforce provided to that organisation (-\$163.8m).
 - variation in reversals of previous asset write-downs as a result of planned stock-taking and audit remediation activities (+\$127.5m).

Expenses (+\$938.7m)

Expenses are estimated to increase by \$938.7m compared with the last published estimates due to:

- increased employee expenses of \$59.4m as a result of:
 - continuation of operations in Iraq (+\$105.3m);
 - the Reserve Remuneration Review initiative to build a more capable Reserve Force (+\$36.1m); and
 - changes in the rank profile of the ADF, variations in per capita rates and a lower number of permanent force members than the previous estimate (-\$82.0m).
- increased suppliers expenses of \$763.8m, mainly due to:
 - a continuation of operations in Iraq – operating element (+\$159.1m);
 - increased inventory consumption as a result of increased fuel prices and changes in purchasing and consumption patterns (+\$140.0m);
 - Defence Capability Plan funding brought forward from beyond the forward estimates – operating element (+\$102.6m);
 - additional expenditure associated with work undertaken under the Defence Integrated Distribution System contract on behalf of the DMO not included in previous estimates (+\$82.0m);
 - revision to price parameters reflecting a net increase in the forecast non-farm gross domestic product deflator of approximately 0.6 per cent in 2006-07 (+\$74.5m);
 - supplementation for Operation Slipper for the deployment and sustainment of personnel and equipment involved in the Reconstruction Task Force in Afghanistan (+\$71.2m);

- a higher proportion of property, plant and equipment expenditure classified as operating rather than capital (+\$46.1m);
 - additional expenses for project related work undertaken by the Defence Science and Technology Organisation on behalf of the DMO (+\$25.0m);
 - increased expenditure on patrolling Australia's maritime approaches (+\$23.5m);
 - implementation of Phase 2 of the Hardened and Networked Army initiative (+\$21.2m);
 - additional funding for logistics sustainment of the Naval Aviation fleet (+\$19.1m);
 - disposals costs associated with the 2006-07 Property Disposal Program (+\$17.4m);
 - continuation of Operation Relex II beyond 30 June 2006 (operating component) (+\$9.7m);
 - purchase of C-17 Globemaster III aircraft to enhance Defence's heavy airlift capability (operating component) (+\$6.2m);
 - Defence's contribution to Australian Fisheries and Maritime Surveillance (+\$5.0m);
 - increased funding associated with changes in intelligence priorities (+\$0.6m);
 - enhancements to the connectivity of the Australian Intelligence Community (+\$0.3m);
 - reclassification of funding to Grants (-\$0.4m);
 - Broadening of the Efficiency Dividend (-\$4.5m); and
 - reduced expenditure due to savings achieved in a communications project (-\$35.0m).
- variation in grant funding of \$0.4m due to timing issues associated with the grant to be provided to the Livingstone Shire Council and a new grant to support the Operation Aussie Home Initiative;
 - decreased finance costs following buy-out in 2005-06 of on-base Defence Housing Authority annuities (-\$12.3m); and
 - increased write-down of assets and impairment of assets of \$127.5m as a result of stock-taking and audit remediation activities.

BALANCE SHEET

Compared with the previous estimate for 2006-07, Defence's net assets are estimated to increase by \$475.1m or 0.9 per cent comprising an increase in assets of \$436.1m and reduction in liabilities of \$39.0m. Details are shown in Table 2.7 and the reasons for variation follow.

Table 2.7: Revised Balance Sheet 2006-07⁽¹⁾

	2006-07			
	Previous Estimate ⁽²⁾ \$'000	Budget Estimate \$'000	Variation \$'000	%
ASSETS				
Financial Assets				
Cash	161,249	161,249	-	-
Appropriation Receivables	438,251	455,451	17,200	3.9
Other Receivable	256,235	256,235	-	-
Total Financial Assets	855,735	872,935	17,200	2.0
Non-Financial Assets				
Land and Buildings	10,906,161	10,982,127	75,966	0.7
Infrastructure plant and equipment	29,578,070	38,216,881	8,638,811	29.2
Intangibles	306,148	306,210	62	0.0
Heritage and Cultural	800,459	800,459	-	-
Inventories	4,150,815	4,169,043	18,228	0.4
Other	8,604,028	289,816	-8,314,212	-96.6
Total Non-Financial Assets	54,345,681	54,764,536	418,855	0.8
Total Assets	55,201,416	55,637,471	436,055	0.8
LIABILITIES				
Debt				
Leases	228,290	228,290	-	-
Other interest bearing liabilities	2,631	2,631	-	-
Total Debt	230,921	230,921	-	-
Provisions and Payables				
Employees and other provisions	1,532,896	1,493,890	-39,006	-2.5
Suppliers payables	608,219	608,219	-	-
Other	527,606	527,606	-	-
Total Provisions and Payables	2,668,721	2,629,715	-39,006	-1.5
Total Liabilities	2,899,642	2,860,636	-39,006	-1.3
Net ASSETS	52,301,774	52,776,835	475,061	0.9
EQUITY				
Capital	5,998,086	6,482,741	484,655	8.1
Reserves	10,610,860	10,610,860	-	-
Retained surpluses or accumulated deficits	35,692,828	35,683,234	-9,594	-
TOTAL EQUITY	52,301,774	52,776,835	475,061	0.9

Notes

1. See also Table 7.2.
2. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 142).

Assets (+\$436.1m)

Total assets are estimated to be \$436.1m higher than the previous estimate for 2006-07 due to movements in both financial and non-financial assets.

Financial Assets are \$17.2m higher than projected in the 2005-06 Additional Estimates due to:

- Operation Slipper funding from 2005-06 being held in the Receivable at 30 June 2006 pending agreement to draw-down in 2006-07.

Non-Financial Assets are \$418.9m higher than projected in the 2005-06 Additional Estimates due to:

- Land and Buildings are estimated to increase by \$76.0m due to increased expenditure in the Major Capital Facilities Program (+\$162.3m), offset by revised treatment of the construction of Defence Headquarters Joint Operations Command (-\$53.9m) and property expected to be sold through the Property Disposals Program (-\$32.4m);
- Infrastructure, plant and equipment assets are estimated to increase by \$8,638.8m due to:
 - the transfer of assets under construction from the DMO's balance sheet back to Defence's after receiving further advice from the Australian National Audit Office and the Department of Finance and Administration (+\$8,314.2m);
 - funding to purchase C-17 Globemaster III aircraft to enhance Defence's heavy airlift capability - capital element (+\$786.1m);
 - additional funding brought forward for the 2006-16 Defence Capability Plan from beyond the forward estimates - capital element (+\$51.3m);
 - revision to price parameters reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07 (+\$26.8m);
 - purchase of repairable items as part of an increase in logistics sustainment funding for the Naval Aviation capability to be maintained to meet its directed levels of capability (+\$7.1m);
 - continuation of Operation Relex II beyond 30 June 2006 (capital element) (+\$2.1m);
 - increased expenditure as a result of continuation Operation Slipper for the deployment and sustainment of personnel and equipment comprising a Reconstruction Task Force to Afghanistan (capital element) (+\$1.3m);
 - continuation of operations in Iraq (+\$1.1m);
 - enhancements to the connectivity of the Australian Intelligence Community (+\$0.8m);

- Defence's contribution to the cross-portfolio initiative to ensure adequate communications services are available in the event of a crisis (-\$4.0m);
- variation in the level of infrastructure, plant and equipment purchases (-\$22.3m);
- revised treatment of the construction of the Defence Headquarters Joint Operations Command (-\$29.6m);
- the flow-on impact of increased write-down of assets in 2005-06 as a result of stocktaking and audit remediation activities (increased estimates for assets recognised for the first time and write down of assets in 2006-07 are offsetting) (-\$238.7m); and
- a handback of foreign exchange supplementation reflecting the difference between current foreign exchange parameters and those on which the 2006-07 Budget were based (-\$257.4m).
- intangibles have increased by \$0.1m due to revision to price parameters reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07.
- inventories are planned to increase by \$18.2m due to:
 - purchase of inventory associated with the continuation of operations in Iraq (+\$44.5m);
 - revision to price parameters reflecting a net increase in the forecast non-farm GDP deflator of approximately 0.6 per cent in 2006-07 (+\$7.3m);
 - purchase of inventory associated with Operation Slipper for the deployment for the deployment and sustainment of personnel and equipment comprising a Reconstruction Task Force to Afghanistan (+\$2.8m); and
 - reduced inventory balance as a result of changes in purchasing and consumption patterns (-\$36.3m).
- other non-financial assets are lower primarily due to assets under construction being transferred from Defence Materiel Organisation's balance sheet back to Defence's balance sheet after receiving further advice from the Australian National Audit Office and the Department of Finance and Administration (-\$8,314.2m).

Liabilities (-\$39.0m)

Total liabilities are estimated to be \$39.0m lower than projected in the 2006-07 Budget due to employee provisions being \$39.0m lower as a result of the flow on impact of adoption of the Australian Equivalent to the International Financial Reporting Standards, where the non-current component of annual leave liability has been discounted appropriately.

CASH FLOWS

During 2006-07 Defence has budgeted to receive \$1,412.5m or 7.6 per cent more cash from all sources than the previous estimate. Defence has budgeted to use all of the \$19,984.8m cash it plans to receive (including the additional \$1,412.5m) and the details are shown in Table 2.8. No change in cash balances are planned with cash at bank at 30 June 2007 expected to be \$161.2m.

The budgeted cash flow statement is shown in Table 2.8 below.

Table 2.8: Variation in Cash Flows 2006-07⁽¹⁾

	2006-07			
	Previous Estimate ⁽²⁾	Budget Estimate	Variation	%
	\$'000	\$'000	\$'000	%
CASH RECEIPTS				
Appropriations from the Government	16,362,110	17,063,404	701,294	4.3
Sales of goods and services	268,234	540,586	272,352	101.5
Net GST refund	296,921	296,921	-	-
Other Revenue	226,576	64,163	-162,413	-71.7
Cash transfer from Official Public Account	43,643	43,643	-	-
Proceeds from sales of property, plant and equipment	5,792	38,192	32,400	559.4
Equity appropriation	1,369,024	1,937,879	568,855	41.6
Total Cash Receipts	18,572,300	19,984,788	1,412,488	7.6
CASH PAYMENTS				
Employees	6,494,534	6,553,924	59,390	0.9
Suppliers	6,347,578	7,022,330	674,752	10.6
Grants	5,201	5,592	391	7.5
Finance Costs	32,716	20,412	-12,304	-37.6
Other	4,000	4,004	4	0.1
Cash transfer to Official Public Account	-	-	-	-
Purchase of specialist military equipment	3,969,944	4,522,933	552,989	13.9
Purchase of Inventory	1,236,199	1,239,727	3,528	0.3
Purchase of property, plant and equipment	466,708	585,446	118,738	25.4
Repayments of debt	15,420	15,420	-	-
Capital withdrawal	-	15,000	15,000	-
Total Cash Payments	18,572,300	19,984,788	1,412,488	7.6
Net Increase/(Decrease) in Cash Held	-	-	-	-
Cash at 1 July	161,249	161,249	-	-
Cash at 30 June	161,249	161,249	-	-

Notes

1. See also Table 7.3.
2. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 143).

USE OF CASH RESERVES

In implementing the recommendations of the Government's Budget Estimates and Framework Review, Defence introduced an 'as required' cash draw-down system in February 2003. As a result, Defence's cash reserves are held as a receivable by the Department of Finance and Administration and, rather than maintain cash balances in its accounts, Defence draws on these cash reserves to meet employee liabilities as they fall due in future years.

Defence has progressively reduced the level of funds held in the appropriation receivable in recent years as shown in Table 2.9.

Table 2.9: Rundown in Appropriation Receivable 2006-07

	2002-03 Actual \$'000	2003-04 Actual \$'000	2004-05 Actual \$'000	2005-06 Projected \$'000	2006-07 Planned \$'000
End of Year Appropriation Receivable	870,201	537,660	538,609	499,094	438,251

Defence originally planned to have \$438.3m held as a receivable at the end of 2006-07 as shown in Table 2.6 of the *Portfolio Additional Estimates Statements 2005-06* (p. 33). No change is expected to this estimate, and details are shown in Table 2.10.

Table 2.10: Use of Cash (Appropriation Receivable)

2005-06 Estimated Actual \$m	Use of Cash Reserves	2006-07 Previous Estimate	2006-07 Budget Estimate \$m	2007-08 Forward Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m
538,609	Opening balance of reserves to receivables held by Department of Finance and Administration at 1 July 2005	481,894	499,094	438,251	388,251	333,251
-32,181	Cash used to reduce employee liabilities ⁽¹⁾	-43,643	-43,643	-50,000	-55,000	-60,000
-2,500	Operation Catalyst rephasing	-	-	-	-	-
-40,270	DMO Component of Appropriation Receivable	-	-	-	-	-
-11,664	DHA Supplementation Return	-	-	-	-	-
70,000	2005-06 quarantine Military Employees	-	-	-	-	-
-1,700	Residual 2004-05 Operations Handback	-	-	-	-	-
-2,000	Operation Anode rephasing	-	-	-	-	-
-500	Operation Acolyte rephasing	-	-	-	-	-
-13,900	Operation Sumatra Assist Handback	-	-	-	-	-
-22,000	Communications Project Handback	-	-	-	-	-
17,200	Operation Slipper 2005-06 rephasing ⁽²⁾	-	-17,200	-	-	-
499,094	Sub total: Appropriation Receivable at 30 June	438,251	438,251	388,251	333,251	273,251

Notes

1. Cash set aside with Government agreement to enable Defence to meet employee entitlements.
2. Rephasing in 2006-07 subject to Government consideration.

Cash reserves will continue to decline over the Forward Estimates as funds are drawn down to meet employee liability payments, in accordance with agreements reached with the Government. The appropriation receivable is sufficient to fund about 29 per cent of Defence's employee entitlements as they fall due. Employee entitlements are estimated to be \$1,493.9m at 30 June 2007.

APPROPRIATIONS

The total appropriations for Defence in the 2006-07 Budget are \$22,251.1m, as shown in Table 2.1. Table 2.11 shows the total appropriations for Defence for 2006-07 split across the seven Government outcomes, by administered expenses, cost of output appropriation and departmental equity injection.

Table 2.11: Appropriations and Other Revenue

Outcome	Departmental (Price of Outputs) (\$'000)					Administered (\$'000)			Total Appropriations (\$'000) (I=E+H)
	Revenue from Government (Appropriations)			Receipts ⁽¹⁾	Price of Outputs	(F) Annual Approps	(G) Special Approps	(H=F+G) Total Approps	
	(A) Bill No 1	(B) Special Approps	(C=A+B) Total	(D)	(E=C+D)				
Outcome 1: Command of Operations	1,013,697	-	1,013,697	24,961	1,038,658	-	-	-	
Outcome 2: Navy Capability	4,615,517	-	4,615,517	181,273	4,796,790	-	-	-	
Outcome 3: Army Capability	5,904,884	-	5,904,884	220,939	6,125,823	-	-	-	
Outcome 4: Air Force Capability	4,837,691	-	4,837,691	169,226	5,006,917	-	-	-	
Outcome 5: Strategic Policy	224,629	-	224,629	10,009	234,638	-	-	-	
Outcome 6: Intelligence	466,986	-	466,986	11,429	478,415	-	-	-	
Outcome 7: Administered	-	-	-	-	-	-	2,632,000	2,632,000	2,632,000
Total	17,063,404		17,063,404	617,837	17,681,241		2,632,000	2,632,000	20,313,241
			Departmental Capital (equity injection) (serial 2, Table 2.1)						1,937,879
			Administered Assets and Liabilities						
			Total Appropriations (serial 9, Table 2.1)						22,251,120

Note

1. Comprises own source revenue of \$594.6m (serial 4 of Table 2.1) and net capital receipts \$23.2m (serial 5 of Table 2.1).

PAYMENTS TO THE DEFENCE MATERIEL ORGANISATION

The DMO was established as a prescribed agency on 1 July 2005. It is responsible for equipping and sustaining the ADF through the acquisition of capital equipment assets and the sustainment of these assets to meet directed levels of preparedness.

Defence has budgeted to pay the DMO \$8,460.9m in 2006-07 for the procurement of capital equipment (\$4,957.0m) and the sustainment of equipment (\$3,503.9m). Funding for procurement of capital equipment is provided under a suite of Materiel Acquisition Agreements (one agreement for each project) together with a service fee which covers the DMO project staffing and associated overheads. Payments for sustainment of existing assets is provided under a suite of Materiel Sustainment Agreements (one agreement with each capability manager), together with an associated service fee which covers systems program office staffing costs and associated overheads.

Table 2.12 provides a summary of the composition of payments to the DMO in 2006-07 and over the Forward Estimates period.

Table 2.12: Payments to the DMO in 2006-07

	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m
Approved Major Capital Equipment Projects ⁽¹⁾	4,367.8	3,449.2	2,790.5	1,855.3
Unapproved Major Capital Equipment Projects (DCP) ⁽²⁾	229.7	1,091.3	1,814.1	3,212.7
Navy Minor Projects	29.9	30.6	30.9	32.7
Army Minor Projects	64.0	57.4	69.9	74.5
Air Force Minor Projects	36.9	36.2	31.3	21.3
Chief Information Officer Minor Projects	21.8	15.6	14.5	12.4
Skilling Australia's Defence Industry	10.8	21.3	21.5	21.9
Sub-Total	4,761.0	4,701.7	4,772.7	5,230.9
Service Fee	196.0	194.3	194.7	199.3
1. Total Acquisition (DMO Output 1)	4,957.0	4,896.0	4,967.4	5,430.3
Contract Component – Approved				
Navy Sustainment	1,218.6	1,244.1	1,149.7	1,146.9
Army Sustainment	796.1	844.8	820.1	833.9
Air Force Sustainment	933.9	960.6	876.5	853.5
Chief Information Officer Sustainment	28.9	36.6	58.1	64.3
Operating costs for DCP	113.9	258.6	308.8	379.0
Sub-Total	3,091.4	3,344.7	3,213.3	3,277.7
Service Fee	412.6	427.7	432.3	455.9
2. Total Sustainment (DMO Output 2)	3,503.9	3,772.5	3,645.6	3,733.6
3. Total Payments to DMO (1)+(2)⁽³⁾	8,460.9	8,668.5	8,613.0	9,163.9

Notes

1. Cross reference to Table 3.1 and Table 3.4.
2. Cross reference to Table 3.1.
3. Cross reference to Table 6.3 in Section Two, DMO.

Further details in relation to the DMO can be found in Section Two.

DISCRETIONARY GRANTS

Discretionary grants are payments made to organisations or individuals at the discretion of the Minister for Defence. All Defence grants are paid from departmental rather than administered funds. Grant recipients must satisfy eligibility and reporting requirements, and may be subject to certain conditions in return for the grant.

Discretionary grants can be:

- payments made to an organisation or individual and include ad hoc grants that are made on a one-off basis, as well as grants renewed under continuing programs;
- grants in kind or services-in-kind provided in lieu of grant payments; and
- payments which organisations or individuals receive after satisfying eligibility and/or reporting requirements, and include awards, gifts, departmental (non-legislated) rebate schemes and non-reciprocal scholarships.

The Government requires Defence to report on all discretionary grant approvals. Table 2.13 provides information on grants which have been approved for 2006-07.

Table 2.13: Discretionary Grants

	Total Grants 2006-07
	\$'000
Army Military History Research Grants Scheme	75
Defence Family Support Funding Program	1,146
Grant to the Royal United Services Institute of Australia	83
Operation Aussies Home	38
Grant to the Livingstone Shire Council	4,250
Total	5,592

ARMY MILITARY HISTORY RESEARCH GRANTS SCHEME

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

DEFENCE FAMILY SUPPORT FUNDING PROGRAM

The program provides funds for ADF families to undertake family support projects at the local level to assist in reducing the effects of mobility.

GRANT TO THE ROYAL UNITED SERVICES INSTITUTE OF AUSTRALIA

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

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

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

OPERATION AUSSIES HOME

The grant provides funds to assist with the search for likely burial sites for two Australian soldiers killed in action during the Vietnam War.

GRANT TO THE LIVINGSTONE SHIRE COUNCIL

The grant provides funds to the Livingstone Shire Council for works on the access roads to the Shoalwater Bay Training Area to enable Defence to have unfettered access for heavy vehicle movement to and from the training area.

INDIGENOUS PROGRAMS

While Defence does not have 2006-07 Australian Government Indigenous Expenditure to report, a number of indigenous programs are funded from within the Defence budget. Details of the main programs are below.

ABORIGINAL AND TORRES STRAIT ISLANDER PROGRAM

The primary focus of the program is the recruitment, retention, career development and support of Indigenous Australians and Indigenous Defence employees through various initiatives and events.

ARMY COMMUNITY ASSISTANCE PROJECT

The purpose of this initiative is to assist in the delivery of housing, infrastructure, health services and training to remote Aboriginal communities throughout Australia.

AUSTRALIAN DEFENCE FORCE CADETS – INDIGENOUS PARTICIPATION PROGRAM

This program funds two Indigenous Liaison Officers, one in Darwin and one in Townsville, and a range of initiatives designed to breach the barriers to participation by Indigenous youth in the ADF Cadets, particularly in remote regions.

INDIGENOUS LIAISON OFFICERS AND REVIEW INTO INDIGENOUS HERITAGE ISSUES

Indigenous liaison officer positions have been established to develop and maintain links with local Indigenous communities.

SAVINGS AND EFFICIENCY MEASURES

Program of Administrative Savings

In the 2003-04 Budget, the Government agreed that Defence would absorb a range of cost pressures through a program of administrative savings. The five-year program is designed to deliver ongoing savings of \$200.0m per annum by 2007-08. At this stage, Defence expects to have found savings totalling \$162.4m by 30 June 2006 and is therefore ahead of schedule in achieving the savings targets. Measures have been put in place to ensure that \$175.5m in savings will be delivered by 30 June 2007. Savings measures associated with the next round of agency agreements, including substitution of Professional Service Providers with civilian staff and the business improvement project, should deliver the remaining savings by 30 June 2008. Details are shown in Table 2.14.

Table 2.14: Program of Administrative Savings Targets

	2003-04	2004-05	2005-06	2006-07	2007-08	Ongoing
	\$m	\$m	\$m	\$m	\$m	\$m
Savings target	50.0	100.0	150.0	175.0	200.0	200.0
Savings achieved / planned to date	60.6	130.0	162.4	175.4	200.0	200.0

Administrative savings to date have been achieved by:

- planned reductions in the civilian workforce over a three-year period, in response to significant Australian Public Service workforce growth during 2002-03;
- reductions in non capability-related supplier expenses, including professional service providers;
- a 20 per cent reduction in non-operations related overseas travel;
- a ten per cent reduction in non-operations related domestic travel;
- renegotiations of the Australian Defence Force Academy agreement, resulting in cost savings;
- a reduction in non-operational overseas positions of 110 personnel programmed in 2003-04 and in the years thereafter - there has been an increase in the number of overseas personnel due to Government-endorsed initiatives, capital equipment projects and Defence regional engagement, which has been offset from elsewhere in Groups' budgets;
- removal from service of three P-3 Orion derivative training aircraft, following the introduction of the advanced flight simulator, resulting in operational savings which have been redirected to P-3C Orion aircraft logistics;

- the rationalisation of the civilian personnel administration centres from three to two locations;
- rationalisation of the former Public Affairs and Corporate Communication Division;
- introduction of PMKeyS Self Service, resulting in printing savings from the electronic distribution of civilian and military pay summaries;
- introduction of the Defence Travel Card for domestic and overseas business-related travel, including the Diners Club rebate, as part of the Defence Travel Reform;
- introduction of the Invoice Scanning and Imaging System, resulting in processing savings;
- closing Defence cash offices and centralising receipting, resulting in implementation of automated processes (Bill Pay and Phone Pay) and recovery of debt through salary;
- renegotiations of the Defence Comcover insurance premium;
- lease cost savings for commercial vehicles;
- business process improvements for the regional information, communication and technology function; and
- civilianisation of Navy and Army military positions.

Table 2.15 details the net savings achieved to date and planned, including transition and up front costs.

Table 2.15: Administrative Savings Achieved/Planned to Date

Initiative	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Reductions in civilian workforce	9.5	28.4	46.5	46.5	46.5
Reductions in non-capability related suppliers, including Professional Service Providers	22.0	41.7	41.7	41.7	41.7
Reductions in overseas travel	7.4	7.4	7.4	7.4	7.4
Reductions in domestic travel	11.5	11.5	11.5	11.5	11.5
Renegotiation of the Australian Defence Force Academy agreement	0.9	1.9	1.9	1.9	1.9
Reductions in non-operational overseas positions	4.8	13.4	19.2	20.4	20.3
Removal from service of three P-3 derivative training aircraft	-	-	5.5	5.5	4.0
Rationalisation of civilian personnel administration centres	1.3	1.3	1.3	1.3	1.3
Rationalisation of the former Public Affairs and Corporate Communication Division	2.7	3.2	3.2	3.2	3.2
PMKeyS self-service	-	0.1	0.1	0.1	0.1
Diners Club rebate ⁽¹⁾	0.5	-0.2	0.6	0.7	0.0
Travel Improvement Project (processing staff)	-	0.7	2.0	2.0	2.0
Invoice scanning and imaging system	-	0.2	2.4	2.4	2.4
Closure of Defence cash offices and centralising receipting	-	0.3	0.3	0.3	0.3
Reduction in Comcover insurance premium	-	22.5	20.8	19.1	17.3
Commercial Vehicles	-	-	0.5	1.4	1.4
Regional Information, Communication and Technology Market Testing	-	-	1.5	2.3	2.3
Civilianisation of Navy military positions	-	-	-	0.4	0.4
Civilianisation of Army military positions	-	-	-	1.4	1.4
1. Subtotal Savings Achieved to Date	60.6	132.3	166.5	169.4	165.3
Travel Improvement Project (goods and services tax)	-	-	-	3.0	5.0
Mail and freight	-	-	-	3.2	3.2
Strategic supplier arrangements (office requisites)	-	-	-	1.5	1.5
Rationalisation of business equipment	-	-	-	0.6	0.6
Rationalisation of resource/paper management	-	-	-	1.5	4.8
Rationalisation of military personnel administration centres	-	-	-	-	1.3
Further rationalisation of civilian personnel administration centres	-	-	-	-	0.7
Conversion of Professional Service Providers to civilians	-	-	-	17.5	20.2
2. Subtotal Savings Planned to Date	0.0	0.0	0.0	27.3	37.2
Regional Information, Communication and Technology Market Testing transition costs	-	-2.3	-3.3	-	-
Business Improvement Project transition costs	-	-	-0.8	-15.0	-
Business Centre set up and lease costs (in the vicinity of RAAF Williamtown)	-	-	-	-6.3	-2.5
3. Subtotal Transition Costs	0.0	-2.3	-4.1	-21.3	-2.5
4. Net Savings (1+2+3)	60.6	130.0	162.4	175.4	200.0

Savings achieved and planned are being used to offset the unavoidable cost pressures shown in Table 2.16 to ensure cuts to capability are not required to absorb these costs in the longer term.

Table 2.16: Cost Pressures Offset by Administrative Savings

	2003-04	2004-05	2005-06	2006-07	2007-08
	\$m	\$m	\$m	\$m	\$m
Establishment of the Chief Information Office	4.9	4.9	4.9	4.9	4.9
Comcare premium increases	9.3	15.1	15.3	15.1	15.1
ComSuper administration charge	5.4	5.4	5.4	5.4	5.4
Additional legal services and compensation costs	4.0	4.0	4.0	4.0	4.0
Establishment of the Defence Service Call Centre (Cooma, New South Wales)	9.5	9.5	9.5	9.5	9.5
Contract costs not able to be funded from DRP savings including DIDS Warehousing Manpower recruitment contract	80.0	100.0	100.0	100.0	100.0
Portfolio contribution to ADF service allowance increase	29.8	29.8	29.8	29.8	29.8
Defence Force Review Tribunal allowance increases	7.0	7.0	7.0	7.0	7.0
ADF remuneration reform project costs	13.2	13.2	13.2	13.2	13.2
Increases in overseas leases costs	2.3	2.3	2.3	2.3	2.3
P-3 Orion logistic shortfalls	-	-	5.5	5.5	4.0
Changes in Commonwealth Superannuation Scheme/Public Service Superannuation contribution rates	-	7.2	7.2	7.2	7.2
Department of Foreign Affairs and Trade common services charges	-	1.7	1.7	1.7	1.7
Higher ComSuper user charges	-	2.4	2.4	2.4	2.4
Higher Comcare user charges	-	1.5	1.5	1.5	1.5
Total Cost Pressures Requiring Funding	165.4	204.0	209.7	209.5	208.0
Savings used as offsets to date	60.6	130.0	162.4	175.4	200.0
Absorbed Elsewhere in the Defence Budget or From Future Savings	104.8	74.0	47.3	34.1	8.0

Other Savings and Efficiencies

In addition to the Program of Administrative Savings under which Defence is able to retain the savings, Defence has returned \$826.4m to the Budget over the period 2005-06 to 2009-10 as detailed in Table 2.17.

Table 2.17: Savings Returned to the Budget 2005-06 to 2009-10

	2005-06	2006-07	2007-08	2008-09	2009-10
	\$m	\$m	\$m	\$m	\$m
2003 Defence Capability Review	80.0	73.9	85.3	76.4	99.2
Administrative Overheads	0.0	70.0	60.0	12.0	0.0
Efficiency Dividend	3.4	11.9	25.0	39.0	55.5
Rationalisation of ADF Command and Control Structure	0.0	5.9	12.7	20.5	31.0
Broadening of the Efficiency Dividend	0.0	4.5	11.2	20.1	29.0
Total	83.4	166.2	194.2	167.9	214.7

PURCHASER-PROVIDER ARRANGEMENTS

Defence Materiel Organisation

See Section Two – Defence Materiel Organisation (Chapter Two – Resourcing) for further details on the purchaser-provider arrangement between Defence and the DMO.

Defence Housing Authority

OVERVIEW

Defence and the Defence Housing Authority (DHA) have two formal agreements: the Services Agreement for Housing and Related Requirements (the Services Agreement) and the Relocation Services Agreement. The agreements formalise the relationship between Defence as purchaser and the DHA as provider of housing and related services. The services agreement is currently the subject of a mid-term review. The planned implementation date for any changes stemming from the review is 1 July 2006.

CONTROL ARRANGEMENTS

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

The only change to the board is the replacement of Air Vice-Marshal Roxley McLennan, AM with Air Vice-Marshal John Blackburn, AM as an ADF representative.

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

Chairman	The Hon. P V Jones, AM
Acting Managing Director	Mr M Del Gigante
Commercial Director	The Hon. W L Lange
Commercial Director	Mr W D Bowness
Commercial Director	Ms S A Chaplain
Commercial Director	Mr W L Stokes
ADF representative	Major General M Evans, DSC, AM
ADF representative	Rear Admiral M Hancock, RAN
ADF representative	Major General I Gordon, AO, AM
ADF representative	Air Vice-Marshal J Blackburn, AM
Department of Defence representative	Dr R Neumann
Defence Families Australia representative	Mrs M F Greet

REVIEW OF GOVERNANCE ARRANGEMENTS

On 7 November 2005, the Government agreed to propose a number of amendments to the *Defence Housing Authority Act 1987* and to the governance arrangements for DHA. Work is proceeding with the proposed amendments being introduced to the Parliament during the Autumn 2006 sitting. The proposed amendments include:

- allowing DHA to offer housing and housing-related services to other Commonwealth agencies;
- allowing DHA to offer additional services that are ancillary to housing and housing-related services to both Defence and other Commonwealth agencies;
- reducing the size of the DHA board to provide a more commercially focused structure; and
- changing DHA's name to Defence Housing Australia, to better reflect the commercial environment in which DHA now operates.

RESOURCING

The 2006-07 estimate for the purchase of services from DHA is \$381.2m, compared with the estimate of \$390.3m in the *Portfolio Additional Estimates Statements 2005-06*, a decrease of \$9.1m. This covers the provision of housing and relocation services and the Defence Home Loan scheme for ADF members. The major reason for the variation in the cost of services is the reduced requirement for the payment of annuities.

Also included in the 2006-07 estimate is funding for a trial in Darwin for Members without Dependents Choice Accommodation. The estimated expenditure for this trial is \$2.1m, with funding to be met by expected savings in Members without Dependents rent assistance.

Department of Foreign Affairs and Trade

SERVICE-LEVEL AGREEMENT WITH STRATEGY GROUP

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

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

In 2006-07, the expected cost to Defence under the current three-year agreement will be in the order of \$4.4m.

MEMORANDUM OF UNDERSTANDING WITH CORPORATE SERVICES AND INFRASTRUCTURE GROUP

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

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

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

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

The memorandum of understanding was re-negotiated in November 2004. The cost to Defence in 2006-07, including GST, under the current three-year agreement is expected to be approximately \$1.1m.

Comcare

OVERVIEW

Defence pays Comcare an annual workers compensation premium to meet the cost of workers compensation claims for civilian personnel who suffer a work-related injury or illness during the year and the cost of managing those claims. The premium payable for 2006-07 is estimated at \$15.1m.

Defence pays Comcare an annual regulatory contribution to fund costs incurred by Comcare and the Safety, Rehabilitation and Compensation Commission to conduct regulatory functions under the *Safety, Rehabilitation and Compensation Act 1988* and the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. The regulatory contribution for 2006-07 for civilian and ADF personnel is estimated at \$4.5m.

CONTROL ARRANGEMENTS

Incidence and severity of compensation claims, including time off work, are the primary drivers of the premium. Reducing work-related injury and illness and associated time off work will, over time, have the most influence in reducing the premium payable to Comcare.

Defence is well advanced in the implementation of the Defence Civilian Injury/Illness Prevention and Management System which commenced in 2004 as an initiative of the *Defence Occupational Health and Safety Strategic Plan 2004-06*. This strategic management systems approach, being progressively rolled out across Defence, is aimed at reducing the incidence and severity of work-related injury and illness. One of the initiatives for 2006-07 is an education and awareness program to support managers and supervisors in improving injury prevention and absence management outcomes.

ComSuper

OVERVIEW

Defence is required to pay superannuation administration fees to Commonwealth Superannuation Administration (ComSuper). Defence pays ComSuper a fee for each current or separated Defence member or employee who is a contributing, deferred benefit, or pensioner member of the Military Superannuation and Benefits Scheme, the Defence Force Retirement and Death Benefits Scheme, the Commonwealth Superannuation Scheme, the Public Sector Superannuation Scheme or the Public Sector Superannuation Accumulation Plan.

CONTROL ARRANGEMENTS

A service-level agreement with ComSuper, the Military Superannuation and Benefits Board Executive and the Defence Force Retirement and Death Benefits Authority commenced on 1 July 2005 and expires on 30 June 2007. The agreement identifies the military superannuation administration services to be provided by ComSuper and the fee Defence will pay. ComSuper's performance under the terms of the agreement is reviewed regularly by the Military Superannuation and Benefits Board, the Defence Force Retirement and Death Benefits Authority and Defence.

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

REVIEW OF GOVERNANCE ARRANGEMENTS

Under the Government-agreed principles of the Review of Corporate Governance of Statutory Authorities and Office Holders conducted by Mr John Uhrig AC (Uhrig Review), Defence has reviewed the governance arrangements of the Military Superannuation and Benefits Board and the Defence Force Retirement and Death Benefits Authority.

The review recommended some changes to legislative and governance arrangements, which are currently being considered by Government.

The Government is also currently examining its future role in the administration of superannuation for Australian Government employees. The outcome of this examination may have implications for Defence, the Military Superannuation and Benefits Board, the Defence Force Retirement and Death Benefits Authority and ComSuper.

RESOURCING

The estimated cost to Defence in 2006-07 for the purchase of services from ComSuper is \$21.6m. This includes an amount of \$0.8m that, under the service-level agreement negotiated price, is transferred to the Military Superannuation and Benefits Board Executive for non-investment related administrative costs.

