

DEFENCE

CHAPTER FIVE

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DEFENCE OUTCOME AND OUTPUT STRUCTURE

All Government agencies that receive appropriations from Parliament are required to report on the basis of the Outcomes and Outputs framework that was introduced along with accrual budgeting in 1999-2000. The framework recognises that government delivers benefits to the Australian community (Outcomes) primarily through administered items and agencies' goods and services (Outputs), which are delivered against specific performance benchmarks or targets. Planned Outcomes are defined as the results or impacts on the community or the environment that the Government intends to achieve. Appropriations by Parliament are made according to the purposes specified by government Outcomes. In turn, all agency Outputs must contribute - directly or indirectly - to the realisation of a specified Outcome.

The Government has seven Outcomes for Defence. Of these, there are six Departmental Outcomes, which focus on the delivery of military capabilities, and one Administered Outcome as set out in Table 5.a.

As well as providing details on each of Defence's seven Outcomes, particularly in relation to planned performance in 2006-07, Chapter Five provides the following additional detail:

- Chart 5.a that follows, shows the structure and the net cost to Government of each of Defence's Outcomes.
- Table 5.b shows the net cost to Government of Defence's 2006-07 Outputs, grouped by Outcome.
- Table 5.c shows the 2006-07 Income Statement by Defence Outcomes.
- Table 5.d shows the Movement in the Net Cost of Defence Outcomes since 2003-04.
- Table 5.e shows the Group Contributions to Defence Outcomes.
- Table 5.f provides an explanation of the Significant Variations Across Defence Outcomes.

Table 5.a: Defence Outcome and Output Structure

**OUTCOME ONE – Command of Operations in Defence of Australia and its Interests
(Commander Joint Operations)**

OUTPUTS

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

**OUTCOME TWO – Navy Capability for the Defence of Australia and its Interests
(Chief of Navy)**

OUTPUTS

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

**OUTCOME THREE – Army Capability for the Defence of Australia and its Interests
(Chief of Army)**

OUTPUTS

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

**OUTCOME FOUR – Air Force Capability for the Defence of Australia and its Interests
(Chief of Air Force)**

OUTPUTS

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

**OUTCOME FIVE – Strategic Policy for the Defence of Australia and its Interests
(Deputy Secretary Strategy)**

OUTPUTS

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

**OUTCOME SIX – Intelligence for the Defence of Australia and its Interests
(Deputy Secretary Intelligence and Security)**

OUTPUT

- 6.1 Intelligence

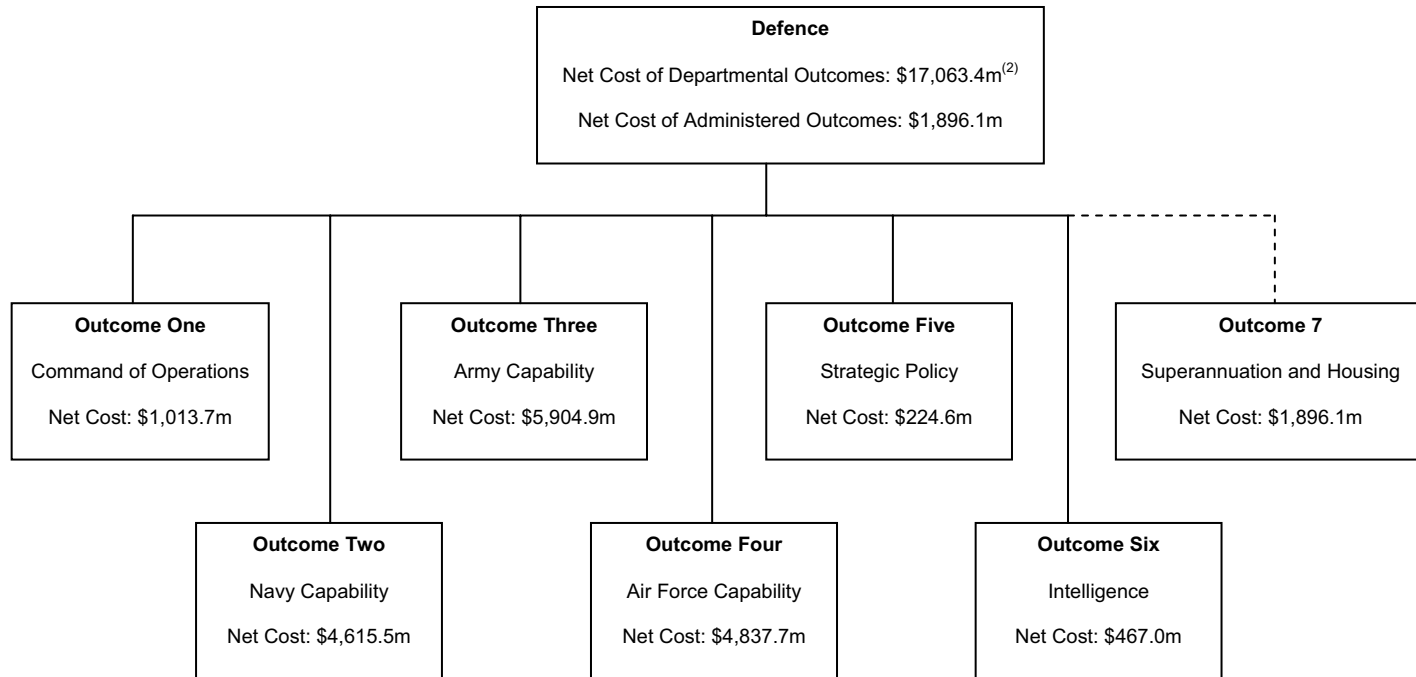
**OUTCOME SEVEN – Superannuation and Housing Support Services for Current and Retired
Defence Personnel (Head Defence Personnel Executive)**

OUTPUTS

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

COST OF DEFENCE OUTCOMES

Chart 5a: Defence Outcomes – Budget Estimates⁽¹⁾



Notes

1. Net cost of Outcomes to Government excludes Own Source Revenue and Net Capital Receipts.
2. Cross reference to Serial 1 of Table 2.1 and Table 2.11.

Cost Summary of Defence Outputs

Table 5.b: Net Cost to Government of Defence's 2006-07 Outputs by Outcome

Outcome/Output	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
Outcome One – Command of Operations in Defence of Australia and its Interests						
1.1 – Command of Operations	441,006	432,842	-8,164	372,135	368,590	368,145
1.2 – Defence Force Military Operations and Exercises	261,707	559,667	297,961	339,525	217,478	189,941
1.3 – Contributions to National Support Tasks	21,251	21,188	-63	20,769	22,345	22,591
Sub-total Outcome One	723,963	1,013,697	289,734	732,428	608,414	580,677
Outcome Two – Navy Capability for the Defence of Australia and its Interests						
2.1 – Capability for Major Surface Combatant Operations	1,567,312	1,572,470	5,158	1,569,700	1,591,411	1,644,047
2.2 – Capability for Naval Aviation Operations	578,463	597,690	19,227	609,107	615,803	648,023
2.3 – Capability for Patrol Boat Operations	282,707	310,642	27,935	373,598	381,676	406,682
2.4 – Capability for Submarine Operations	721,530	724,138	2,608	666,848	642,555	643,164
2.5 – Capability for Afloat Support	271,337	295,361	24,024	341,136	346,111	377,515
2.6 – Capability for Mine Warfare	370,442	398,607	28,165	465,196	470,920	496,733
2.7 – Capability for Amphibious Lift	395,223	422,430	27,207	491,555	499,752	547,870
2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	266,022	294,180	28,158	375,425	381,419	397,446
Sub-total Outcome Two	4,453,037	4,615,517	162,480	4,892,564	4,929,648	5,161,480

Outcome/Output	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
Outcome Three – Army Capability for the Defence of Australia and its Interests						
3.1 – Capability for Special Operations	530,178	534,256	4,078	546,548	552,288	572,480
3.2 – Capability for Medium Combined Arms Operations	867,509	938,457	70,948	859,434	854,529	877,162
3.3 – Capability for Light Combined Arms Operations	1,014,643	977,728	-36,915	1,029,151	1,054,447	1,103,487
3.4 – Capability for Army Aviation Operations	563,715	590,665	6,949	553,413	546,093	558,040
3.5 – Capability for Ground-Based Air Defence	121,858	125,526	3,668	119,128	122,044	127,673
3.6 – Capability for Combat Support Operations	409,567	439,935	30,368	453,857	462,329	482,033
3.7 – Capability for Regional Surveillance	155,294	156,546	1,252	160,621	162,317	168,201
3.8 – Capability for Operational Logistic Support to Land Forces	581,557	587,745	6,189	605,033	615,638	642,175
3.9 – Capability for Motorised Combined Arms Operations	588,407	593,810	5,403	609,787	616,753	639,854
3.10 – Capability for Protective Operations	950,177	980,216	30,039	1,032,930	1,039,754	1,071,064
Sub-total Outcome Three	5,782,906	5,904,884	121,978	5,969,903	6,026,192	6,242,169
Outcome Four – Air Force Capability for the Defence of Australia and its Interests						
4.1 – Capability for Air Combat Operations	1,536,286	1,593,252	56,965	1,722,226	1,697,258	1,725,212
4.2 – Capability for Combat Support of Air Operations	958,524	954,466	-4,057	984,101	1,011,548	1,025,196
4.3 – Capability for Surveillance and Response	1,175,263	1,181,018	5,755	1,179,779	1,201,178	1,224,265
4.4 – Capability for Airlift Operations	1,062,209	1,108,955	46,746	1,200,482	1,217,937	1,252,001
Sub-total Outcome Four	4,732,282	4,837,691	105,409	5,086,587	5,127,922	5,226,674
Outcome Five – Strategic Policy for the Defence of Australia and its Interests						
5.1 – International Policy, Activities and Engagement	162,079	179,237	17,158	200,126	209,797	226,791
5.2 – Strategic Policy and Military Strategy	40,348	45,392	5,044	48,028	49,670	52,853
Sub-total Outcome Five	202,427	224,629	22,202	248,153	259,467	279,644

Outcome/Output	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
Outcome Six – Intelligence for the Defence of Australia and its Interests						
6.1 – Intelligence	467,495	466,986	-509	495,062	546,674	598,699
Sub-total Outcome Six	467,495	466,986	-509	495,062	546,674	598,699
Net Cost for Department Outcomes	16,362,110	17,063,404	701,294	17,424,698	17,498,316	18,089,342
Approved Allocated Profit/(Loss)	-	-	-	-	-	-
Departmental Appropriations from Government	16,362,110	17,063,404	701,294	17,424,698	17,498,316	18,089,342
Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel						
7.1 – Superannuation Support Services for Current and Retired Defence Personnel	1,923,625	1,963,000	39,375	2,044,000	2,132,000	2,224,000
7.2 – Housing Assistance for Current Defence Personnel	-9,079	-63,912	-54,833	-55,517	-55,444	-54,752
7.3 – Other Administered Expenses and Revenues	-2,500	-3,000	-500	-3,000	-3,000	-3,000
Net Cost of Administered Outcomes	1,912,046	1,896,088	-15,958	1,985,483	2,073,556	2,166,248
Total Cost for Defence Outcomes	18,274,156	18,959,492	685,336	19,410,181	19,571,872	20,255,590

Note

1. The Previous Estimates are consistent with the *Portfolio Additional Estimates Statements 2005-06*.

Table 5.c: 2006-07 Income Statement by Defence Outcome

	Outcome 1 – Command of Operations	Outcome 2 – Navy Capabilities	Outcome 3 – Army Capabilities	Outcome 4 – Air Force Capabilities	Outcome 5 – Strategic Policy	Outcome 6 – Intelligence	Total Defence Departmental Outcome	Outcome 7 – Superannuation and Housing Support Services for Current and Retired Defence Personnel	Grand Total
	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000
DEPARTMENTAL									
INCOME									
Revenue									
Goods and Services	-26,562	-151,545	-188,452	-145,124	-8,763	-10,037	-530,482	-	-530,482
Other Revenue	-2,548	-20,886	-22,216	-18,168	-920	-925	-65,663	-	-65,663
Total Revenue	-29,110	-172,430	-210,668	-163,291	-9,683	-10,962	-596,145	-	-596,145
Gains									
Reversals of previous asset write-downs	-7,663	-21,896	-34,047	-134,109	-1,033	-1,253	-200,000	-	-200,000
Net gains from sale of assets	-	-	-	-	-	-	-	-	-
Total Gains	-7,663	-21,896	-34,047	-134,109	-1,033	-1,253	-200,000	-	-200,000
Total Income	-36,773	-194,326	-244,715	-297,400	-10,716	-12,215	-796,145	-	-796,145
Operating Expenses									
Employees	425,278	1,565,080	2,809,107	1,484,327	97,849	227,441	6,609,082	-	6,609,082
Suppliers	593,645	2,093,172	2,442,227	2,204,810	130,643	184,638	7,649,136	-	7,649,136
Grants	244	1,360	2,632	1,154	59	143	5,592	-	5,592
Depreciation and Amortisation	27,580	1,109,920	816,045	1,311,428	6,113	65,237	3,336,323	-	3,336,323
Finance Cost	896	5,070	9,540	4,074	241	590	20,412	-	20,412
Write-down and impairment of assets	2,900	35,260	69,919	125,299	468	1,155	235,000	-	235,000

	Outcome 1 – Command of Operations	Outcome 2 – Navy Capabilities	Outcome 3 – Army Capabilities	Outcome 4 – Air Force Capabilities	Outcome 5 – Strategic Policy	Outcome 6 – Intelligence	Total Defence Departmental Outcome	Outcome 7 – Superannuation and Housing Support Services for Current and Retired Defence Personnel	Grand Total
	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000	2006-07 \$'000
Net losses from sale of assets	-	-	-	-	-	-	-	-	-
Other expenses	-74	-20	130	3,999	-28	-3	4,004	-	4,004
Total Expenses	1,050,470	4,809,843	6,149,599	5,135,091	235,345	479,201	17,859,549	-	17,859,549
Net Cost of Defence Outcomes⁽¹⁾	1,013,697	4,615,517	5,904,884	4,837,691	224,629	466,986	17,063,404	-	17,063,404⁽²⁾
ADMINISTERED									
Revenues								-735,912	-735,912
Expenses								2,632,000	2,632,000 ⁽³⁾
Net Cost of Administered Outcomes								1,896,088	1,896,088

Notes

1. Cross reference to Chart 5.a.
2. Cross Reference to Table 2.1 Serial 1.
3. Cross Reference to Table 2.1 Serial 8.

Net Cost of Defence Outcomes

Table 5.d: Movement in Defence's Outcome Costs Since 2003-04

Outcomes	Actual Result ⁽¹⁾	Actual Result ⁽²⁾	Revised Estimate ⁽³⁾	Budget Estimate
	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
DEPARTMENTAL OUTCOMES				
Outcome One				
Command of Operations	740,181	1,052,493	1,104,472	1,013,697
Outcome Two				
Navy Capability	4,177,449	4,633,845	4,393,997	4,615,517
Outcome Three				
Army Capability	5,086,424	5,415,716	5,176,788	5,904,884
Outcome Four				
Air Force Capability	4,500,663	4,812,925	4,682,379	4,837,691
Outcome Five				
Strategic Policy	205,784	245,568	233,013	224,629
Outcome Six				
Intelligence	457,460	458,982	494,291	466,986
Total Cost for Defence Departmental Outcomes	15,167,962	16,619,529	16,084,941	17,063,404
Outcome Seven				
Superannuation and Housing Support Services for Current and Retired Defence Personnel	1,457,196	2,047,515	1,900,349	1,896,088
Total Outcomes	16,625,158	18,667,044	17,985,290	18,959,492

Notes

1. Actual Result 2003-04 reflects amounts disclosed in Table 2.3 of the *Defence Annual Report 2003-04* (p. 81).
2. Actual Result 2004-05 reflects amounts disclosed in Table 4.3 of the *Defence Annual Report 2004-05* (p. 146).
3. As published Table 5.a in the *Portfolio Additional Estimates Statements 2005-06* (pp.79-82).

Group Contributions to Defence Outcomes

Table 5.e: Group Contributions to Defence Outcomes 2006-07

	Outcome 1 – Command of Operations \$'000	Outcome 2 – Navy Capability \$'000	Outcome 3 – Army Capability \$'000	Outcome 4 – Air Force Capability \$'000	Outcome 5 – Strategic Policy \$'000	Outcome 6 – Intelligence \$'000	Total Defence Outcomes \$'000
Vice Chief of the Defence Force/ Chief of Joint Operations	141,382	47,441	133,481	43,861	91	438	366,694
Navy	-	3,144,144	-	-	-	584	3,144,728
Army	130,019	-	3,313,070	-	-	-	3,443,089
Air Force	19,869	16,398	18,443	3,206,861	10,388	5,503	3,277,461
Strategy	-	-	-	-	127,439	-	127,439
Intelligence and Security	926	7,961	14,298	8,193	473	330,403	362,254
Corporate Services and Infrastructure Group	103,764	579,738	1,051,737	607,474	24,023	57,026	2,423,762
Chief Capability Development	5,079	11,493	11,875	13,919	3,061	2,385	47,811
Chief Finance Officer	17,514	78,538	158,202	77,485	3,398	5,174	340,311
Chief Information Officer	23,709	106,060	204,624	140,260	6,098	7,892	488,643
Defence Personnel Executive	20,262	138,895	262,430	156,243	11,040	11,132	600,002
Defence Science and Technology Organisation	38,686	81,047	56,122	106,502	22,779	23,452	328,590
Secretary/Chief of the Defence Force	1,032	9,733	9,705	9,197	783	1,111	31,561
Inspector-General	417	3,933	3,922	3,716	316	449	12,753
Portfolio ⁽¹⁾	511,037	390,137	666,974	463,981	14,740	21,438	2,068,306
Total Cost	1,013,697	4,615,517	5,904,884	4,837,691	224,629	466,986	17,063,404

Note

- Funds are held at the portfolio level and then allocated to Defence Groups following the announcement of the Budget. This is to ensure that new measures are not disclosed prior to the Budget announcements. Funds are also held centrally for proposals that have yet to be approved and for the *ADF Workforce Remuneration Arrangement 2006-09* and *Defence Collective Agreement 2006-09*. Funds will be allocated to Groups when the proposals are approved and from the date of implementation of the pay increases. Funding for price and exchange rate fluctuations is also held centrally and will be allocated to Groups following the announcement of the Budget.

OUTCOME ONE – COMMAND OF OPERATIONS

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

Output 1.1 Command of Operations

Output 1.2 Defence Force Military Operations and Exercises

Output 1.3 Contribution to National Support Tasks

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

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

The Vice Chief of the Defence Force is appointed as the Chief of Joint Operations and is responsible to the Chief of the Defence Force for operational outcomes. Joint Operations Command consists of a headquarters, three environmental components (maritime, land and air), three specialist components (Special Operations, Joint Logistics and Joint Offshore Protection) and a number of direct command units which provide functional support in the areas of intelligence, movements, joint training, strategic advice, welfare and northern operations. This organisation was reviewed late in 2005 and adjustments to command and control are planned for 2006-07 as an interim arrangement prior to establishment of the joint operational headquarters at Bungendore, in 2008.

PLANNED PERFORMANCE

ADF operations and activities that will contribute to the security of Australia's immediate neighbourhood in 2006-07 include:

- ongoing ADF contribution to the Government's strengthened assistance framework program in support of the Solomon Islands Government (Operation Anode), which is likely to reduce in scale as the security situation improves;
- activities in East Timor, where Operation Chiron is expected to conclude in May 2006, that could include further commitment, subject to Government consideration;
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway); and
- the conduct of maritime surveillance patrols in the South-West Pacific (Operation Solania).

ADF operations that will support Australia's wider interests in 2006-07 include:

- an ADF contribution, under Operation Catalyst, to a whole-of-government effort to assist with the rehabilitation of Iraq;
- a continued ADF commitment, through Operation Slipper, to the United States-led operation against international terrorism;
- an ADF contribution to a Reconstruction Task Force in Afghanistan as an element of the International Security Assistance Force with North Atlantic Treaty Organisation countries, also through Operation Slipper;
- ADF contributions to United Nations and other peacekeeping and humanitarian operations, including Operations Azure, Paladin and Mazurka;
- Operation Valient is expected to conclude and to formally cease early in 2006-07; and
- Operation Pakistan Assist concluded in April 2006.

ADF peacetime national tasks that are expected to continue as regular or occasional tasks in 2006-07 include:

- operations to deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia, currently through Operation Relex II;
- ongoing operations to provide surveillance and law enforcement support to Coastwatch in northern Australia, currently through Operation Cranberry;

- cyclical maritime surveillance operations in Australia's region, currently being provided through Operations Celesta, Estes, Mistral and Solania. These operations are a lesser priority than Operation Relex II and will be conducted when surveillance capabilities are available;
- ADF support to the Asian-Pacific Economic Conference in 2007, as Operation Deluge; and
- ADF support to the Commonwealth Games in Melbourne, as Operation Acolyte in 2006, concluded and formally ceased early in 2006.

ADF joint and combined exercises are conducted to train forces and to evaluate joint force capability. Combined exercises with allies and regional partners enhance and maintain close relationships and develop essential force interoperability. Combined exercises also contribute to the strategic goals of the Defence International Engagement Plan (see also Outcome Five – Strategic Policy). The ADF exercise program is inherently flexible and is likely to be adjusted to allow for strategic circumstances and participant availability during 2006-07. The ADF exercise program for 2006-07, detailing planning dates and exercise objectives, is included in later tables.

Extant ADF policy and internal instructions for Defence assistance to the civil community tasks include counter-disaster and emergency assistance. Small-scale tasks undertaken within local ADF resources are numerous and generally have minimal impact on ADF resources. Larger tasks involving coordinated activity with state or territory authorities or with Emergency Management Australia (within the Attorney-General's Department) may arise at short notice, such as the assistance provided under Operation Larry Assist in March 2006.

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

Existing contingency plans for assistance to Commonwealth or State and Territory governments and their civil authorities in law enforcement tasks where there is the possibility that force may be required are also likely to remain appropriate in 2006-07.

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

KEY RISKS AND LIMITATIONS

Concurrent Operations

The Government's highest priorities will continue to be met, including commitment to the Middle East Area of Operations. The overall operational tempo is expected to decrease with a lower commitment of deployed forces in East Timor and conclusion of Operations Pakistan Assist and Acolyte. This is partially offset by ongoing commitments under Operation Slipper and preparation for Operation Deluge.

Operational Preparedness

The ongoing operational commitment in 2005-06 and expectations for 2006-07 were considered in a review of the ADF exercise program. The requirement for flexibility and consideration of the requirements of allies and regional partners will continue to influence exercise outcomes and require ongoing assessment of critical preparedness issues.

Geographical Dispersion of Command Elements

A proposal has been developed to establish an interim Joint Operations Command prior to completion of the new headquarters. This will provide geographic concentration in two locations and allow development of the joint control centre concept as well as establishing an organisation to facilitate the move into Bungendore.

Logistic Support to Operations

The continued availability of national inventory and the post-operational remediation of mission essential equipment during a period of increased operational tempo are the key risks for logistic support to operations. Joint Logistics Command, in concert with the Defence Materiel Organisation, is managing this process, analysing risk areas and implementing mitigation strategies to manage the risk, especially where the available commercial capacity to repair and remediate equipment is finite.

Reduced High-End Exercise Participation

The ongoing high operational tempo, unavailability of allied and regional partners, and restricted availability of Australian high-end assets for scheduled joint and combined exercises continue to be a risk to effective training. Degradation of skills and reduced high-end interoperability with allies and regional partners may be a consequence of operational commitments.

STRATEGIC INITIATIVES

Concurrent Operations

Risk mitigation against the above concurrency issues is subject to ongoing strategic-level review of major operational commitments. The ADF contribution to operations will continue in accordance with the Government's direction. Reconstitution of capabilities will be prioritised to reinstate those capabilities eroded through concurrent demands.

Preparedness Reporting

The ADF preparedness reporting system is now well defined and provides monthly assessments of capability options for the ADF to meet the Government's operational objectives. The reporting system identifies deficiencies and indicates remediation priorities.

Logistic Support

The Joint Logistics Command is seeking to consolidate contractor support where appropriate, to enable coordinated contract management, consistency of service delivery and achieve management efficiencies. Initiatives to identify and reduce obsolete and non-essential slow moving stock, together with increased automation of stores processes, will progressively reduce the inventory size and permit more focused and precise stock management.

Reduced Exercise Participation

The Program of Major Service Activities has been comprehensively reviewed. Major exercise activity in 2006-07 will focus on the conduct of Exercise Talisman Sabre 07, a combined, bilateral high-end warfighting exercise with United States Forces. Retention of critical skills not currently exercised during operations remains a consideration of the revised exercise program for 2006-07.

Cost Summary of Outcome One

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.1.1: Outcome One – Command of Operations

	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
INCOME						
Revenue						
Goods and Services	-12,210	-26,562	-14,352	-21,825	-22,300	-22,580
Other Revenue ⁽³⁾	-10,416	-2,548	7,868	-2,830	-2,850	-5,821
Total Revenue	-22,626	-29,110	-6,484	-24,655	-25,150	-28,402
Gains						
Reversals of previous asset write-downs	-614	-7,663	-7,049	-10,618	8,072	8,072
Net gains from sale of assets	-	-	-	-	-	-
Total Gains	-614	-7,663	-7,049	-10,618	8,072	8,072
Total Income	-23,240	-36,773	-13,533	-35,273	-17,078	-20,329
Operating Expenses						
Employees	343,676	425,278	81,603	354,849	331,339	333,240
Suppliers	370,699	593,645	222,946	381,620	265,389	238,875
Grants	237	244	7	56	56	56
Depreciation and Amortisation	29,874	27,580	-2,294	27,390	27,286	27,397
Finance Cost	1,552	896	-656	794	689	705
Write-down and impairment of assets	978	2,900	1,922	2,858	598	598
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	186	-74	-261	135	136	136
Total Expenses	747,203	1,050,470	303,267	767,701	625,492	601,006
Net Cost of Outcome One⁽⁴⁾	723,963	1,013,697	289,734	732,428	608,414	580,677

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 87).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a. and Table 5.b.

Table 5.1.2: Breakdown of Outcome One by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 1.1 – Command of Operations	441,006	432,842	-8,164	372,135	368,590	368,145
Output 1.2 – Defence Force Military Operations and Exercises	261,707	559,667	297,961	339,525	217,478	189,941
Output 1.3 – Contribution to National Support Tasks	21,251	21,188	-63	20,769	22,345	22,591
Net Cost of Outcome One ⁽³⁾	723,963	1,013,697	289,734	732,428	608,414	580,677

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 88).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.1.1.

Output Structure for Outcome One

OUTPUT 1.1 – COMMAND OF OPERATIONS

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

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

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

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

Performance Targets

- Australian operational concepts are further developed to support ADF planning against credible contingencies.
- Joint Operations Command provides guidance for joint force preparedness in accordance with the Chief of the Defence Force's direction.
- Command of ADF forces is effective and the Government's strategic objectives for operations are achieved.
- Development of ADF operational command arrangements introduced in 2004 and reviewed in 2005 will continue.

OUTPUT 1.2 – DEFENCE FORCE MILITARY OPERATIONS AND EXERCISES

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

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

Performance Targets
<ul style="list-style-type: none"> • ADF operations meet their stated objectives within Government guidance. • Forces identified for operational tasks maintain required preparedness levels. • ADF forces are effectively deployed and sustained. • The Program of Major Service Activities is reviewed and modified where required. • The major ADF exercise commitments for 2006-07 are met: <ul style="list-style-type: none"> – Exercise Bersama Padu 06 and Exercise Bersama Shield 07, exercises in conjunction with the Five Power Defence Arrangements, – Exercise Rimpac 06, to improve interoperability with Pacific rim forces in anti-submarine, anti-surface and anti-air warfare operations, and – Exercise Talisman Sabre 07, to exercise joint and combined forces in a short warning and power projection scenario.

ADF Operations

Table 5.1.10 in Output 1.3 contains details of operations in support of peacetime national tasks.

Table 5.1.3: Contributing to the Security of the Immediate Neighbourhood

Operation	Objective
Anode Commenced July 2003 Forces: ADF	To support the coalition police forces in maintaining the rule of law in Solomon Islands.

Operation	Objective
Chiron Commenced May 2005 Forces: ADF	To support the United Nations Mandate and Australia's national interests by contributing military and advisers to assist in the development of Timor-Leste's security and stability. Chiron is the follow-on mission to Operation Spire, whose mandate expired on 20 May 2005.
Gateway Commenced 1981 Forces: Air Force	To conduct northern Indian Ocean and South China Sea maritime surveillance patrols.

Table 5.1.4: Supporting Wider Interests

Operation	Objective
Azure Commenced 2005 Forces: ADF	ADF contribution to the United Nations Mission in Sudan.
Catalyst Commenced 2003 Forces: ADF	ADF contribution in support of the rehabilitation of Iraq.
Mazurka Commenced 1982 Forces: ADF	To provide personnel to the Multinational Force and observers to monitor the security arrangements in the Sinai.
Pakistan Assist Commenced Nov 2005 Forces: ADF	To provide assistance to the victims of the Pakistan earthquake.
Paladin Commenced 1956 Forces: Army	To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervises, observes and reports on the various cease-fire arrangements, truces and peace treaties that have been negotiated between Israel and neighbouring Arab nations since 1948.
Slipper Commenced 2001 Forces: ADF	To contribute to the United States-led operation against international terrorism and to the Multinational Maritime Interception Force in the Persian Gulf.
Valient Commenced 2004 Forces: Army	To provide equipment and training to the Republic of Fiji Military Forces supporting their assistance to the United Nations Assistance Mission in Iraq.

Australian Defence Force Exercise Program

Exercises are presented in these statements under the following headings:

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

A number of exercises expected to be scheduled in the Program of Major Service Activities are yet to be confirmed. It is expected that further exercises will be scheduled for 2006-07 and these will be reported in the *Portfolio Additional Estimates Statements 2006-07*.

Table 5.1.5: ADF Joint Exercises

Exercise	Australian Forces	Objective
ASWEX 06 November 2006	Navy and Air Force	To practise collective ADF anti-submarine warfare concepts, tactics and procedures.
Sea Lion 06 October 2006	Navy, Army and Air Force	To plan and conduct a basic amphibious operation in a non-hostile environment and is an enabling exercise for Swift Eagle.
Swift Eagle 06 October 2006	Navy, Army Air Force and Special Forces	To practise entry by air and sea and conduct a non-combatant evacuation operation in a medium intensity ground scenario.

Table 5.1.6: Combined ADF/United States Exercises

Exercise	Australian Forces	Objective
Talisman Sabre 07 May–July 2007	Navy, Army, Air Force and Special Forces	To exercise joint and combined forces in a short warning and power projection scenario and conduct a live fire and manoeuvre field training exercise.
Vigilant Pacific 06 November 2006	Navy, Army and Air Force	To test, evaluate and refine combined human intelligence and counter-intelligence staff functions and operations in support of a combined task force.
Lungfish 06 August 2006	Navy and Air Force	To practise combined anti-submarine warfare.
Cope Thunder July–August 2006	Air Force	To practise and develop interoperable staff procedures in a United States Air Defence Headquarters.
Blue Flag 06 July–August 2006	Air Force	To practise contributing to a coalition air operations centre.
Extendex 06-2 October 2006	Air Force	To practise combined anti-submarine warfare operations.
Air Warrior II 06-1 October 2006	Air Force	To train Air Lift Group for short notice tactical and similar combat airlift exercises.
Gold Eagle 06 June–July 2006	Army	To develop interoperability between the Australian Army and United States Marine Corps.
Tamex 06-3 August 2006	Navy and Air Force	To practise combined anti-submarine surveillance / anti-submarine warfare operations with a Royal Australian Navy submarine.

Table 5.1.7: Combined ADF/Five Power Defence Arrangement Exercises

Exercise	Australian Forces	Participating Countries	Objective
Bersama Padu 06 September 2006	Navy, Army and Air Force	Australia, New Zealand, United Kingdom, Malaysia and Singapore	To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint/combined maritime exercise.
Bersama Shield 07 April–May 2007	Navy and Air Force	Australia, New Zealand, United Kingdom, Malaysia and Singapore	To exercise assigned Five Power Defence Arrangements forces in the conduct of joint and combined operations in a multi-threat scenario for the defence of Malaysia and Singapore.
Suman Warrior 06 July 2006	Army	Australia, New Zealand, United Kingdom, Malaysia and Singapore	To exercise elements of the Five Power Defence Arrangements armies in combined land operations.

Table 5.1.8: Combined ADF/New Zealand Exercises

Activity; Dates	Australian Forces	Objective
PWO Assessment Week 06-1 July 2006	Navy and Air Force	Sea assessment week is the final phase in training for Principal Warfare Officer students and aims to ensure that students are able to act as Defence Watch Principal Warfare Officers at sea.
PWO Assessment Week 06-2 November–December 2006	Navy and Air Force	Sea assessment week is the final phase in training for Principal Warfare Officer students and aims to ensure that students are able to act as Defence Watch Principal Warfare Officers at sea.
Tasmanex 07 February 2006	Navy and Air Force	To elevate closer defence relations between Australia and New Zealand and to initiate closer defence relations with France.
Joint Kiwi 06 October 2006	Navy, Army, Air Force and Special Forces	To exercise a deployed national Joint Force Commander, his staff and assigned force elements in the command, planning, control and conduct of a medium-level combat operation, conducted in the context of a joint ADF contribution to a New Zealand Defence Force-led coalition.

Table 5.1.9: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Singaroo 06 July–August 2006	Navy and Air Force	Singapore	To improve the interoperability of the Royal Australian Navy and Royal Singapore Navy in all facets of naval warfare in order to undertake effective maritime combined and coalition operations.

Exercise	Australian Forces	Participating Countries	Objective
AusThai 06 August 2006 includes Taa Nok Insii 06-1	Navy	Thailand	To progress basic interoperability in aspects of maritime warfare common to the Royal Australian Navy and Royal Thai Navy.
Lumbas 06 October 2006	Navy	Philippines	To develop interoperability in coordinated or combined maritime patrol and surveillance operations.
Chief Series 06 May–July 2006	Army	South West Pacific Countries	To enhance bilateral relations with selected South-West Pacific countries through engineering construction activities.
Kartika Exchange 06 June–July 2006	Army	Indonesia	To broaden the experience and professional knowledge of selected personnel of the ADF and Indonesian armed forces through mutual exchange.
Harimau Exchange 06 June–July 2006	Army	Malaysia	To broaden the experience and professional knowledge of selected personnel of the ADF and Malaysian armed forces through mutual exchange.
Rimpac 06 June–July 2006	Navy and Air Force	United States, Japan, United Kingdom, Republic of Korea, Canada and Peru	To improve interoperability with Pacific rim forces in anti-submarine, anti-surface and anti-air warfare operations.
Southern Tiger 06 July 2006	Army	Malaysia	To enhance interoperability between the Australian and Malaysian armies at the tactical level.
Temple Jade 06 July–August 2006	Army	Thailand	To enhance interoperability between the Australian Army and the Royal Thai Army sub-units at the tactical level.
Mallee Bull 06 August–September 2006	Army	Brunei	To broaden the experience and professional knowledge of selected personnel of the ADF and Brunei armed forces through mutual exchange.
Pirap Jabiru 06 August 2006	Navy, Army and Air Force	Thailand	To develop Royal Thai Air Force and ADF understanding of the considerations in planning combined multi-dimensional peace operations at the strategic level.
Puk Puk 06 August–September 2006	Army and Air Force	Papua New Guinea	To engage with the Papua New Guinea Defence Force Engineer Battalion for the purpose of promoting engineering interoperability.
Star Leopard 06 September 2006	Special Forces	Brunei	To develop and maintain contact and rapport with Brunei Special Forces.

Exercise	Australian Forces	Participating Countries	Objective
Rainbow Serpent 06 September–October 2006	Army	United States, United Kingdom, and Canada	To exercise the ability of the United States, United Kingdom, Canada and Australia forces to lead and participate in coalition operations with emphasis on command, control and planning.
Helicon Luk 06 October 2006	Army	Papua New Guinea	To train/qualify aircrew in high density altitude training operations.
Haringaroo 2/06 October 2006	Army	Malaysia	To enhance interoperability between the Australian Army and the Malaysian Armed Forces sub-units at the tactical level.
Wantok Warrior 06 October–November 2006	Army	Papua New Guinea	To develop interoperability between the Australian Army and the Papua New Guinea Defence Force.
Haringaroo 3/06 November–December 2006	Army	Malaysia	To enhance interoperability between the Australian Army and the Malaysian Armed Forces sub-units at the tactical level.
Neptune Warrior 05-2 June–July 2006	Air Force	Canada, France, New Zealand, United Kingdom, United States, Germany, Netherlands, Italy, Norway	To conduct advanced theatre- level maritime patrol reconnaissance aircraft training in maritime operations with a multinational task force.
Pitch Black 06 July–August 2006	Navy Army and Air Force	United States, Singapore and Thailand	Conduct a large-scale activity to exercise ADF and international participants in the tasking, planning and execution of offensive counter air operations in a coalition environment.
Joint Tactical Fleet Exercise 06 October 2006	Air Force	United States and Canada	To provide theatre-level maritime patrol reconnaissance aircraft training, primarily in United States battle group support and under sea warfare / surface warfare operations, while participating in work-up training and assessment for a carrier battle group or expeditionary surface group in a combined exercise environment.
Long Look 06 April–August 2006	Navy, Army and Air Force	United Kingdom and New Zealand	To broaden the experience and professional knowledge of selected personnel of the ADF and United Kingdom armed forces through mutual exchange.

OUTPUT 1.3 – CONTRIBUTION TO NATIONAL SUPPORT TASKS

The ADF can be called upon to provide emergency and non-emergency assistance to the Government and the Australian community in non-combat related roles. The tasks the ADF may be requested to undertake could include

emergency assistance, search and rescue, disaster recovery, surveillance, security or non-emergency law enforcement roles. Tasks may be directed by the Government or requested by other civil authorities or government departments. The Government may also require the ADF to support significant international events being conducted in Australia.

The ADF also contributes to the Coastwatch civil surveillance program and Joint Offshore Protection Command tasking, providing maritime surveillance assets that are tasked routinely in accordance with the Government's direction. These arrangements are subject to review following changes in command and control arrangements and commencement of the phased introduction of the Armidale-class patrol boats.

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

Performance Targets

- The ADF contribution to peacetime national tasks meets Government directives.
- Forces identified to provide Defence Assistance to the Civil Community, Defence Assistance to Civil Authorities and search and rescue maintain required preparedness levels.
- ADF forces are effectively deployed and sustained.
- The ADF response to requests for search and rescue and emergency assistance tasks are effectively managed and reported.
- ADF support to the civil surveillance program, in consultation with Coastwatch, is provided at the following resource levels:
 - 250 flying hours by P-3 Orion surveillance aircraft;
 - 1,800 patrol boats days; and
 - 240 Regional Force Surveillance Unit patrol days.
- The ADF continues to conduct minor emergency and non-emergency assistance tasks from local resources, where feasible.
- National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively managed and reported.
- National support tasks undertaken by the ADF as Defence Assistance to Civil Authorities are effectively managed and reported.

ADF Operations

Table 5.1.3 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and Table 5.1.4 in Output 1.2 contains details of operations supporting wider interests.

Table 5.1.10: Peacetime National Tasks

Operation	Objective
Acolyte Commenced 2005 Forces: ADF	To support the 2006 Melbourne Commonwealth Games.
Celesta Commenced 2001 Forces: ADF	To support the Australian Fisheries Management Authority, when appropriate, in enforcing Australia's exclusive economic zone in the Southern Ocean.
Cranberry Commenced 1997 Forces: ADF	To conduct surveillance in northern Australia.
Deluge Commenced 2005 Forces: ADF	To support the Asian-Pacific Economic Conference in 2007.
Estes Commenced 1980 Forces: Navy	To conduct surface patrols in Bass Strait.
Mistral Commenced 1998 Forces: Navy and Air Force	To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by contributing to Southern Ocean fisheries patrols.
Relex II Commenced 2002 Forces: ADF	To conduct air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals.
Solania Commenced 1988 Forces: Navy and Air Force	To conduct South-West Pacific maritime surveillance patrols.

OUTCOME TWO – NAVY CAPABILITY

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

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

The Navy provides maritime forces that contribute to the ADF's capacity to defend Australia, contribute to regional security, support global interests, shape the strategic environment and protect national interests. This is done by providing maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, maritime intelligence collection and evaluation, hydrographic and oceanographic operations, combat search and rescue, and escort duties. Peacetime activities include maritime surveillance and response within Australia's offshore maritime zones, hydrographic, oceanographic and meteorological support operations, humanitarian assistance, and maritime search and rescue.

PLANNED PERFORMANCE

In 2006-07, the Navy expects to continue supporting the ADF's involvement in the global war against terrorism and national tasks. Sufficient maritime combatant forces will be maintained to deploy on operations as required in military preparedness directives. The Navy will also continue to devote effort to meeting international engagement and interoperability requirements with allied and regional maritime forces. Area air warfare and anti-ship missile defence, afloat support and amphibious lift remain the Navy's highest priority for capability development, followed by undersea and littoral warfare capabilities. The reinvigoration of the patrol boat force will continue with 12 of the 14 Armidale-class patrol boats and 15 of the 18 crews being brought into service by the end of June 2007. HMAS *Sirius*, an environmentally compliant, double

hulled tanker, will be commissioned into the Navy in September 2006 replacing the oil tanker HMAS *Westralia*.

The early momentum of the major personnel retention initiative, 'Sea Change' program, will be sustained with a continued focus on improving individual choice and better management of people's careers. The program will continue to transform the way junior people, in particular, are managed in the Navy.

KEY RISKS AND LIMITATIONS

Personnel

Planned new capability will require an expansion of the Navy's workforce by 2015. The national climate of strong employment rates and economic growth will challenge the Navy in achieving this expansion.

Shortages in a number of employment workgroups, particularly technical categories, continue to be a risk to navy capability. The national technical skill shortage will continue to impact further upon the Navy's ability to attract suitable candidates for these positions. Many short-term retention measures were implemented during 2005-06, to be supported in time by longer-term measures.

Separation rates have stabilised at around 11 per cent, slightly below the ten-year average of 12 per cent. Any increase in separation rates will increase the risk in maintaining the Navy's long-term workforce structure.

Logistic Support

The ongoing sustainment of the Navy's existing force structure is dependent on appropriate levels of logistic support across the outputs. The elements most at risk are the Anzac-class frigates, the aviation force and the Collins-class submarines, but additional logistic funds have been provided in previous budgets to remediate these risks.

Support to Operations

The Navy's ongoing commitment to overseas operations and humanitarian assistance and disaster relief activities, combined with the major upgrade of a number of major fleet units and the increased effort to prevent illegal activity in northern waters has challenged the Navy's ability to maintain high-end warfighting skills.

Air Warfare Capability

The ageing primary air warfare system of the surface combatant force remains suitable for a range of operations, but the ability to provide long-range air warfare protection for ADF forces in higher level contingencies is limited. This risk will remain until the introduction of the Air Warfare Destroyer from 2013.

The delivery of new short-range missiles for both frigate classes is an important early milestone in redressing the anti-ship missile defence deficiencies of the surface combatant force.

Submarine

The overall submarine capability continues to improve. Existing programs that will maintain the 'capability edge' in a region experiencing a proliferation of submarine and anti-submarine capabilities will remain a strong focus. Retention of submariners and the management of logistic requirements to maintain the submarine capability remain a challenge.

Undersea Warfare

The ability of maritime surface and air forces to provide anti-submarine protection for ADF forces or maritime trade in higher level contingencies will be improved over time with capability enhancements to Seahawk helicopters, guided missile frigates, the Collins-class submarines, and the introduction of new lightweight torpedoes.

Environmental Assessment

The Navy's ability to provide robust, high-fidelity environmental information and predictions at short notice in support of littoral operations, for joint, combined or coalition operations is constrained.

Force Protection

The security environment in which maritime forces are required to operate has changed and represents an emerging risk to the protection of maritime forces. The increased incidence of violent activity from non-state entities using unconventional and improvised methods of attack has increased the level of threat for maritime units when underway and when alongside in harbour.

Aviation

Lengthy delays and uncertainty in the level of operational capability that will be delivered by the Super Seasprite helicopter has the potential to reduce aviation capability and the effectiveness of the Anzac-class frigate/helicopter combination. Seahawk helicopters are carrying an additional tasking burden until the Super Seasprite helicopters become operational.

RISK MITIGATION

Personnel

The Navy will continue to focus heavily on personnel retention strategies. Separation rates for most critical skill groups are decreasing. Short-term financial retention incentives approved for engineering officers and technical sailors has had some positive effect on retention of these specialisations. The Navy will strive to provide a preferred working environment through a range of innovative policies, including alternative crewing of some vessels, shorter training pipelines, fly-in/fly-out options for some crews, and more attractive employment experiences. The Navy is undertaking a concentrated effort to better engage the Australian public through a community engagement strategy. The strategy aims to better inform the public of what the Navy does and how it supports our national interests. The Navy expects that in time these initiatives will make the Navy more attractive as an employer. Initiatives already in place to target segments of the workforce that are difficult to recruit, including seaman officers, aviators, engineers, doctors and technicians, will be monitored and further initiatives pursued.

Logistic Support

The Materiel Sustainment Agreement between the Navy and the Defence Materiel Organisation (DMO) provides greater transparency of the expenditure of funding by the DMO and has enhanced the identification of appropriate logistic support levels, including shortfalls across the outputs, and informed the development of mitigation strategies including additional funding bids through the Defence Management and Finance Plan process. In addition, the new reporting framework that measures DMO's performance allows the Navy to closely monitor the sustainment activities.

Support to Operations

The Navy will continue to support ongoing operations and peacetime national tasks, such as Operations Catalyst, Slipper, Cranberry and Relex II, and meet preparedness requirements for other contingencies.

The Navy will exploit opportunities to provide concentrated training to maintain high-end warfighting skills. This will enhance mission preparation for major exercises, such as Exercise Talisman Sabre 07, and maintain high-end warfighting skills to meet preparedness requirements for current and future operations.

The 'Sea Change' program, aimed at improving personnel retention, will continue. Improving retention will increase the Navy's overall capability as experience levels rise and personnel turnover reduces.

The Fleet Activity Management Tool is part of the Navy's capability costing system and was accepted into service in 2005-06. The tool will continue to assist in the capture of costs associated with operations and reconstitution periods, as part of a Defence-wide effort to better understand the costs of maintaining various levels of capability. This will, in time, provide options and efficiencies in meeting the preparedness requirements directed by the Chief of the Defence Force.

Air Warfare Capability

The Navy is introducing more capable sensor and weapon systems for both the Anzac-class and Adelaide-class frigates. The upgrade programs will enhance the air warfare effectiveness of these units leading up to the planned introduction of the Air Warfare Destroyer from 2013. The delivery of the SM-2 standard area air defence missile in the Adelaide-class frigates is planned for 2009.

Submarine

Submarine capability enhancements will offer major improvements to warfighting capabilities, through continued development of the combat system, improved communications, sonar integration, and the introduction into service of a new heavyweight torpedo. Personnel risks and limitations will be mitigated through workforce sustainment plans and initiatives, including lateral recruiting and others within the Navy's 'Sea Change' program. Submarine logistic support will continue to be managed with the DMO, with a particular emphasis being placed on the delivery of the through-life support agreement.

Undersea Warfare

Undersea warfare capability will be maintained through a number of capability enhancements. A partial Seahawk helicopter sensor upgrade, which commenced in 2005-06, will continue in 2006-07 and be followed by a further mid-life upgrade from 2010-12 of sensors, communications, avionics, and airframe that will enhance the Seahawk's effectiveness in undersea warfare. The delivery of upgraded Adelaide-class frigates with torpedo defence systems and the continued planned phasing into service of new lightweight torpedos will enhance the effectiveness of surface and air anti-submarine assets. The ongoing combat system, sonar, communications, and weapon improvements to the Collins-class submarines will increase their anti-submarine capability.

Environmental Assessment

The Defence and Industry Rapid Prototyping, Development and Evaluation program will shape the development of an enhanced deployable rapid environmental assessment capability. This enhanced environmental assessment

capability will be supported by higher fidelity environmental models optimised for the littoral environment.

Force Protection

Acquisition of additional close range weapons systems will mitigate risks specifically identified for Operation Catalyst in force protection and ship self-defence capabilities against asymmetric threats in littoral waters. Additional risk mitigation measures may include enhanced intelligence as well as acquisition of advanced sensors and protective systems.

Aviation

‘Interim release’ of the Super Seasprite helicopters for training purposes will maintain core aviation skills. In lieu of Super Seasprite helicopters, Seahawk helicopters will be deployed to Anzac-class frigates to maintain capability in units on high priority operational tasking. Airworthiness issues with the Super Seasprites will be intensively managed to achieve ‘operational release’ and deployment to sea as soon as practical.

Cost Summary of Outcome Two

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.2.1: Outcome Two – Navy Capability for the Defence of Australia and its Interests

	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
INCOME						
Revenue						
Goods and Services	-76,451	-151,545	-75,094	-156,055	-158,443	-163,565
Other Revenue ⁽³⁾	-56,103	-20,886	35,217	-20,635	-20,495	-23,707
Total Revenue	-132,554	-172,430	-39,876	-176,691	-178,939	-187,273
Gains						
Reversals of previous asset write-downs	-13,738	-21,896	-8,158	-18,895	2,895	2,895
Net gains from sale of assets	-	-	-	-	-	-
Total Gains	-13,738	-21,896	-8,158	-18,895	2,895	2,895
Total Income	-146,292	-194,326	-48,034	-195,585	-176,043	-184,377
Operating Expenses						
Employees	1,553,360	1,565,080	11,720	1,651,463	1,756,736	1,898,467
Suppliers	1,913,253	2,093,172	179,919	2,244,731	2,187,098	2,283,395
Grants	1,272	1,360	88	295	295	295
Depreciation and Amortisation	1,101,903	1,109,920	8,017	1,155,404	1,142,704	1,144,723
Finance Cost	8,043	5,070	-2,973	5,261	5,442	5,560
Write-down and impairment of assets	20,633	35,260	14,627	30,642	13,062	13,062
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	864	-20	-883	354	355	355
Total Expenses	4,599,328	4,809,843	210,515	5,088,150	5,105,691	5,345,857
Net Cost of Outcome Two⁽⁴⁾	4,453,037	4,615,517	162,480	4,892,564	4,929,648	5,161,480

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 91)
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.2.2: Breakdown of Outcome Two by Output

	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
Output 2.1 – Capability for Major Surface Combatant Operations	1,567,312	1,572,470	5,158	1,569,700	1,591,411	1,644,047
Output 2.2 – Capability for Naval Aviation Operations	578,463	597,690	19,227	609,107	615,803	648,023
Output 2.3 – Capability for Patrol Boat Operations	282,707	310,642	27,935	373,598	381,676	406,682
Output 2.4 – Capability for Submarine Operations	721,530	724,138	2,608	666,848	642,555	643,164
Output 2.5 – Capability for Afloat Support	271,337	295,361	24,024	341,136	346,111	377,515
Output 2.6 – Capability for Mine Warfare	370,442	398,607	28,165	465,196	470,920	496,733
Output 2.7 – Capability for Amphibious Lift	395,223	422,430	27,207	491,555	499,752	547,870
Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	266,022	294,180	28,158	375,425	381,419	397,446
Net Cost of Outcome Two⁽³⁾	4,453,037	4,615,517	162,480	4,892,564	4,929,648	5,161,480

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 92).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.2.1.

Output Structure for Outcome Two

OUTPUT 2.1 – CAPABILITY FOR MAJOR SURFACE COMBATANT OPERATIONS

The major surface combatant force consists of 13 frigates comprising five Adelaide-class guided missile frigates (FFGs) and eight Anzac-class frigates (the eighth frigate, HMAS *Perth*, is planned to be commissioned in August 2006). The surface combatants possess combat capabilities in all three primary warfare areas (air, surface and undersea) and can also provide limited combined and joint ADF command and control facilities for ADF operations. They are fully aviation capable and are able to sustain independent operations in remote areas for prolonged periods of time. They are essential force elements in any task group where the ADF deploys for maritime operations activity at all levels. Their flexibility and versatility, particularly with an aviation flight embarked, make them a first resort in contingencies throughout the broad spectrum of maritime operations.

The Government decided after the 2003 Defence Capability Review, to withdraw two Adelaide-class frigates from service. HMAS *Canberra* was decommissioned on

12 November 2005. To provide continuity and flexibility to meet operational regional engagement and security through the conduct of port visits and exercises with regional nations and training requirements, HMAS *Adelaide* will now be withdrawn from service no later than the end of 2007.

The FFG Upgrade Implementation project is continuing and will ensure Adelaide-class frigate survivability in the increasingly sophisticated maritime warfare environment. This rolling program commenced in late 2003 and is now due for completion in 2009. HMAS *Melbourne* will complete an upgrade in early 2007 with HMAS *Darwin* commencing upgrade in January 2007.

Work will continue on the provision of an Air Warfare Destroyer capability from 2013 to be delivered by Project Sea 4000.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Adelaide-class frigates	5	918 URD ⁽¹⁾
Anzac-class frigates	8	1,983 URD

Note

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

OUTPUT 2.2 – CAPABILITY FOR NAVAL AVIATION OPERATIONS

The naval aviation force comprises 16 Seahawk helicopters, six Sea King helicopters and 13 Squirrel helicopters. The force is being enhanced by the introduction of 11 Super Seasprite helicopters. The introduction of the Super Seasprite helicopters to operational service has been delayed by the need to resolve a system problem identified during the flight test program. Super Seasprite helicopters with full mission capability are planned to begin deployment to sea in early 2008. Organic frigate-based naval aviation assets are part of, and extend substantially, the sensor and weapons systems of the parent ship. Seahawks and, in the future, Super Seasprites contribute to the Navy’s capability for maritime surface warfare (ship strike), undersea warfare, reconnaissance, surveillance, maritime support, search and rescue, medical evacuation, electronic warfare and aircrew training. The provision of maritime aviation support is the primary role of the Sea King helicopters, although all naval aviation assets can contribute.

Naval aviation is dependent on the Air Force for the initial training of aviation technicians and general flying training for officer aircrew. Initial helicopter aircrew training is conducted by the Navy using the Squirrel helicopters. The Squirrel has already served past its originally planned withdrawal date. A proposal to replace the Squirrel with a training system that satisfies Navy helicopter aircrew training needs is being progressed as part of Project AIR 9000. The new training system will, in time, become a joint Navy and Army Helicopter Aircrew Training System. Naval aviation also manages the operation of the Kalkara aerial target system, which supports fleet and Air Force training. An extension of the contract which supports the Kalkara is being negotiated to maintain the aerial target system for a further three years until the Joint Project 66, Replacement for Air Defence Targets, can fulfil the ADF aerial target system function.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Aircraft	Number	Flying Hours
Seahawks	16	3,300 ⁽¹⁾
Sea Kings	6	1,600
Squirrels	13 ⁽²⁾	4,000
Super Seasprites	11 ⁽³⁾	1,800 ⁽⁴⁾
Kalkaras	10	Up to 39 presentations ⁽⁵⁾

Notes

1. During 2006-07, on average, a quarter of the Seahawk fleet will be undergoing major modifications at any one time. The planned flying hours is reduced while the aircraft are not available. Directed operations will be maintained during the period of reduced flying.
2. Twelve aircraft are operated, the thirteenth aircraft is held for attrition purposes.
3. The eleventh Super Seasprite is expected to be delivered in March 2007.
4. The anticipated hours for Super Seasprite for 2006-07 may vary based on project progression.
5. Kalkara is an unmanned aerial target system used for Fleet and Air Force support. Presentations refer to the number of instances during which the system is used in training or system testing exercises.

OUTPUT 2.3 – CAPABILITY FOR PATROL BOAT OPERATIONS

During 2006-07, the patrol boat force will consist of a combination of Fremantle-class and newly constructed Armidale-class patrol boats. By April 2007, all of the Fremantle-class will have been decommissioned and, by the end of June 2007, 12 Armidale-class patrol boats will have been brought into service, along with 15 out of a total of 18 trained crews. The combination of crews and hulls establishes a multi-crewing patrol system, which will result in an overall increase in operational availability for the force.

The patrol boat force makes a large and effective contribution to the civil surveillance program (managed by Coastwatch), to Joint Offshore Protection Command tasking and to the protection of Australia’s sovereignty, through the provision of a patrol, response and surveillance capability in Australia’s maritime approaches. It is augmented by other force element group units to provide additional capability as threats dictate. Patrol boats contribute to regional engagement and security through the conduct of port visits and exercises with regional nations.

An additional two Armidale-class patrol boats and three crews are planned to be delivered in 2007-08 to enable the Navy to maintain a security presence in the North-West Shelf area as part of the Government’s maritime security policy. Units based in Darwin, Northern Territory, and forward-deployed for these patrols will be supported out of Dampier, Western Australia.

Construction of a new standby crew support facility on the grounds of HMAS Coonawarra in Darwin, Northern Territory, is due to be completed in 2006-07.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Fremantle-class patrol boats	8 ⁽¹⁾	1,232 URD
Armidale-class patrol boats	5 ⁽²⁾	1,911 URD ⁽³⁾

Notes

1. The remaining eight Fremantle-class patrol boats will be progressively decommissioned during 2006-07.
2. The number of Armidale-class patrol boats will increase from five to 12 during 2006-07 and the 12 vessels will have 15 out of a planned total of 18 fully trained crews. Multi-crewing will be used to enhance availability of the vessels.
3. The current Armidale-class patrol boat contract with Defence Maritime Services allows the Government to purchase up to an additional 600 days of patrol boat availability to meet emerging requirements.

OUTPUT 2.4 – CAPABILITY FOR SUBMARINE OPERATIONS

The Navy has six Collins-class submarines. Two of the six submarines have been enhanced to provide a higher level of capability. Projects are in place to progressively enhance the combat capability of all six submarines including weapons, sensors and communication systems upgrades.

The submarine force is capable of fulfilling the roles of maritime strike and interdiction, maritime surveillance, reconnaissance and intelligence collection, undersea warfare, and special forces operations. Submarines contribute to regional engagement and security through the conduct of port visits and

exercises with regional nations. Submarines may be employed to operate independently either as an element of the ongoing national intelligence collection effort or as a forward reconnaissance unit in an area of heightened tension. They may also be employed as one of a number of key elements in task group operations that deny opponents the use of Australia’s maritime approaches. The submarine force is also able to conduct operations in a combined or coalition force.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Submarines	6 ⁽¹⁾	1,265 URD

Note

1. HMAS *Dechaineux* will remain in full-cycle docking for all of 2006-07.

OUTPUT 2.5 – CAPABILITY FOR AFLOAT SUPPORT

This output provides a capability for afloat support consisting of an oil tanker and a replenishment ship. This capability has a major role in the provision of afloat tactical logistics, particularly underway replenishment. It also has the capacity for logistic support to land forces and utility in a range of peacetime national tasks. The afloat support capability through the provision of logistic support contributes significantly to the performance of Output 2.1 Capability for Major Surface Combatant Operations and Output 2.7 Capability for Amphibious Lift. The afloat support units provide important logistic support to operations and exercises and contribute to Defence international engagement through these activities. Project SEA 1654 will deliver the environmentally compliant, double-hulled, HMAS *Sirius* into the Navy in September 2006, and the concurrent decommissioning of HMAS *Westralia*. HMAS *Westralia* will be maintained by the Navy in a state of extended readiness until HMAS *Sirius* is operational. This will ensure continuity in capability.

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

Vessel Type	Number	Budget Estimate
Oil tanker	1 ⁽¹⁾	321 URD
Replenishment ship	1	190 URD ⁽²⁾

Notes

1. HMAS *Sirius* will commission, and HMAS *Westralia* will decommission, in September 2006.
2. HMAS *Success* is scheduled to undergo a refit in January – June 2007.

OUTPUT 2.6 – CAPABILITY FOR MINE WARFARE

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

The Huon-class mine hunters provide an advanced mine hunting and clearance diving capability and a limited maritime patrol and surveillance capability. The mine hunters contribute to regional engagement and security through the conduct of port visits and exercises with regional nations. The minesweeper auxiliaries deliver a limited influence mine and moored minesweeping capability. Clearance diving teams support the full spectrum of mine warfare and clearance diving operations, including explosive ordnance and improvised explosive device disposal. The two coastal mine hunters that were planned to be put into extended readiness will be reactivated in 2006-07 and re-rolled for surveillance and patrolling of Australia's maritime approaches.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Coastal mine hunters	6	1,243 URD ⁽¹⁾
Auxiliary minesweepers	2	730 URD
Clearance diving teams	2	730 URD

Note

1. The URD target for the reactivated coastal mine hunters is yet to be determined and is not included in this estimate.

OUTPUT 2.7 – CAPABILITY FOR AMPHIBIOUS LIFT

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

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Heavy landing ship	1	365 URD
Amphibious landing ships	2	674 URD
Heavy landing craft	6	1,917 URD

OUTPUT 2.8 – CAPABILITY FOR HYDROGRAPHIC, METEOROLOGICAL AND OCEANOGRAPHIC OPERATIONS

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

The Hydrographic, Meteorological and Oceanographic Force Element Group maintains a capability for hydrographic operations, nautical charting and provision of meteorological and oceanographic support to the ADF. The Group's nautical products assist maritime trade, border protection and contribute to maritime safety and environmental protection. Additionally, the group meets Australia's national obligations for provision of hydrographic services under the terms of the *United Nations Safety of Life at Sea (SOLAS) Convention 1974* (as amended) and the *Navigation Act 1912*.

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

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards to conduct survey tasking, produce navigational information and provision of oceanographic and meteorological support. • Achieve mission capability for assigned tasks. • Achieve <i>HydrOcscheme 2005-08</i> data and surveying tasking requirements to meet national hydrographic surveying and charting obligations.

Vessel/Aircraft/Unit/Chart Production	Number	Budget Estimate
Hydrographic ships	2	730 URD
Survey motor launches	4	1,318 URD
Laser airborne depth sounder aircraft ⁽¹⁾	1	850 hours
Deployable geospatial support team	1	Availability 365 days; planned deployments 188 days
Australian Hydrographic Office	1	Availability 365 days; chart production 249 days
Fleet Weather and Oceanographic Centre ⁽²⁾	1	Availability 365 days
Naval Air Station Weather and Oceanographic Centre	1	Availability 240 days
Mobile meteorological and oceanographic teams ⁽³⁾	1	Availability 730 days; planned deployments 308 days
Navigational Chart Production ⁽⁴⁾ : New charts/editions Electronic navigational chart cells		68 167 ⁽⁵⁾
Defence Support ⁽⁴⁾ : New charts/editions Military Geographic Information Foundation Datasets		35 6
Oceanographic database production: Web Enabled Datasets ⁽⁶⁾		6

Notes

1. An upgrade to the laser airborne depth sounder aircraft is anticipated to commence in mid-2007.
2. The Fleet Weather and Oceanographic Centre is available 24 hours per day.
3. Mobile meteorological and oceanographic teams are sub-sections of the Operational Meteorological and Oceanographic Centre.
4. Chart production has been divided into navigational and Defence specific components. The navigational components were formerly 'new charts/editions' and 'electronic navigational chart cells' and the Defence component was formerly 'new charts/diagrams for Navy use only'. The Defence component now includes support to the wider ADF community and the inclusion of 'military geographic information foundation datasets' represents new products as a result of emerging technology. The environmental brief production targets introduced in 2005-06 are no longer considered a meaningful performance target and will no longer be reported.
5. Targets reflect additional planned capacity due to out-sourcing funded under the Accelerated Electronic Navigational Charts Project.
6. Web enabled datasets was formerly 'complete database updates'. The name change represents new products as a result of emerging technology.

OUTCOME THREE – ARMY CAPABILITY

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

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

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

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

The Army's capabilities provide the capacity to conduct:

- shaping and influencing operations, including operations to prevent the effective operational command and control of adversary forces by influencing, degrading, or destroying their operational systems;
- land-focused offensive operations through pre-emptive or reactive operations to destroy enemy forces or power projection assets, including command, control and communications nodes;
- ground-based air defence;
- peace support operations with the intention of establishing a stable security environment through the presence of military forces, either armed or unarmed;

- operational logistic support to sustain forces through the maintenance of lines of communications to a forward operating base and by providing distribution, materiel support, support engineering, health services support, personnel services and civil liaison;
- counter-terrorism operations to defeat terrorism throughout the entire threat spectrum, including protection from terrorist acts, offensive measures taken to prevent, deter and respond to terrorism, and providing support to incidents involving the use of chemical, biological or radiological materials;
- consequence management operations to provide detection, identification, marking, warning, reporting and decontamination of chemical, biological or radioactive material;
- non-combatant evacuation operations to protect Australian nationals and approved foreign nationals where host nations are unwilling or unable to provide security; and
- humanitarian assistance operations in support of the civil populace in times of significant need and disaster.

PLANNED PERFORMANCE

The Army intends to achieve its performance milestones in 2006–07 by balancing the requirements to support operations with the need to meet extant preparedness requirements and to develop the Army's core capabilities.

Support to Operations

In 2006–07, the Army's first priority will be to continue to support forces and individuals deployed on operations. These include forces and individuals deployed to the Middle East Area of Operations, Israel, Sudan, Syria, Lebanon, Egypt, East Timor and the Solomon Islands.

Meeting Preparedness Requirements

The Army will continue to provide ready forces as directed by the Government, including nine combined arms battlegroups to provide depth, sustainability, utility and flexibility at 90 days readiness or less with supporting combat support and combat service support elements. The Army has developed seven company-sized Reserve Response Forces to enhance the Army's domestic security response capability. The Army is continuing the development of a High Readiness Reserve capability that will provide specified individual and collective capabilities to support, sustain and reinforce the Army's operational forces. Meeting preparedness requirements will be the Army's primary performance measure.

Developing the Army's Core Capabilities

The Army will continue to enhance its ability to sustain a brigade-sized taskforce offshore for extended periods and a battalion-sized battlegroup for short-notice contingency operations. In particular, the development of the Army's core capabilities in 2006–07 will focus on transitioning to a Hardened and Networked Army to enhance its ability to generate adequate combat weight, support deployed forces, and contribute to domestic security.

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

- taking delivery of the first Abrams M1A1 main battle tank prior to their formal introduction into service in 2007;
- continued delivery of the Bushmaster infantry mobility vehicle into service;
- delivery of additional Javelin direct fire guided weapons;
- continuing procurement activities for the MRH-90 helicopter to provide additional troop lift;
- implementing the operational capability of the Army's armed reconnaissance helicopters;
- continuing the upgrade of the M113 armoured personnel carrier fleet for delivery commencing in late 2006; and
- developing project proposals to further advance the Army's combat capabilities into the future.

The Army will continue to develop its network centric warfare capability through:

- commencing the first phase of a multiphase project aimed at enhancing land force communications by the introduction of a fleet of digital combat net radios;
- developing an Army sustainment model designed to ensure a battalion-sized battlegroup and a brigade-sized taskforce can be deployed continually; and
- developing proposals for projects to further enhance the Army's mobility and close combat capabilities into the future.

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

The Army will continue to develop its situational awareness through the delivery of:

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

KEY RISKS AND LIMITATIONS

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

Personnel

To support the introduction of new capabilities while maintaining preparedness requirements, the Army's average paid strength for the year is forecast at 25,220 for 2006-07, and is projected to grow to 27,837 by 2015-16. Recruiting and retention is becoming more challenging. Some ranks and trades, such as health services, engineers, technicians and linguists, remain a concern.

Logistic Support

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

Infrastructure

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

Introducing New Capabilities

New Army capabilities are delivered through a combination of major and minor capital procurement projects that either replace or enhance existing capabilities or introduce new capabilities. The Australian National Audit Office Audit Report No. 25 2004-05 highlighted the need for the Army to maintain a strong focus on the successful integration of capabilities due for delivery through the Defence Capability Plan. The Army is developing a process for capability acceptance and operational release, which will operate in accordance with the Joint 'Acceptance into Service' process once it has been confirmed by the Capability Development Group in 2006.

RISK MITIGATION

Personnel

The development of an Army Sustainment Model will help the Army identify and develop its personnel for operations. The Army Capability Implementation Plan and Army Personnel Establishment Plan will help the Army to manage its personnel requirements to enable timely recruitment and training, and to build new capabilities as specified in the Defence White Paper. The Army continues to pursue initiatives to improve recruiting and retention, and to remediate critical workforce areas. The Army is addressing the requirements of the future complex operating environment through the 'Soldier of the Twenty-First Century' initiative.

Logistic Support

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

Infrastructure

The Army is working with other Defence Groups to develop strategies to relieve the pressures on capability delivery associated with infrastructure. Recent initiatives have included the development of strategic planning guidance for the Army's future use of the Defence estate and other estate planning initiatives. The Army is embarking upon a strategic review of training areas within Australia in order to identify Army's capability needs for training areas and advance their continued development.

Introducing New Capabilities

The Army has identified the issues that affect the successful introduction of a new or enhanced capability into service. Generically these are titled the 'Fundamental Inputs to Capability' and the Army seeks to ensure that the development of facilities, training and personnel are considered along with capital equipment. To ensure the timely consideration of these issues, the Army holds a number of reviews at various stages of each project's life-cycle to synchronise these issues and prepare the way for successful introduction of the capability. In 2005-06, the Army held 13 reviews and plans to conduct 15 reviews in 2006-07. Additionally, the Army is continuing to develop a formalised system for acceptance of new capabilities into service. The process will be based on an operational evaluation of the delivered capability prior to operational release by the Chief of Army.

Cost Summary for Outcome Three

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.3.1: Outcome Three – Army Capability for the Defence of Australia and its Interests

	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
INCOME						
Revenue						
Goods and Services	-101,204	-188,452	-87,248	-193,972	-198,668	-201,784
Other Revenue ⁽³⁾	-86,617	-22,216	64,400	-21,604	-21,537	-26,996
Total Revenue	-187,821	-210,668	-22,847	-215,576	-220,206	-228,779
Gains						
Reversals of previous asset write-downs	-20,854	-34,047	-13,194	-29,849	5,491	5,491
Net gains from sale of assets	-	-	-	-	-	-
Total Gains	-20,854	-34,047	-13,194	-29,849	5,491	5,491
Total Income	-208,674	-244,715	-36,041	-245,425	-214,715	-223,289
Operating Expenses						
Employees	2,861,332	2,809,107	-52,226	2,819,326	2,932,966	3,080,385
Suppliers	2,252,124	2,442,227	190,103	2,471,475	2,438,318	2,552,304
Grants	2,436	2,632	196	628	628	628
Depreciation and Amortisation	827,079	816,045	-11,035	847,943	838,761	801,679
Finance Cost	15,065	9,540	-5,525	10,086	10,613	10,840
Write-down and impairment of assets	31,430	69,919	38,489	65,323	19,073	19,073
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	2,114	130	-1,984	547	548	548
Total Expenses	5,991,580	6,149,599	158,019	6,215,328	6,240,907	6,465,457
Net Cost of Outcome Three⁽⁴⁾	5,782,906	5,904,884	121,978	5,969,903	6,026,192	6,242,169

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 96).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.3.2: Breakdown of Outcome Three by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 3.1 – Capability for Special Operations	530,178	534,256	4,078	546,548	552,288	572,480
Output 3.2 – Capability for Medium Combined Arms Operations	867,509	938,457	70,948	859,434	854,529	877,162
Output 3.3 – Capability for Light Combined Arms Operations	1,014,643	977,728	-36,915	1,029,151	1,054,447	1,103,487
Output 3.4 – Capability for Army Aviation Operations	563,715	570,665	6,949	553,413	546,093	558,040
Output 3.5 – Capability for Ground-Based Air Defence	121,858	125,526	3,668	119,128	122,044	127,673
Output 3.6 – Capability for Combat Support Operations	409,567	439,935	30,368	453,857	462,329	482,033
Output 3.7 – Capability for Regional Surveillance	155,294	156,546	1,252	160,621	162,317	168,201
Output 3.8 – Capability for Operational Logistic Support to Land Forces	581,557	587,745	6,189	605,033	615,638	642,175
Output 3.9 – Capability for Motorised Combined Arms Operations	588,407	593,810	5,403	609,787	616,753	639,854
Output 3.10 – Capability for Protective Operations	950,177	980,216	30,039	1,032,930	1,039,754	1,071,064
Net Cost of Outcome Three⁽³⁾	5,782,906	5,904,884	121,978	5,969,903	6,026,192	6,242,169

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 97).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.3.1.

Output Structure for Outcome Three

OUTPUT 3.1 – CAPABILITY FOR SPECIAL OPERATIONS

Output 3.1 provides Special Operations Task Groups, task organised to provide high readiness forces capable of conducting special reconnaissance, offensive strike, domestic security, counter terrorism and offshore recovery operations. Force elements include the Defence chemical, biological, radiological, nuclear and explosives capability and possess integral strategic secure communications and logistics capability.

Output 3.1 also provides a deployable component headquarters, a Special Forces Training Centre, and specialist capabilities that reside in the Special Air Service Regiment, the Commando Units and the Incident Response Regiment.

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

OUTPUT 3.2 – CAPABILITY FOR MEDIUM COMBINED ARMS OPERATIONS

Output 3.2 provides combined arms teams based on armoured, mechanised and cavalry forces with integral command and control, communications, offensive support, combat engineer support, and combat service support. The medium combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required.

Output 3.2 is based on 1st Brigade which provides a deployable formation headquarters and a Medium Battle Group.

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

OUTPUT 3.3 – CAPABILITY FOR LIGHT COMBINED ARMS OPERATIONS

Output 3.3 provides combined arms teams based on light infantry forces with integral command and control, communications, offensive support, combat engineer support, and combat service support. The light combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required. The light combined arms teams are rapidly deployable by ground, air and sea tactical and strategic lift.

Output 3.3 is based on 3rd Brigade which provides a deployable formation headquarters, an Airborne Battle Group and a Light Battle Group.

Performance Targets

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

OUTPUT 3.4 – CAPABILITY FOR ARMY AVIATION OPERATIONS

Output 3.4 contributes primarily to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. The capability provides aircraft, which are maintained at high readiness, for mobility through tactical troop lift, command and liaison, and reconnaissance operations.

Output 3.4 is based on 16th Brigade (Aviation) and consists of:

- two aviation regiments;
- one independent (Black Hawk) aviation squadron; and
- one independent fixed wing squadron.

The forecast flying hours for 2006-07 are as follows:

Table 5.3.3: Army Aviation Aircraft

Aircraft	Number	Flying Hours 2006-07
CH-47D Chinook	6	1,270
S-70A9 Black Hawk	35	7,500
B-206 Kiowa	41	10,310
UH-1H Iroquois	25	4,090
Armed Reconnaissance Helicopter Tiger ⁽¹⁾	9	1,010
B200 King Air	-	-
DHC-6 Twin Otter	-	-
B300 King Air 350	3	2000

Note

1. There will be 9 aircraft at the beginning of the financial year and a further 6 are expected to be delivered during 2006-07.

Performance Targets

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

OUTPUT 3.5 – CAPABILITY FOR GROUND-BASED AIR DEFENCE

Output 3.5 provides ground based air defence support to light and medium combined arms teams and joint operations requiring point air defence.

Output 3.5 is based on 16th Air Defence Regiment, which is based in Adelaide.

Performance Targets

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

OUTPUT 3.6 – CAPABILITY FOR COMBAT SUPPORT OPERATIONS

Output 3.6 provides force-level surveillance and target acquisition, electronic warfare, military police, intelligence, force-level construction engineer support, and support to other Army outputs.

Output 3.6 is based upon 20th Surveillance Target Acquisition Regiment, 7th Signal Regiment, 1st Intelligence Battalion, 1st Military Police Battalion and 6th Engineer Support Regiment.

Performance Targets

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

OUTPUT 3.7 – CAPABILITY FOR REGIONAL SURVEILLANCE

Output 3.7 provides mobile surveillance and reconnaissance forces developed and based in specific regions of northern Australia supporting the national surveillance effort.

The capability is maintained using predominantly Army Reserve personnel drawn from local communities and the indigenous population throughout

northern Australia. The capability consists of three regionally-based battalion-sized units based in Karratha, Darwin and Cairns.

Output 3.7 is based upon Norforce, the 51st Far North Queensland Regiment and the Pilbara Regiment.

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

OUTPUT 3.8 – CAPABILITY FOR OPERATIONAL LOGISTIC SUPPORT TO LAND FORCES

Output 3.8 provides operational-level combat service support forces with integral command and control, communications, supply chain management and distribution capabilities. The Output includes water and beach operations capabilities, air dispatch and parachute rigging capabilities, health and psychological support capabilities, deployed personnel support and force preparation capabilities.

Output 3.8 is based upon the Logistic Support Force and is responsible for the provision of a deployable formation headquarters, a Force Support Group, a Contingency Force Support Battalion, and a number of tailored force support entities for smaller operations.

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

OUTPUT 3.9 – CAPABILITY FOR MOTORISED COMBINED ARMS OPERATIONS

Output 3.9 provides combined arms teams based on light infantry forces with integral wheeled mobility, command and control, communications, offensive support, combat engineer support, and combat service support. The motorised combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required.

Output 3.9 is based on 7th Brigade which provides a deployable Land Component Headquarters, a formation command and control capability for domestic security tasks, and a Motorised Battle Group.

Performance Targets

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

OUTPUT 3.10 – CAPABILITY FOR PROTECTIVE OPERATIONS

Output 3.10 provides Army Reserve combined arms teams based on light infantry forces with integral command and control, communications, and combat service support. The combined arms teams form the basis of the Force Protection Company Groups on a reduced readiness notice as part of the High Readiness Reserve. The output also provides Reserve Response Forces on a reduced readiness notice for domestic security and support tasks, reinforcements for deployed regular units, and a mobilisation base for subsequent rotations in the event of a protracted operation.

Output 3.10 is predominantly based on Reserve brigades located throughout Australia.

Performance Targets

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

OUTCOME FOUR – AIR FORCE CAPABILITY

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

Output 4.1 Capability for Air Combat Operations

Output 4.2 Capability for Combat Support of Air Operations

Output 4.3 Capability for Surveillance and Response Operations

Output 4.4 Capability for Airlift Operations

The Air Force applies air and space power to protect Australia and its national interests by providing a unique combination of flexibility, reach, precision and speed of response. The Air Force is a balanced, networked deployable force that conducts air and surface operations focusing on air combat, combat support of air operations, surveillance and response, and airlift. The Air Force's capabilities can be deployed globally and rapidly to achieve the ADF's key tasks of defending Australia, contributing to the security of our region and supporting Australia's wider interests through participation in coalition operations and disaster responses. In particular, the Air Force's air combat capability is essential for securing control of the air, a prerequisite for most other ADF operations.

The Air Force's fundamental capabilities enable the conduct of offensive and defensive counter air operations, land and maritime strike operations and offensive air support. Airlift enables quick deployment of forces over large distances and sustainment once deployed. Information operations through networked systems enable rapid dissemination of information. Australian and global communities also benefit directly from the Air Force's contribution to search and rescue operations, disaster relief, humanitarian assistance and other protective functions.

PLANNED PERFORMANCE

The Air Force will continue to provide support to the Government's border control initiatives including providing additional surge surveillance and response capabilities if required. During 2006-07, the Air Force will continue to support the war against terrorism, conduct operational deployments as directed by the Government and be prepared to provide rapid disaster response. In particular, the Air Force will:

- support Operations Catalyst and Slipper through P-3 Orion surveillance activities, C-130 transport support and expeditionary combat support elements;

- support Operation Relex II with P-3 Orion surveillance of Australia's northern border approaches;
- introduce new capabilities including the Wedgetail airborne early warning and control aircraft and Boeing C-17 Globemaster III aircraft;
- refine workforce structures in light of these new capabilities;
- support humanitarian assistance operations; and
- prepare for the 2007 Asia-Pacific Economic Cooperation Leaders' Meeting in Sydney.

As part of the Air Force's enduring goal of achieving and maintaining a modern, networked force, the F-111 capability will be withdrawn from service from 2010 to provide the necessary resources to transition to the replacement capability. In the interim period between the withdrawal of the F-111 and the introduction of the new air combat capability, the strike role will be transferred to the F/A-18 Hornet and, to a lesser degree, the P-3 Orion fleet. This role transfer will depend on:

- upgrading and refurbishing the F/A-18 Hornet aircraft;
- introducing the A330 medium range, multi-role tanker transport aircraft;
- introducing the Wedgetail airborne early warning and control aircraft;
- acquiring the AGM-158 Joint Air-to-Surface Standoff Missile for the F/A-18 Hornet; and
- acquiring improved short-range, day and night, all-weather precision guided weapons.

A risk mitigation strategy to delay the withdrawal of the F-111 to 2012 is in place in the event of delays to the above projects to ensure there is no strike capability gap.

The Air Force will introduce up to four new Boeing C-17 Globemaster III aircraft and associated equipment from 2006 to provide the ADF with a heavy airlift capability. The demanding pace of operations and disaster relief in recent times has demonstrated a need for a rapid global airlift capability that is capable of deploying troops, all combat vehicles, heavy equipment and all helicopters including the CH-47 Chinook helicopters.

The Air Force has maintained a healthy personnel retention rate despite external market pressures. Recruiting has been relatively successful but the challenge will increase due to demographic changes and increasing competition for the available talent. The focus in 2006-07 will be on redesigning and rebalancing the workforce to achieve required outcomes with available resources, in preparation for future capability requirements and maintaining operational tempo. Reviews

of the technical, non-pilot and aerospace engineering officer elements of the workforce will continue with a particular focus on the requirements of the many new capabilities due for introduction over the coming decade. Following the recent Defence Force Remuneration Tribunal approval of the Remuneration Reform Program, the Air Force has commenced preparing submissions for the Defence Force Remuneration Tribunal in relation to Air Traffic Control Officers and Aerospace Engineering Officers, whose retention in an increasingly competitive external market is critical.

KEY RISKS AND LIMITATIONS

Personnel

Both retention and recruitment remain healthy when compared to long-term trends. However, recruiting for niche skills or fully qualified personnel remains problematic. While retention overall is satisfactory, the Air Force will have some difficulty competing with the increasing external pressures for highly qualified specialists, particularly in the health and technology areas. The labour market for young people will remain highly competitive due to generational changes and changes in participation rates and lifestyles with increasing demand and competition for talented people.

Regional Capability Edge

Aerospace combat capability within Australia's region continues to develop. To maintain a qualitative edge, the Air Force will continue to evolve a network-enabled force that is initially centered around the upgraded F/A-18 with enhanced weapons, supported by the Wedgetail airborne early warning and control aircraft, A330 multi-role tanker transport aircraft and associated communications and information technology. The capability of this force will be substantially increased with the introduction in 2012 of the fifth generation new air combat capability, which is expected to be the F-35. A high-level group comprising representatives from the Air Force, DMO, Capability Development Group and the Defence Science and Technology Organisation has been tasked with close oversight and managing the risks associated with this transition.

Enabling Support

The delivery of Air Force capabilities continues to be dependent on the support of the DMO, Defence Science and Technology Organisation and the infrastructure and personnel services provided by the Corporate Services and Infrastructure Group and the Defence Personnel Executive.

RISK MITIGATION

Personnel

The Air Force must maximise the capability output from its current workforce. An organisational rebalance and reshape activity will identify the priority areas for personnel resources both now and for future capability requirements. Capability reviews for technical, aircrew and engineering personnel will support reshaping decisions. External recruiting will be supplemented by greater use of internal recruiting and re-training of the existing workforce to match the personnel capability required from the introduction of new capabilities and systems. The Air Force will focus on a more flexible application of non-remuneration personnel policy initiatives to retain our professional and experienced staff. While the younger generation is reported to be less attracted by the concept of a job for life, the Air Force will focus on attractions such as teamwork in a values-based framework, new technology, the ability to gain new skills, and jobs that make a difference. The Air Force will also seek to influence decisions that will offer greater choice in conditions of service and career structures. The Air Force will also engage with the younger generation in better explaining the opportunities that the Air Force and the wider ADF have to offer. In some cases, threats to the retention of specific groups of personnel critical to capability will be targeted through short-term financial or other incentives. In responding to the Government's policy to expand the role of the Reserves to contribute to the sustainability of combat force operations in addition to the traditional role of substituting for temporary shortfalls in permanent force personnel, the Air Force will establish a High Readiness Reserve category.

Regional Capability Edge

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

Enabling Support

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

Cost Summary for Outcome Four

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.4.1: Outcome Four – Air Force Capability for the Defence of Australia and its Interests

	Previous Estimate ⁽¹⁾ 2006-07 \$'000	Budget Estimate 2006-07 \$'000	Variation ⁽²⁾ \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
INCOME						
Revenue						
Goods and Services	-60,205	-145,124	-84,918	-145,765	-148,363	-152,084
Other Revenue ⁽³⁾	-61,138	-18,168	42,970	-18,001	-17,876	-20,548
Total Revenue	-121,343	-163,291	-41,948	-163,766	-166,239	-172,632
Gains						
Reversals of previous asset write-downs	-37,250	-134,109	-96,859	-137,305	-119,095	-119,095
Net gains from sale of assets	-	-	-	-	-	-
Total Gains	-37,250	-134,109	-96,859	-137,305	-119,095	-119,095
Total Income	-158,593	-297,400	-138,807	-301,071	-285,334	-291,727
Operating Expenses						
Employees	1,472,069	1,484,327	12,258	1,573,094	1,662,054	1,792,285
Suppliers	2,049,184	2,204,810	155,626	2,381,533	2,302,564	2,385,098
Grants	1,067	1,154	87	298	298	298
Depreciation and Amortisation	1,306,501	1,311,428	4,927	1,299,002	1,346,683	1,238,976
Finance Cost	6,942	4,074	-2,868	4,026	3,969	4,057
Write-down and impairment of assets	54,418	125,299	70,881	129,317	97,297	97,297
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	694	3,999	3,304	387	389	389
Total Expenses	4,890,875	5,135,091	244,216	5,387,658	5,413,256	5,518,401
Net Cost of Outcome Four⁽⁴⁾	4,732,282	4,837,691	105,409	5,086,587	5,127,922	5,226,674

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 100).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.4.2: Breakdown of Outcome Four by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 4.1 – Capability for Air Combat Operations	1,536,286	1,593,252	56,965	1,722,226	1,697,258	1,725,212
Output 4.2 – Capability for Combat Support of Air Operations	958,524	954,466	-4,057	984,101	1,011,548	1,025,196
Output 4.3 – Capability for Surveillance and Response Operations	1,175,263	1,181,018	5,755	1,179,779	1,201,178	1,224,265
Output 4.4 – Capability for Airlift Operations	1,062,209	1,108,955	46,746	1,200,482	1,217,937	1,252,001
Net Cost of Outcome Four⁽³⁾	4,732,282	4,837,691	105,409	5,086,587	5,127,922	5,226,674

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 101).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.4.1.

Output Structure for Outcome Four

OUTPUT 4.1 – CAPABILITY FOR AIR COMBAT OPERATIONS

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

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

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve levels of training that maintains core skill and professional standards across all assigned warfare areas.
- Maintain upgrade and refurbishment of the F/A-18 Hornet aircraft.

Aircraft	Number	Flying Hours 2006-07
F/A-18 Hornet	71 (55 F/A-18A and 16 F/A-18B)	13,000
F-111	26 ⁽¹⁾	3,800
Hawk Lead-in Fighter	33	8,000
PC-9 Forward Air Control training aircraft	4	1,030

Note

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

OUTPUT 4.2 – CAPABILITY FOR COMBAT SUPPORT OF AIR OPERATIONS

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

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

Contingency air bases used for expeditionary operations, will be activated and run by regular Air Force personnel as part of a joint or coalition force when required. These personnel will be drawn initially from the on-line Expeditionary Combat Support Squadron with personnel for long-term sustainment being drawn from all Combat Support Group personnel.

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

OUTPUT 4.3 – CAPABILITY FOR SURVEILLANCE AND RESPONSE OPERATIONS

The Air Force’s capability for surveillance and response operations is provided through the Surveillance and Response Group. The group maintains aircraft, personnel, sensors and battlespace management elements to deliver a wide range of intelligence, surveillance and reconnaissance capabilities including the systems and infrastructure necessary to exploit the force multiplier effects of network centric warfare operations. In addition, the P-3 Orion is capable of conducting maritime strike and anti-submarine warfare operations.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas. • Finalise plans for the introduction of the Wedgetail airborne early warning and control aircraft into operational service in 2007-08. • Complete the integration of the TPS-77 radar into the air defence surveillance system. 		
Aircraft	Number	Flying Hours 2006-07
P-3 Orion	19	8,200
Wedgetail airborne early warning and control aircraft	Up to 2	690 ⁽¹⁾

Note

1. Up to two Wedgetail airborne early warning and control aircraft will be received in 2006-07. Flying hours undertaken in 2007 will be in preparation for acceptance of the aircraft into operational service in 2007-08.

OUTPUT 4.4 – CAPABILITY FOR AIRLIFT OPERATIONS

Air Lift Group provides airlift to enable rapid mobility of personnel and cargo to, from and within, a battlefield or area of operation. The group maintains aircraft, crews and weapons systems at a level of required capability to achieve air logistic support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance, special purpose flights, air-to-air refuelling, navigator training and surveillance operations.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas.
- Introduce the Boeing C-17 Globemaster III aircraft into service.
- Maintain planning for the transition of the air-to-air refuelling capability in 2007-09.

Aircraft	Number	Flying Hours 2006-07
C-130 Hercules	24 (12 C-130H and 12 C-130J)	10,000
C-17 Globemaster	Up to 2	750
B707	4	1,100
DHC-4 Caribou	14	4,100
B737 BBJ	2	1,214
CL604 Challenger	3	2,403

OUTCOME FIVE – STRATEGIC POLICY

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

Output 5.1 International Policy, Activities and Engagement

Output 5.2 Strategic Policy and Military Strategy

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

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

PLANNED PERFORMANCE

Strategy Group's principal objectives for 2006-07 are to:

- monitor the external environment and ensure the currency of strategic planning;
- enhance the United States alliance and improve access to United States technology;
- continue to enhance regional defence cooperation;
- strengthen defence export controls; and
- invest in and develop Defence's strategic policy workforce.

KEY RISKS AND LIMITATIONS

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

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

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

RISK MITIGATION

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

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

Cost Summary for Outcome Five

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.5.1: Outcome Five – Strategic Policy

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
INCOME						
Revenue						
Goods and Services	-3,267	-8,763	-5,496	-9,114	-8,989	-8,891
Other Revenue ⁽³⁾	-8,533	-920	7,613	-959	-963	-1,396
Total Revenue	-11,800	-9,683	2,117	-10,073	-9,953	-10,286
Gains						
Reversals of previous asset write-downs	-18	-1,033	-1,014	-1,506	1,194	1,194
Net gains from sale of assets	-	-	-	-	-	-
Total Gains	-18	-1,033	-1,014	-1,506	1,194	1,194
Total Income	-11,819	-10,716	1,103	-11,579	-8,759	-9,093
Operating Expenses						
Employees	91,684	97,849	6,165	105,051	112,519	125,054
Suppliers	115,767	130,643	14,877	147,916	149,528	157,521
Grants	58	59	1	8	8	8
Depreciation and Amortisation	6,323	6,113	-210	6,057	6,123	6,103
Finance Cost	358	241	-117	129	17	18
Write-down and impairment of assets	15	468	452	535	-5	-5
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	41	-28	-69	36	36	36
Total Expenses	214,246	235,345	21,099	259,733	268,226	288,737
Net Cost of Outcome Five⁽⁴⁾	202,427	224,629	22,202	248,153	259,467	279,644

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 103).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.5.2: Breakdown of Outcome Five by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 5.1 – International Policy, Activities and Engagement	162,079	179,237	17,158	200,126	209,797	226,791
Output 5.2 – Strategic Policy and Military Strategy	40,348	45,392	5,044	48,028	49,670	52,853
Net Cost of Outcome Five⁽³⁾	202,427	224,629	22,202	248,153	259,467	279,644

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 104).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.5.1.

Output Structure for Outcome Five

OUTPUT 5.1 – INTERNATIONAL POLICY, ACTIVITIES AND ENGAGEMENT

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

Performance Targets

- Provide the Government with comprehensive and timely policy advice on current and emerging international Defence issues.
- Manage Defence's international engagement activities to support Australia's efforts to promote regional and global security.
- Ensure Defence's overseas representatives contribute to the effective management of Australia's defence interests in the context of overall bilateral relationships.
- Achieve the Defence Cooperation Program.

OUTPUT 5.2 – STRATEGIC POLICY AND MILITARY STRATEGY

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

Performance Targets

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

Defence Cooperation

OVERVIEW

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

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

These objectives are enhanced through assistance to regional security forces in the areas of strategic planning, education and training, command and control, infrastructure, counter-terrorism, communications and logistic support. A key element of the Defence Cooperation Program is the Pacific patrol boat program, through which ongoing support is provided to the participating 12 nations, to whom Australia has provided 22 vessels. The program is designed to help Pacific island countries improve their ability to independently police their maritime zones.

Through assisting the development of professional and sustainable Defence Forces in the region, the Defence Cooperation Program is improving the ability of regional countries to contribute to national and regional security objectives. Two important areas of focus are the development of the East Timor Defence Force and the Papua New Guinea Defence Reform Program. Australian assistance includes ADF advisers, a range of training initiatives and bilateral exercises, capacity building initiatives, and equipment and infrastructure projects.

A breakdown of the \$77.963m allocated to the program in 2006-07 is shown in Table 5.5.3.

Table 5.5.3: Defence Cooperation Funding

	Estimated Actual 2005-06 \$m	Budget Estimate 2006-07 \$m
Papua New Guinea⁽¹⁾	17.795	16.346
South Pacific		
Timor-Leste	6.749	5.828
Vanuatu	1.508	1.808
Solomon Islands	2.220	3.131
Tonga	1.442	1.604
Western Samoa	2.300	0.726
Cook Islands	0.322	0.358
Fiji	4.600	4.416
Marshall Islands	0.819	0.792
Federated States of Micronesia	0.867	0.910
Tuvalu	0.719	0.755
Kiribati	0.615	0.665
Palau	0.748	0.981
Multilateral General Assistance ⁽²⁾	11.500	13.564
Subtotal	34.409	35.538
South-East Asia		
Singapore	0.205	0.285
Philippines	3.000	2.344
Thailand	2.916	3.185
Malaysia	4.348	4.665
Indonesia	4.800	5.064
Vietnam	1.622	2.259
Cambodia and Laos	1.078	1.109
Brunei	0.036	0.039
Subtotal	18.005	18.950
Other regional activities	6.891	7.129
Total	77.100	77.963

Notes

1. Includes funding for the second tranche of the Papua New Guinea Defence Force reform program of \$5.645m in 2005-06 and \$4.225m in 2006-07.
2. Predominantly relates to support of the Pacific patrol boat program, including the life extension program.

OUTCOME SIX – INTELLIGENCE

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

Output 6.1 Intelligence

The Intelligence and Security Group collects and produces intelligence, undertakes analysis and develops assessments to support the planning and conduct of ADF operations, Defence policy making and planning, capability development, and wider Government decision-making.

Defence's intelligence functions include:

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

Significant progress has been made by the Defence intelligence agencies in implementing the recommendations of the 2004 Flood Report *Inquiry into Australian Intelligence Agencies*. Defence had the lead on three and provided input to 13 of the 23 recommendations made in the Flood Report. The recommended legislative changes have been enacted, and the *Intelligence Services Act 2001* amendment of 2005 now outlines the Defence Imagery and Geospatial Organisation's roles, functions and ministerial accountabilities on a legislative basis. The Defence Intelligence Organisation has also been included in the amendment to the extent that its activities are now able to be scrutinised by the Parliamentary Joint Committee on Intelligence and Security.

In relation to the 13 other recommendations, the Defence intelligence agencies have worked to develop a comprehensive customer engagement strategy with the Defence Imagery and Geospatial Organisation, promulgate a revised mandate for Defence Intelligence Organisation, establish the Foreign Intelligence

Coordination Committee and to enact legislative amendments to bring the Defence Imagery and Geospatial Organisation under the *Intelligence Services Act 2001* and extend the mandates of both the Parliamentary Joint Committee on Intelligence and Security and the Inspector-General of Intelligence and Security.

PLANNED PERFORMANCE

The collection and production of intelligence is critical to Australia's strategic position in a complex and rapidly changing international political and security environment. Defence intelligence is focused on the following key performance areas:

- producing quality intelligence and products to inform Government policy and planning and to underpin the development of future ADF capability;
- providing responsive and comprehensive intelligence support for the planning and conduct of ADF operations;
- providing, in conjunction with the wider Australian Intelligence Community, support to whole-of-government initiatives to address trans-national crimes including terrorism, proliferation, the illegal exploitation of our natural resources, and the illegal trafficking of people, arms and illicit drugs; and
- developing a strong and adaptable intelligence capability through the recruitment and retention of highly competent, professional staff, the exploitation of new technology, and the strengthening of the mutually beneficial intelligence relationship with the United States and with other international intelligence partners.

Work on the implementation of the Flood Report recommendations will be ongoing throughout 2006-07. Of the Defence-led recommendations, only minor action remains outstanding. These relate to the upgrade of the Defence Intelligence Organisation's desktop environment, the review of ADF command and control arrangements and the shortfall of ADF staffing levels. In addition, an ongoing review of language skills is being undertaken both within Defence and the wider Australian Intelligence Community, to ensure efficient use of existing linguist resources.

KEY RISKS AND LIMITATIONS

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

The environment in which Defence operates is dynamic and demands that key intelligence priorities, requirements and capabilities be reviewed regularly.

RISK MITIGATION

Strategies have been developed to mitigate these risks. These include carefully targeted capital investment programs, strengthening agency partnerships, an increased customer focus, the implementation of a security renewal agenda, and development of business continuity plans. Given the reliance on experienced personnel, Defence has increased and broadened its recruitment strategies through programs such as indigenous cadets, targeted university recruitment drives, participation in the Australian Intelligence Community careers road show and greater incentives for staff with specific language and technical talents. Detailed personnel development programs have also been implemented.

Significant initiatives have been implemented to enhance intelligence capabilities as part of the Defence Capability Plan. These include substantial and sustained investment in signals intelligence collection and imagery intelligence capabilities, enhanced geospatial information systems and improved intelligence processing and dissemination systems. These initiatives will assist in meeting increased requirements for intelligence support.

Performance Targets

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

Cost Summary for Outcome Six

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.6.1: Outcome Six – Intelligence

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
INCOME						
Revenue						
Goods and Services	-4,793	-10,037	-5,244	-10,242	-10,487	-10,502
Other Revenue ⁽³⁾	-5,270	-925	4,344	-929	-935	-1,458
Total Revenue	-10,062	-10,962	-900	-11,172	-11,422	-11,960
Gains						
Reversals of previous asset write-downs	-26	-1,253	-1,226	-1,826	1,444	1,444
Net gains from sale of assets	-	-	-	-	-	-
Total Gains	-26	-1,253	-1,226	-1,826	1,444	1,444
Total Income	-10,089	-12,215	-2,126	-12,998	-9,979	-10,517
Operating Expenses						
Employees	227,571	227,441	-129	238,622	243,841	258,083
Suppliers	184,357	184,638	281	193,750	239,433	255,292
Grants	131	143	12	20	20	20
Depreciation and Amortisation	64,642	65,237	595	73,799	72,929	95,380
Finance Cost	756	590	-166	503	414	424
Write-down and impairment of assets	26	1,155	1,128	1,324	-26	-26
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	101	-3	-104	42	42	42
Total Expenses	477,584	479,201	1,617	508,060	556,652	609,216
Net Cost of Outcome Six⁽⁴⁾	467,495	466,986	-509	495,062	546,674	598,699

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 105).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Other revenues include interest and dividends.
4. Cross reference to Chart 5.a and Table 5.b.

Table 5.6.2: Breakdown of Outcome Six by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 6.1 – Intelligence	467,495	466,986	-509	495,062	546,674	598,699
Net Cost of Outcome Six⁽³⁾	467,495	466,986	-509	495,062	546,674	598,699

Notes

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 106).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Cross reference to Table 5.6.1.

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

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

Output 7.1 Superannuation Support Services for Current and Retired Defence Personnel

Output 7.2 Housing Assistance for Current Defence Personnel

Output 7.3 Other Administered Revenues and Expenses

Administered Activities

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

The outcome delivers three outputs, as described below.

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

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

In 2006-07, Defence and the DHA will complete the seventh year of a 10-year agreement for the delivery of housing services to ADF members. The overall aim of the DHA is to provide a single point for housing and re-location services to ADF members and their families including housing assistance provided for current and retired Defence personnel under the Defence Home Owner Scheme. This scheme provides a subsidy of the interest payable on a home loan for

members of the ADF and is covered by the *Defence Force (Home Loans Assistance) Act 1990*.

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

Cost Summary for Outcome Seven

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.7.1: Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Administered Revenues						
Revenue						
Non-taxation						
Goods and Services	-	-	-	-	-	-
Interest	-2,500	-3,000	-500	-3,000	-3,000	-3,000
Dividends	-19,079	-73,912	-54,833	-65,517	-65,444	-64,752
Military superannuation contributions	-682,475	-659,000	23,475	-659,000	-659,000	-659,000
Total Non-taxation	-704,054	-735,912	-31,858	-727,517	-727,444	-726,752
Total Administered Revenues	-704,054	-735,912	-31,858	-727,517	-727,444	-726,752
Administered Expenses						
Housing subsidies	10,000	10,000	-	10,000	10,000	10,000
Retention benefits	30,100	46,000	15,900	46,000	46,000	46,000
Military Superannuation benefits	2,576,000	2,576,000	-	2,657,000	2,745,000	2,837,000
Total Administered Expenses	2,616,100	2,632,000	15,900	2,713,000	2,801,000	2,893,000
Net Cost of Outcome Seven	1,912,046	1,896,088	15,958	1,985,483	2,073,556	2,166,248

Note

- As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 108).
- The variation figures are the difference between the Previous Estimate and the Budget Estimates.

Table 5.7.2: Breakdown of Outcome Seven by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2006-07	2006-07		2007-08	2008-09	2009-10
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 7.1 – Superannuation Support Services for Current and Retired Defence Personnel	1,923,625	1,963,000	39,375	2,044,000	2,132,000	2,224,000
Output 7.2 – Housing Assistance for Current and Retired Defence Personnel	-9,079	-63,912	-54,833	-55,517	-55,444	-54,752
Output 7.3 – Other Administered Revenues and Expenses	-2,500	-3,000	-500	-3,000	-3,000	-3,000
Net Cost of Outcome Seven	1,912,046	1,896,088	-15,958	1,985,483	2,073,556	2,166,248

Note

1. As reported in the *Portfolio Additional Estimates Statements 2005-06* (p. 109).
2. The variation figures are the difference between the Previous Estimate and the Budget Estimates.

SIGNIFICANT VARIATIONS

Revenues administered on behalf of the Government will increase by \$31.9m mainly due to:

- increased housing dividends representing the updated estimate of Dividend that Defence is expecting to receive from DHA (+\$54.8m); and
- revised military superannuation contributions to more accurately reflect estimates, including for lower than expected ADF employee numbers (-\$23.5m).

Expenses administered on behalf of the Government will increase by \$15.9m from \$2,616.1m to \$2,632.0m at budget time 2006-07. This represents an increase of 0.6 per cent. This variation is due to Retention Benefits estimate adjustment to better reflect the expected level of take up of the benefit in 2006-07 based on updated projections (+\$15.9m).

TABLE OF EXPLANATIONS OF SIGNIFICANT VARIATIONS ACROSS DEFENCE OUTCOMES

Table 5f: Explanation of Significant Variations Across Defence Outcomes⁽¹⁾

Explanation of Variations	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Employees							
Funding for a continuation of operations in Iraq	105.3	-	-	-	-	-	105.3
An increase in reserve salaries and allowances due to new measures announced in the 2006-07 Budget in relation to Reserves Remuneration	-	4.0	21.6	10.5	-	-	36.1
A reduction in military employee numbers and changes in rank profile and per capita rates	-2.5	-11.0	-64.3	-2.0	-0.7	-1.5	-82.0
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns	-21.2	18.7	-9.5	3.8	6.9	1.4	-
Variation Employees	81.6	11.7	-52.2	12.3	6.2	-0.1	59.4
Suppliers							
Increase for a continuation of operations in Iraq	159.1	-	-	-	-	-	159.1
Increased inventory consumption as a result of increased fuel prices and changes in purchasing and consumption patterns	-	45.4	47.7	46.8	-	-	140.0
Defence Capability Plan funding brought forward from beyond the forward estimates	5.4	29.5	31.0	30.4	2.0	4.3	102.6
Additional expenditure associated with work undertaken under the Defence Integrated Distribution System contract on behalf of the Defence Materiel Organisation, not included in previous cost estimates	4.3	23.6	24.8	24.3	1.6	3.5	82.0
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	3.9	21.4	22.5	22.1	1.4	3.1	74.5
Funding for Operation Slipper	71.2	-	-	-	-	-	71.2
A higher proportion of property, plant and equipment expenditure classified as operating rather than capital	2.4	13.2	13.9	13.7	0.9	1.9	46.1

Explanation of Variations	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Additional expenses for project related work undertaken by the Defence Science and Technology Organisation on behalf of the Defence Materiel Organisation	1.3	7.2	7.5	7.4	0.5	1.1	25.0
Increased patrol of maritime approaches	-	23.5	-	-	-	-	23.5
Funding for the Hardened and Networked Army initiative (operating component)	-	-	21.2	-	-	-	21.2
Additional funding for logistics sustainment of the Naval Aviation fleet	-	19.3	-	-	-	-	19.3
Disposals costs associated with the 2006-07 Property Disposal Program	0.9	5.0	5.3	5.2	0.3	0.7	17.4
Continuation of Operation Relex II beyond 30 June 2006 (operating component)	9.7	-	-	-	-	-	9.7
Purchase of Boeing C-17 Globemaster III aircraft to enhance Defence's heavy airlift capability (operating component)	-	-	-	6.2	-	-	6.2
Defence's contribution to Australian Fisheries and Maritime Surveillance	5.0	-	-	-	-	-	5.0
Increased funding associated with changes in intelligence priorities	-	-	-	-	-	0.6	0.6
Enhancements to the connectivity of the Australian Intelligence Community	-	-	-	-	-	0.3	0.3
Reclassification of funding to Grants	-	-0.1	-0.2	-0.1	-	-	-0.4
Broadening of the Efficiency Dividend	-0.2	-1.3	-1.4	-1.3	-0.1	-0.2	-4.5
Reduced expenditure due to savings achieved in a communications project	-	-	-	-	-	-35.0	-35.0
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns	-40.1	-6.8	17.8	1.0	8.3	19.9	-
Variation Suppliers	222.9	179.9	190.1	155.6	14.9	0.3	763.8
Grants							
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.	-	0.1	0.2	0.1	-	-	0.4
Variation Grants	-	0.1	0.2	0.1	-	-	0.4

Explanation of Variations	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Finance Costs							
Decreased finance costs following buy-out in 2005-06 of Defence Housing Authority annuities	-0.7	-3.0	-5.5	-2.9	-0.1	-0.2	-12.3
Variation Finance Costs	-0.7	-3.0	-5.5	-2.9	-0.1	-0.2	-12.3
Write Down of Assets and Impairment of Assets							
Increased write-down of assets and impairment of assets as a result of planned stock-taking and audit remediation activities	1.9	14.6	38.5	70.9	0.5	1.1	127.5
Variation Write Down of Assts and Impairment of Assets	1.9	14.6	38.5	70.9	0.5	1.1	127.5
Revenue from Sale of Goods and Services							
Reclassification from Other Revenue for military employee revenue received from the Defence Materiel Organisation	1.5	-42.0	-59.4	-59.8	-5.4	1.4	-163.8
Additional revenue received from the Defence Materiel Organisation associated with the Defence Integrated Distribution System contract and additional maintenance revenue, which had not been included in the original cost estimates	0.7	-21.0	-29.7	-33.5	0.8	0.7	-82.0
Additional revenue received from the Defence Materiel Organisation for project related work undertaken by the Defence Science and Technology Organisation	0.2	-6.4	-9.1	-10.2	0.2	0.2	-25.0
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	-	-0.4	-0.6	-0.7	-	-	-1.6
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns	-11.8	-7.7	9.0	19.2	-1.1	-7.6	-
Variation Sale of Goods and Services	-9.4	-77.6	-89.7	-84.9	-5.5	-5.2	-272.4

Table of Significant Variations

Explanation of Variations	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Other Revenue							
Decreased other revenue primarily as a result of a realignment of military employee revenue received from the Defence Materiel Organisation to Sale of Goods and Services	8.7	39.1	69.3	37.5	2.4	5.4	162.4
Progressive refinement of Defence's cost attribution rules to reflect changes in workforce distributions and expenditure patterns and other minor variations	-0.8	-3.8	-4.9	5.5	5.2	-1.1	-
Variation Other Revenue	7.9	35.2	64.4	43.0	7.6	4.3	162.4
Reversals of Previous Asset Write Downs							
Increased write-downs as a result of planned stock-taking and audit remediation activities	-7.0	-8.2	-13.2	-96.9	-1.0	-1.2	-127.5
Variation Reversals of Previous Asset Write Downs	-7.0	-8.2	-13.2	-96.9	-1.0	-1.2	-127.5

Note

1. Cross reference to Table 2.6 and pages 30-33 in Defence Chapter Two – Resourcing.