

# **SECTION TWO**

## **DEFENCE MATERIEL**

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# CHAPTER ONE

## OVERVIEW

The Defence Materiel Organisation (DMO) is a service delivery agency responsible for equipping and sustaining the ADF through the acquisition of capital equipment assets and the sustainment of these assets.

The DMO's vision is to become Australia's premier program management and engineering services organisation, delivering projects and materiel support on time, on budget, and to the required quality, capability and safety. Its business is principally driven by the Defence policies and objectives set by the Australian Government and the operational requirements of the ADF.

The DMO has a single Outcome and three Outputs. As an organisation providing critical services to Defence, the DMO will continue to contribute to a number of Defence Outcomes and Outputs.

**Table 1.1: DMO Outcome and Outputs**

Outcome	Description	Outputs
Outcome One – Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel	This Outcome encapsulates the entire business of the DMO: the activities it undertakes for Defence in acquisition and sustainment of materiel; the advice it provides on contracting policy and industry policy; as well as the work it performs to meet the Government's reporting and governance requirements.	Output 1.1 Management of Capability Acquisition Output 1.2 Capability Sustainment Output 1.3 Policy Advice and Management Services

### Overview of 2006-07 Budget

The 2006-07 DMO budget totals almost \$8.8 billion in departmental funding. This is approximately \$1.6 billion higher than the projected result for 2005-06 and represents an increase of over \$1.3 billion when compared to the Forward Estimates published in the *Portfolio Additional Estimates Statements 2005-06*.

The increase in the DMO budget for 2006-07 reflects almost \$1.0 billion of new budget measures including the acquisition of the C-17 heavy airlift aircraft (\$792m), adjustments to the Defence Capability Plan (DCP) funding (reprogramming of the DCP less funding for Headquarters Joint Operations Command) (\$124m), additional funding for stabilisation and reconstruction activities in Iraq and Afghanistan and surveillance of Australia's northern approaches (\$91m), funding for sustainment of the naval aviation fleet (\$26m) and reactivation of two Huon-class coastal mine hunters (\$23m).

Additional funding has also been provided to modernise the propellant manufacturing capability at the Mulwala explosives and propellant facility (\$19m), and for minor acquisition projects, and for increases in indexation and variations in foreign exchange rates. The DMO expects to receive additional funding from foreign governments for goods and services (\$30m).

In a parallel theme, one of the main challenges confronting the DMO in 2006-07 and beyond continues to be the competitive employment market. Skills shortages and an ageing workforce need to be addressed. This budget includes provision for further professionalisation of the workforce, enhanced remuneration initiatives and \$10m has been allocated in support of the Skilling Australian Defence Industry program.

## **RISK ENVIRONMENT**

The DMO is engaged in a complex, high-risk enterprise of acquiring, modifying and sustaining high technology capability. In many cases this involves innovative and leading-edge technology and highly complex systems integration with an inherent high level of risk.

The DMO operates Australia-wide, in numerous overseas locations, and in direct support of ADF operations world-wide. Its business may be affected by the actions and decisions of various domestic and international companies and governments. The vast majority of projects are conducted by industry, often including a mix of domestic and international technology.

To maximise the effectiveness of its investment in Defence, the Government expects that the DMO will deliver and sustain the required capability at an optimum cost and to tight schedules.

The Government and Defence also expect the DMO to identify and mitigate the high levels of risk. The impact of failing to address risk has the potential to increase acquisition and sustainment costs, and delay scheduled delivery. Inaction would impact directly on the Defence Capability Plan with the consequence leading to the allocation of additional contingency funds, delayed starts for new projects, and unnecessary overlaps in the retirement of old platforms and the introduction of new platforms.

The DMO's task is to minimise such shortfalls, by engaging early to identify problems and effectively manage risk related issues as they arise.

## MAJOR CHALLENGES FOR 2006-07

The major challenges facing the DMO in 2006-07 are:

- continued improvement in the delivery of acquisition and sustainment requirements, to meet the operational demands of the ADF;
- the continued implementation of a major change program, to make the DMO more outcome-focused and business-like;
- through a careful mix of competitive tendering and appropriately negotiated and sound contracting, strengthening the partnership with Australian industry. This will enhance the national skills base and build industry's capacity to support Defence; and
- enhancing the depth and breadth of skills and expertise in the DMO workforce.

## Organisational Structure

The DMO is structured into 12 Divisions which are categorised as domain, major programs or operations (as shown in the DMO Organisational Chart on p. 249). Within the DMO:

- the term 'Domain' is used to describe the section of the organisation responsible for the acquisition and sustainment of ADF equipment in a specific environment (maritime, land, aerospace, and electronic and weapon). System Program Offices exist within each domain and are the focal point for procurement, delivery and sustainment of equipment.
- 'Major Programs' is used to describe a grouping of the DMO activities associated with the acquisition of high value, high profile capabilities of strategic significance to the nation. Major Programs have been established for the following high profile projects: Joint Strike Fighter, Air Warfare Destroyer, Amphibious Ships and Land Vehicle Systems.
- the remaining Divisions are described as 'Operations' and are responsible for contracting services, information technology, strategic communications, corporate governance, human resource management, financial services, and strengthening relations with industry.

Structural, management and cultural change over the past two years have seen the DMO become a more performance and outcome driven, business-like organisation.

While the DMO remains within the Defence portfolio, the term 'Defence' and 'DMO' are used separately in the following chapters to distinguish the DMO from what might be called 'the rest of Defence'.

## Senior Executive Changes

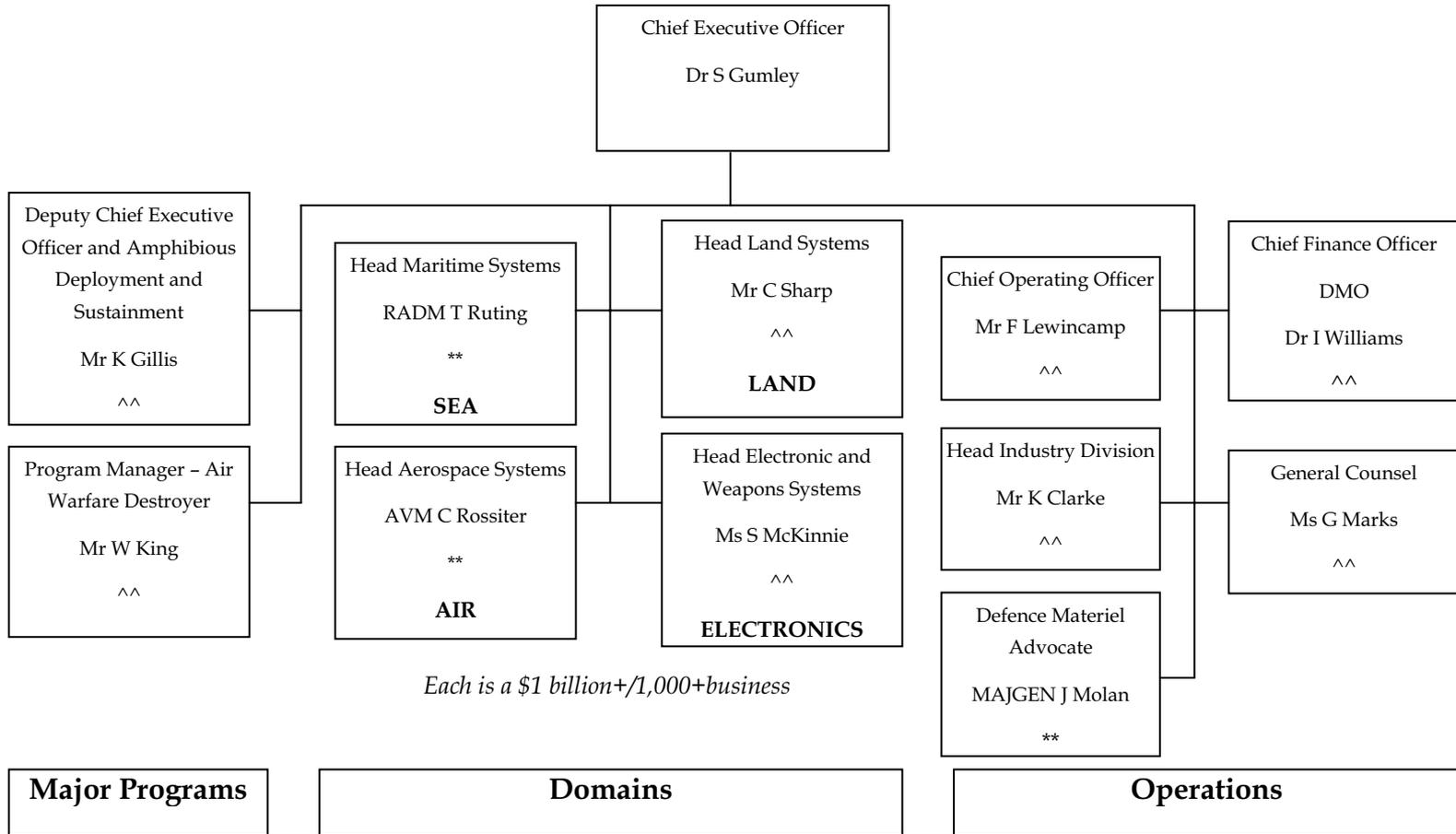
Mr Kim Gillis was appointed Acting Deputy Chief Executive Officer on 18 April 2006.

Mr Kerry Clarke commenced as Head Industry Division on 8 May 2006.

### **ORGANISATIONAL CHART**

The following chart depicts the organisational structure of the DMO, as at 9 May 2006.

**Chart 1.1: Defence Materiel Organisation Organisational Chart**



\*\* - Military 2-star position

^^ - Civilian SES Band 2

# CHAPTER TWO

## RESOURCING

Total resourcing available to the DMO in 2006-07 is \$8,783.2m, with the majority being revenue from Defence estimated at \$8,669.6m. This covers the procurement of capital equipment (\$5,017.6m) and the sustainment of existing capability (\$3,652.0m). As part of its direct appropriation from the Parliament (\$45.5m), the DMO will deliver procurement and industry policy and advice to other elements of the Defence Portfolio and the Government. The remainder of the resourcing is primarily comprised of \$34.4m of revenue from sale of assets and \$33.8m of revenue for other goods and services. The total level of resourcing of \$8,783.2m represents an increase of \$1,623.6m compared with the projected result in 2005-06.

In comparison to the 2006-07 estimates contained in the *Portfolio Additional Estimates Statements 2005-06*, there has been an increase in the DMO's revenue of \$1,327m as a result of:

- a net increase in commissioned work required by Defence, including:
- the acquisition of the C-17 heavy lift aircraft (+\$792m);
- adjustments to Defence Capability Plan funding (+\$124m);
- provision for the net personnel and operating costs associated with the introduction into service of new equipment (+\$125m);
- additional funding from Defence to support operations (+\$91m);
- additional logistic funding for naval aviation (+\$26m);
- reactivation of two Huon-class coastal mine hunters (+\$23m)
- funding from Defence to modernise the Mulwala explosives and propellant facility (+\$19m);
- an increase in funding for minor acquisition projects (+\$8m);
- the application of indexation and foreign exchange parameter updates for acquisition and sustainment activity (+\$104m); and
- an increase in funding received from foreign governments for collaborative project (+\$30m).

### Method of Presenting the DMO Budget

The presentation method of the DMO budget is consistent with the Australian Equivalent of the International Accounting Standards (accrual basis). The

method includes total funding appropriated by the Government to the DMO, revenue from Defence, and the DMO's own-source revenue.

## Appropriation and Other Resources

Outputs 1.1 and 1.2 will be funded by payments from Defence for services provided, as set out in the Materiel Acquisition Agreements and Materiel Sustainment Agreements. Accordingly, Defence's appropriation includes the cost of the DMO's Outputs 1.1 and 1.2. Funding for these Outputs represents 98.7 per cent of the DMO's funding requirements.

The direct appropriation for the DMO in the 2006-07 Budget is \$45.5m. The DMO also receives a small amount of funding from other government agencies for goods and services provided to them.

The following Table 2.1 provides details of total cash receipts from all origins for 2006-07, including direct appropriations, cash receipts from Defence, DMO's own source receipts, but excluding GST, DMO's cash already at bank, and those funds retained from 2005-06.

**Table 2.1: Appropriations and Other Resources 2006-07**

<b>Outcome</b>	<b>Appropriation Bill No. 1 \$'000</b>	<b>Appropriation Bill No. 2 \$'000</b>	<b>Special Appropriation \$'000</b>	<b>Receipts<sup>(1)</sup> \$'000</b>	<b>Total \$'000</b>
Outcome 1: Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel	45,469	-	-	8,527,636	8,573,105
<b>TOTAL</b>	<b>45,469</b>	<b>-</b>	<b>-</b>	<b>8,527,636</b>	<b>8,573,105</b>

**Note**

1. Departmental receipts from other sources (that is other than appropriation amounts) that are available to be used, including resources through Defence's Appropriation Bill No. 1.

## 2006-07 Budget Measures

There are no DMO-specific budget measures, although some of Defence's new budget measures will impact on the DMO. DMO revenue expected for the new Defence budget measures are shown in Table 2.2. Refer to Defence's Chapter Two – Resourcing and Budget Paper No.2 for further details on the new Defence budget measures listed in the following table.

**Table 2.2: Summary of the DMO Resourcing from New Defence Budget Measures**

<b>Defence Budget Measure with the DMO Funding Component</b>	<b>Budget 2006-07</b>	<b>Forward Estimate 2007-08</b>	<b>Forward Estimate 2008-09</b>	<b>Forward Estimate 2009-10</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Defence capability - heavy airlift	792,277	517,621	318,474	121,193
Bring forward of Defence Capability Plan funding	153,900	206,800	52,100	212,200
Mulwala redevelopment project	-	-	61,000	29,100
National security - defence communications project	-35,000	-31,000	14,000	19,000
Logistics – additional funding for naval aviation	26,200	-	-	-
Iraq – funding for stabilisation and reconstruction activities	72,421	45,338	15,610	-
Afghanistan – contributing to a Provincial Reconstruction Team	9,280	9,280	8,000	-
Coastal surveillance – continuation	9,793	-	-	-
Hardened and Networked Army – phase 2	102	310	416	530
Defence Headquarters Joint Operations Command – delivering through a public private partnership	-29,620	-73,810	-60,660	-18,910
Coastal surveillance – increased patrolling of maritime approaches	23,271	23,511	23,686	24,066

## Other Resources Available to be Used

The principal source of resources is payment by Defence for the DMO's acquisition and sustainment services (see Table 2.3). A small proportion comes from the sale of commercial vehicles no longer required by Defence and the DMO.

The significant differences between Table 2.1 'Appropriations and Other Resources 2006-07' and Table 2.3 'Other Resources Available to be Used' relate mainly to the planned expenditure of \$200m of 2005-06 funding that was retained by the DMO to meet its commitments that, because of timing issues, will now occur in 2006-07.

**Table 2.3: Other Resources Available to be Used<sup>(1)</sup>**

	Estimated Resources 2005-06 \$'000	Budget Estimate 2006-07 \$'000
<b>Departmental resources</b>		
DMO Special Account	7,113,914	8,736,258
<b>Total departmental other resources available to be used</b>	<b>7,113,914</b>	<b>8,736,258</b>

**Note**

1. This table is a revenue view. Resources received free of charge from the Australian National Audit Office (\$1.5m), and GST (\$648.7m in 2005-06 and \$551.5m in 2006-07) are not included in this table. Departmental other receipts are disclosed in Table 6.3 - Budgeted Departmental Statement of Cash Flows.

## Special Accounts

The DMO has two special accounts:

- Defence Materiel Special Account; and
- Other Trust Monies Special Account.

The Defence Materiel Special Account is the main operating account from which most business activities are conducted. The Other Trust Monies Special Account holds any other public money on trust. Table 2.4 details the cash based estimates of the two Special Account flows and balances, including GST flows.

**Table 2.4: Estimates of Special Account Flows and Balances**

		Opening Balance 2006-07 \$'000	Credits 2006-07 \$'000	Debits 2006-07 \$'000	Adjustments 2006-07 \$'000	Closing Balance 2006-07 \$'000
	<b>Outcome</b>					
DMO Special Account <sup>(1)</sup>	1	510,446	9,124,583	9,475,583	-	159,446
		-	8,190,036	7,679,590	-	510,446
DMO Other Trust Monies Special Account <sup>(2)</sup>	1	-	2,163	2,163	-	-
		-	1,959	1,959	-	-
<b>Total special accounts 2006-07 Budget estimate</b>		<b>510,446</b>	<b>9,126,746</b>	<b>9,477,746</b>	<b>-</b>	<b>159,446</b>
Total special accounts						
2005-06 estimate actual	1	-	8,191,995	7,681,549	-	510,446

**Notes**

1. The DMO Special Account is established under Section 20 of the *FMA Act*.  
 2. The DMO Other Trust Monies Special Account is established under Section 20 of the *FMA Act*.

## Purchaser-Provider Arrangements

Two principal purchaser-provider arrangements have been established to support the new relationship with Defence following the prescription of the DMO: Materiel Acquisition Agreements and Materiel Sustainment Agreements.

Materiel Acquisition Agreements cover the DMO's acquisition services to Defence for both major and minor capital equipment. Agreements are between the Chief of the Capability Development Group, on behalf of Defence, and the CEO DMO for major capital equipment; and between the relevant Capability Managers, on behalf of Defence, and the CEO DMO for minor capital projects.

Materiel Sustainment Agreements are between the Capability Managers and the CEO DMO. These agreements will cover the sustainment of current capability, including services such as repairs and maintenance, and the purchase of fuel and explosive ordnance. The DMO reports to the Defence Committee on its performance in relation to these agreements on a regular basis.

Other purchaser-provider arrangements between the DMO and Defence are Shared Services Agreements and Defence Services Agreements. Shared Services Agreements cover a broad range of services provided by Defence to the DMO and vice versa. Services covered by Shared Services Agreements include payroll, accommodation and banking services provided by Defence, and contracting policy and advice provided by the DMO. Defence Services Agreements are generated for ongoing significant purchasing arrangements only by Defence on behalf of the DMO.

## CHAPTER THREE

### PLANNED OUTCOME PERFORMANCE

This chapter explains how the resources identified in Chapter 2 – Resourcing will be used to deliver the Outputs that contribute to the DMO Outcome.

#### Summary of Outputs

##### **OUTPUT 1.1 – MANAGEMENT OF CAPABILITY ACQUISITION**

This output delivers specialist military and associated equipment to Defence. It encompasses all of the DMO's activities in support of the acquisition process, including all pre-approval activities as well as the acquisition process for major and minor capital investments. Output 1.1 will represent 57 per cent of the DMO's expenditure in 2006-07.

The price of Output 1.1 provides for estimated expenditure on specialist military equipment and the DMO's costs in delivering acquisition services.

##### **OUTPUT 1.2 – CAPABILITY SUSTAINMENT**

This output delivers the sustainment of specialist military and associated equipment to Defence. It includes the maintenance of equipment and purchasing of inventory, such as explosive ordnance, fuel, stores and spare parts. Output 1.2 will represent 42 per cent of the DMO's expenditure in 2006-07.

The price of Output 1.2 provides for estimated expenditure on maintenance and inventory purchases and the DMO's costs in delivering sustainment services.

##### **OUTPUT 1.3 – POLICY ADVICE AND MANAGEMENT SERVICES**

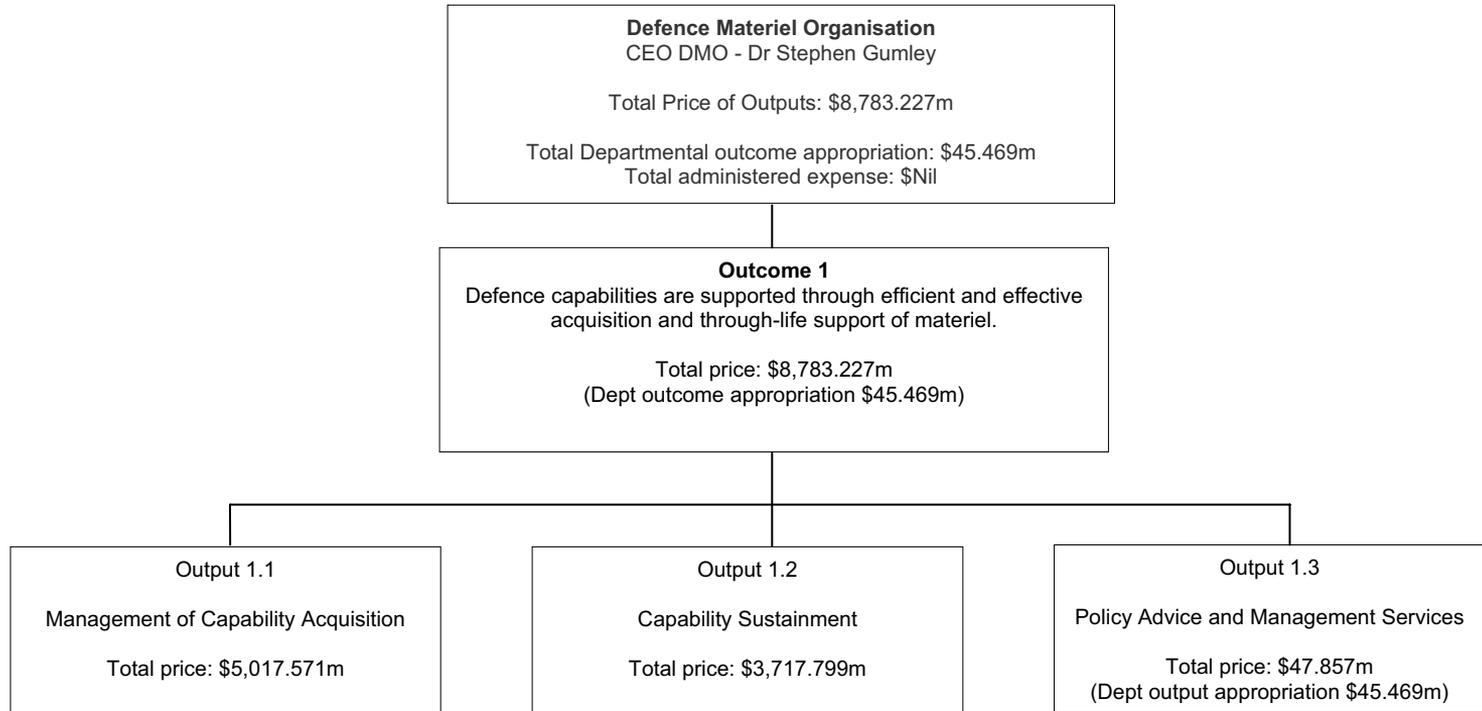
This output delivers procurement and industry policy and advice to both the Defence Portfolio and the Government, and those corporate functions in support of the organisation's business.

This output will represent less than one per cent of the DMO's expenditure in 2006-07.

The relationship between activities of the DMO and its outcome is summarised in Chart 3.1 in terms of accrual-based prices rather than cash received from Defence and the Government.

### Chart 3.1: Contributions to Outcome and Outputs

(There has been no change to the DMO Output structure from the *Portfolio Budget Statements 2005-06*)



## Appropriations and Resourcing for the DMO Outcome

### RESOURCING BY OUTPUT

Table 3.1 below shows how the 2006-07 Budget appropriations translate to total resourcing for DMO's Outcome, including revenue from the Government (appropriation), revenue from other sources (Departmental) and the total price of the outputs. Figure 3.2 displays this information pictorially.

The DMO's budget and forward estimates include funding required to support approved activities as well as an estimate of the DMO's share of planned future activities associated with the Defence Capability Plan. The funding requirement for Output 1.3 is steady across the forward estimates in real terms.

**Table 3.1: Total Resources for Outcome**

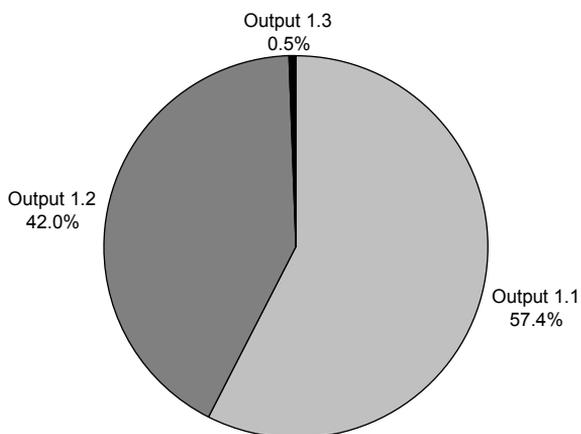
	Estimated Actual 2005-06 \$'000	Budget Estimate 2006-07 \$'000
	-	-
<b>Departmental appropriations</b>		
Output 1.3 (to DMO special account) <sup>(1)</sup>	44,257	45,469
<b>Subtotal Output 1.3</b>	<b>44,257</b>	<b>45,469</b>
<b>Total revenue from Government (appropriations)</b>	<b>44,257</b>	<b>45,469</b>
<b>Contributing to price of departmental outputs</b>	<b>0.6%</b>	<b>0.5%</b>
<b>Revenue from other sources</b>		
Output 1.1 Capability Acquisition (to DMO Special Account)		
Revenue from Defence	3,693,585	5,017,571
Revenue from external sources	-	-
<b>Subtotal Output 1.1</b>	<b>3,693,585</b>	<b>5,017,571</b>
Output 1.2 Capability Sustainment (to DMO Special Account)		
Revenue from Defence	3,363,214	3,652,016
Revenue from external sources	56,249	65,783
<b>Subtotal Output 1.2</b>	<b>3,419,463</b>	<b>3,717,799</b>
Output 1.3 Policy Advice and Management Services (to DMO Special Account)		
Revenue from Defence	-	-
Revenue from external sources	2,366	2,388
<b>Subtotal Output 1.3</b>	<b>2,366</b>	<b>2,388</b>
<b>Total revenue from other sources</b>	<b>7,115,414</b>	<b>8,737,758</b>
<b>Total price from departmental outputs</b>	<b>7,159,671</b>	<b>8,783,227</b>

	<b>Estimated Actual 2005-06 \$'000</b>	<b>Budget Estimate 2006-07 \$'000</b>
(Total revenue from Government and from other sources and goods received free of charge)		
<b>From Special Account (estimated payments from special account balances)</b>		
DMO Special Account <sup>(2)</sup>	7,681,549	9,477,746
<b>Total departmental Special Account outflows</b>	<b>7,681,549</b>	<b>9,477,746</b>
<b>Total estimated resourcing for Outcome 1</b>	<b>7,159,671</b>	<b>8,783,227</b>
(Total price of outputs and administered appropriations)		

**Notes**

1. The direct appropriation can only be credited to the DMO Special Account and expended in accordance with the purpose of the Special Account.
2. Special Account outflows are shown in the debits column of the Special Account table in Table 2.4 and include GST of \$551m. The estimated payments from Special Account balances are provided by way of note only and do not form part of the total estimated resourcing.

**Chart 3.2: Total Resources by Output**



## Performance and Evaluation Information for the DMO Outcome

The DMO has three major outputs. Each of these outputs, which have performance targets, are listed in Table 3.2.

**Table 3.2 Performance Information for Outputs**

<b>Output</b>	<b>Performance Indicator</b>	<b>Planned evaluation of performance</b>
<b>Output 1.1</b> Management of Capability Acquisition	Project scope, schedule and budget criteria, as agreed between the CEO DMO and the Defence 'customer', and expressed in the Materiel Acquisition Agreements.	Delivery of major and minor capital equipment projects against the Materiel Acquisition Agreement scope, schedule and budget criteria.
<b>Output 1.2</b> Capability Sustainment	Performance targets agreed between the DMO and Capability Managers, consistent with enabling the ADF to deliver its operations and capability preparedness requirements as directed by the Government.	Deliver quality, timely and cost effective maintenance, repair, and supply services to the levels and standards agreed by Defence including support to on-going operations.
<b>Output 1.3</b> Policy Advice and Management Services	Deliver quality policy advice and management services	DMO will continue to evaluate the delivery and quality of advice and services as well as drive the materiel reform agenda through the Change Program initiatives.

## **PERFORMANCE TARGET FOR OUTPUT 1.1 – MANAGEMENT OF CAPABILITY ACQUISITION**

A separate Materiel Acquisition Agreement between the Defence 'customer' and the CEO DMO covers each capability project. Each agreement specifies the project in terms of the scope to be delivered, the schedule for delivery and the budget that is available. The scope description is a reference to underlying capability specifications and key measures of capability effectiveness as selected by the customer. Schedule description is the key milestones covering start-up activities, the contract and in-service activities. Budget information is estimates of percentage spent at each schedule milestone, current expenditure program and current assessment of the adequacy of the available contingency budget. Monthly reports against all Materiel Acquisition Agreements are provided to a specification agreed with the Defence customer.

Planned resource use for Output 1.1 is \$5,017.6m in 2006-07.

## **APPROVED MAJOR CAPITAL EQUIPMENT PROJECTS**

The DMO manages the part of the Defence investment program that focuses on approved major capital equipment projects. The DMO will manage some 210 approved major capital equipment projects during 2006-07.

Table 3.3 lists the top 30 Government approved projects ranked by forecast expenditure in 2006-07. Schedules for delivery of the capability are included in the descriptions of the top 30 projects.

## Acquisition Projects Not Included in the Top 30 – Current Status

Table 3.4 provides an update on the status of major projects reported in the *Portfolio Budget Statement 2005-06* and *Portfolio Additional Estimates Statement 2005-06* that have now dropped below the top 30 forecast expenditure threshold.

Table 3.5 provides an update on the financial status of projects included in statutory reports over the previous three financial years – 2004-05, 2003-04 and 2002-03. The planned expenditure for these projects or their completed status during 2006-07 places them outside the top 30.

**Table 3.3: Top 30 Projects by Forecast 2006-07 Expenditure**

	Project Number	Approved Project Expenditure	Estimated Cumulative Expenditure to 30 June 2006	2006-07 Budget Estimate <sup>(1)</sup>
		\$m	\$m	\$m
<b>Aerospace</b>				
Heavy Airlift <sup>(2)</sup>	AIR 8000 Ph 3	2,233	5	795
Armed Reconnaissance Helicopter	AIR 87 Ph2	1,962	1,149	312
F/A-18 Hornet Upgrade	AIR 5376 Ph2	1,503	939	210
Additional Trooplift Helicopter	AIR 9000 Ph2	1,012	269	183
ADF Air Refuelling Capability	AIR 5402	1,761	392	167
Anzac Ship Helicopter	SEA 1411 Ph1	1,006	935	64
F/A-18 Hornet Upgrade – Structural Refurbishment	AIR 5376 Ph3.2	177	38	53
F/A-18 Hornet Upgrade – Target Designation System	AIR 5376 Ph2.4	147	23	50
<b>Airborne Early Warning and Control</b>				
Airborne Early Warning and Control	AIR 5077 Ph3	3,530	2,463	439
<b>Air Warfare Destroyer</b>				
Aegis Combat System	SEA 4000 Ph 3.1	1,329	20	219
Air Warfare Destroyer Design Activity	SEA 4000 Ph2	474	74	141
<b>Maritime</b>				
Armidale-class Patrol Boat	SEA 1444 Ph1	548	253	182
SM-1 Missile Replacement	SEA 1390 Ph4B	599	11	96
Anzac Ship Project	SEA 1348 Ph2	5,372	5,214	87
FFG Upgrade Implementation	SEA 1390 Ph2	1,480	1,008	74
Anti-Ship Missile Defence	SEA 1448 Ph2A	342	44	63
New Heavyweight Torpedo	SEA 1429 Ph2	430	175	51
Collins Replacement Combat System	SEA 1439 Ph4A	448	309	47
Collins-class Reliability and Sustainability Improvements	SEA 1439 Ph3	375	186	35
<b>Land</b>				
Tank Replacement Project	LAND 907 Ph1	557	305	157
Upgrade of M113 Armoured Vehicles	LAND 106	594	199	118
Bushranger Infantry Mobility Vehicles	LAND 116 Ph3	356	182	86
<b>Electronic and Weapons Systems</b>				
Electronic Warfare Self Protection for Selected ADF Aircraft	AIR 5416 Ph2	295	89	62
Lightweight Torpedo Replacement	JP 2070 Ph3	269	32	54

	Project Number	Approved Project Expenditure	Estimated Cumulative Expenditure to 30 June 2006	2006-07 Budget Estimate <sup>(1)</sup>
		\$m	\$m	\$m
Explosive Ordnance Reserve Stocks	JP 2085 Ph1B	207	76	49
Jindalee Operational Radar Network	JP 2025 Ph3/4	1,245	1,180	45
Lightweight Torpedo Replacement	JP 2070 Ph2	321	143	45
New Air Defence Command and Control Systems for 2CRU/3CRU	AIR 5333	253	91	32
<b>Amphibious Vessels</b>				
Maritime Operations Support Capability	SEA 1654 Ph2A	143	102	32
<b>New Air Combat Capability</b>				
New Air Combat Capability	AIR 6000 JSF SDD	213	148	30
<b>TOTAL TOP 30 APPROVED PROJECT ESTIMATE</b>		29,181	16,054	3,978
<b>Other Approved Project Estimate</b>		26,008	22,150	876
<b>Projects Planned for Government Consideration</b>				229
<b>Total Program Estimate for Major Capital</b>		55,189	38,204	5,083
<b>Provision for Expenses that may fall due after 30 June 2007</b>				-426
<b>Total Funds Available</b>		-	-	4,657

**Notes**

1. The 2006-07 budget estimate figures include indexation and foreign exchange.
2. Project approved but funds transfer subject to finalisation of inter-agency Materiel Acquisition Agreements.

### **AIR 8000 Ph3                      Heavy Airlift Capability**

**Prime Contractor:** The Boeing Company under a Foreign Military Sales arrangement with the United States Government.

Up to four Boeing C-17 Globemaster III heavy lift aircraft will be acquired to give the ADF a new responsive global airlift capability. The C-17 aircraft will significantly enhance the ADF's ability to support national and international operations and major disaster rescue and relief efforts and has the load capacity and range to rapidly deploy combat and support vehicles.

The acquisition of the C-17 aircraft under Project Air 8000 Phase 3 is being expedited due to the pressing need for this capability to support ADF operations. This accelerated schedule for the acquisition is possible due to the 'off-the shelf' nature of the acquisition.

First and Second-Pass approvals were granted on 1 March 2006. The first C-17 aircraft is scheduled for delivery in December 2006, with follow-on deliveries in 2007-08. A Foreign Military Sales (FMS) Case has been signed with the US Government to provide initial RAAF C-17 aircrew and maintenance training

commencing in second quarter of 2006. A further FMS Case is envisaged to be signed in May 2006 for the delivery of C-17 aircraft and associated support.

This project contributes to Air Force capability.

### **AIR 87 Ph2                      Armed Reconnaissance Helicopter**

**Prime Contractor:** Australian Aerospace

This project will provide Defence with 22 armed reconnaissance helicopters, a training system including simulation devices for aircrew and maintenance personnel, a software support facility and a ground mission management system. The Government signed a 15-year support contract that commenced at in-service date when the first two armed reconnaissance helicopters were delivered on time on 15 December 2004.

A total of seven armed reconnaissance helicopters will be delivered by 30 June 2006 in variance to the contracted requirement of ten aircraft. Acceptance of another six is expected from the Australian production line at the Australian Aerospace facility in Brisbane during 2006-07. Limited ground crew and maintenance technician training has commenced in Australia; however, aircrew training and delivery of training devices has fallen behind schedule.

Final delivery of the armed reconnaissance helicopters will still occur by December 2008, however, the training delays will have impact on achievement of original budget milestones.

The budget estimate reflects a mixture of aircraft and non-aircraft deliverables.

This project contributes to Army capability.

### **AIR 5376 Ph2                      F/A-18 Hornet Upgrade**

**Prime Contractors:** Boeing (United States) – Aircraft Cockpit Upgrade;  
Raytheon Australia – Hornet Aircrew Training System

This project seeks to upgrade the F/A-18 Hornet fleet to incorporate enhancements that will improve situational awareness, radar and electronic warfare capabilities to allow the aircraft to perform its air defence tasks more effectively. The aircraft cockpit upgrade includes colour cockpit displays, a digital moving map, a helmet-mounted cueing system for the advanced short-range air-to-air missile and improved data links. The radar upgrade has been completed. The electronic warfare aspects address radar warning receiver, jamming and counter-measures dispensing. A new Hornet Aircrew Training System is also being procured. Flight testing of the pilot situational awareness modifications, including the cockpit display was completed in late 2005 and Service Release was provided in early 2006. Modification of the remaining fleet aircraft has now commenced and will continue throughout 2006-07.

The schedule for 2006-07 includes Second Pass approval of the electronic warfare jammer and contract negotiation for the provision of the radar warning receiver. The supplementary counter-measures dispensing system has been selected and the procurement contract is expected to be signed in mid 2006. The technical integration design has been contracted and delivery of modification kits will begin in late 2006. Three Tactical Operational Flight Trainers will be delivered during 2006-07 as part of the new Hornet Aircrew Training System.

This project contributes to Air Force capability.

### **AIR 9000 Ph2                      Additional Trooplift Helicopter**

**Prime Contractor:** Australian Aerospace

On 31 August 2004, the Prime Minister and the Minister for Defence announced that the MRH 90 had been selected as the preferred platform for the ADF's additional troop lift squadron under Phase 2 of the AIR 9000 program. AIR 9000 Phase 2 will acquire 12 helicopters, the associated equipment and establish the in-service support contract. The new helicopters will be located in Townsville. The first delivery is expected in late 2007, with all 12 aircraft delivered by end 2009.

The acquisition contract was signed on 2 June 2005. The sustainment contract was signed 29 July 2005. A Program Agreement was also signed 29 July 2005. In 2006, production will continue on the MRH 90 helicopters at the Eurocopter facilities in Marignane, France. The Aircraft Detailed Design Review was completed in March 2006 and the Test Readiness Review will be conducted during 2006-07. Maintainer training and conversion training for Test Pilot and Flight Test Engineer will commence mid 2007.

This project contributes to Army capability.

### **AIR 5402                              ADF Air Refuelling Capability**

**Prime Contractor:** EADS CASA (acquisition) and through-life support (contract under negotiation)

The project seeks to provide five new generation Airbus A330 multi-role tanker transport (MRTT) aircraft, together with through-life support services including engineering, maintenance, spares management, technical data, software and training support for the new fleet.

The prime contractor, EADS CASA, continues to demonstrate strong commitment to the success of Air 5402 as the lead customer of the A330 MRTT aircraft.

A through-life support contract is being negotiated and expected to be achieved in 2006. As all activities to develop and stand-up the support system are conducted under the acquisition contract, delay in finalising the through-life support contract will not impact introduction into service of the new tankers.

Expenditure during 2006-07 is programed against payment milestones and earned value in relation to the conversion of the first aircraft to the air-to-air refuelling configuration and completion of the test readiness review in preparation for ground and flight testing later in 2007.

The initial in-service date (comprising two aircraft, completion of qualification testing and issue of the military airworthiness certificate) is planned for late 2009.

This project contributes to Air Force capability.

### **SEA 1411 Ph1                      Anzac Ship Helicopter**

**Prime Contractor:** Kaman Aerospace International Corporation

This project will acquire 11 maritime combat helicopters for the Anzac-class frigates, providing an enhanced capability for surface surveillance, anti-surface warfare, contact investigation and maritime utility tasks. The acquisition includes a full mission flight simulator and software support centre.

Nine helicopters have been delivered in an interim training configuration. Of the remaining two aircraft, one is in short term preservation in Australia and one remains in the United States for ongoing flight-testing. These aircraft will be delivered in 2006-07 once the software testing is completed and remaining type certification issues are addressed. During 2006-07, integration of the full capability software is scheduled to be completed and the type certification program will be progressed.

The estimate reflects reprogramming due to slippage of the first full capability helicopter from late in 2005-06 to early in 2006-07.

This project contributes to Navy capability.

### **AIR 5376 Ph3.2B                      F/A-18 Hornet Upgrade – Structural Refurbishment Program**

**Prime Contractors:**

- (1) L-3 Communications MAS Inc (Canada) – for Non-Recurring Engineering/Modification Development
- (2) Boeing Australia Limited (on behalf of the Hornet Industry Coalition) – for SRP1 Delta Production Installation program
- (3) SRP2 Production Installation Program – Contractor responsibilities yet to be confirmed.

Phase 3.2B is the second stage of a multi-stage structural refurbishment program (SRP) for the Royal Australian Air Force F/A-18 Hornet fleet. The program is aimed at restoring sufficient structural fatigue life to aircraft to ensure the fleet achieves the planned withdrawal date. The project is not subject to Initial Operational Capability or Full Operational Capability dates and its objective is

to induct aircraft for the respective modification programs prior to the aircraft reaching structural fatigue life limits.

Phase 3.2 is currently approved to develop and install SRP2 modifications on 15 aircraft and comprises the major centre barrel replacement and some discrete structural modifications. The remaining aircraft will receive a smaller package of SRP1 Delta modifications.

SRP1 Delta program commenced low rate initial production stage on 16 January 2006, with full rate production scheduled to commence in July 2006 in conjunction with the AIR 5376 Phase 3.1 SRP1 program. The combined program SRP1/SRP1 Delta program is expected to be completed by May 2009.

The major program under Phase 3.2B (the SRP2) is at modification development/ prototype stage with prototype modification installation due to commence in early May 2006. Following successful prototyping the SRP2 low rate initial production program will commence in October 2007.

Phase 3.2B is currently being reviewed, with an increased scope proposed to address additional SRP2 requirements associated with a possible extension of the Hornet planned withdrawal date. Second Pass Approval of the re-scoped Phase 3.2B is scheduled for Government consideration in the Third Quarter 2006.

This project contributes to Air Force capability.

**AIR 5376 Ph2.4                      F/A-18 Hornet Upgrade – Target Designation System**

**Prime Contractor:** Northrop Grumman (United States)

Phase 2.4 will procure a non-developmental, self-contained, targeting and laser designation system to replace the current NITE Hawk Forward Looking Infra Red (FLIR) pod on the Royal Australian Air Force F/A-18 Hornet. The replacement system will improve the detection, identification, precision targeting and damage assessment phases of F/A-18 strike and offensive air support operations.

Northrop Grumman was announced as the preferred tenderer in September 2005. Contract signature occurred in October 2005. Thirty-seven LITENING AT target designation systems will be procured, plus spares and associated support equipment.

LITENING AT system deliveries are scheduled to commence in October 2006. Integration and Evaluation testing is scheduled for December 2006. Initial Operational Capability is scheduled to be achieved by no later than June 2007 and Full Operational Capability by no later than February 2008.

This project contributes to Air Force capability.

### **AIR 5077 Ph3                      Airborne Early Warning and Control**

**Prime Contractor:** The Boeing Company (United States)

Boeing Australia Ltd commenced modification of the third aircraft at RAAF Amberley in January 2006. The Operational Flight Trainer and initial Operational Mission Simulator will be delivered at the end of May 2006 and crew training will commence at RAAF Williamtown in July 2006. The first of the facilities to be constructed at RAAF Tindal, the Operations Building, will be completed in December 2006. The first element of the Mission Support System will be delivered in January 2007.

Under the schedule replan resulting from the prolonged strike action against Boeing in the USA in 2005, the aircraft test and evaluation program is planned for completion in April 2007 with the first two aircraft to be delivered in May 2007 and the third in June 2007.

The planned in-service date of December 2007 will still be achieved.

This project contributes to Air Force capability.

### **SEA 4000                              Air Warfare Destroyer Program – Ph3.1**

**Prime Contractor:** Lockheed Martin through Foreign Military Sales with United States Government.

The SEA4000 Air Warfare Destroyer (AWD) Program, currently Australia's largest and most technically complex Defence project, will acquire three Area Air Warfare capable Destroyers for the Australian Defence Force (ADF). At the core of the AWD capability is the AEGIS Combat System. AEGIS will provide the ADF with an unsurpassed Area Air Warfare capability previously unavailable to the ADF, which will allow the AWD's to significantly influence the airspace around it by providing the central platform to the ADF's layered joint Air and Missile Defence Capability.

The Government approved the early procurement of the AEGIS Combat System in December 2005. Phase 3.1 of the SEA4000 Program will procure the AEGIS Combat System for integration on either the Gibbs & Cox or Navantia design options, pending final Government Approval at 2nd Pass in mid 2007. The AWD Program remains on schedule with delivery of the first of the three new ships planned for 2013.

This project contributes to Navy Capability.

### **SEA 4000 Ph2                              Air Warfare Destroyer Design Activity**

**Prime Contractor:** Phase 2 Design Agreements and Not-to-Exceed Contracts are in place between the Commonwealth and each of the Prime Contractors; ASC Pty Ltd, Raytheon Australia, Gibbs&Cox and Navantia.

The SEA4000 Air Warfare Destroyer (AWD) Program, currently Australia's largest and most technically complex Defence project, will acquire three Area Air Warfare capable Destroyers with complete support systems for the ADF. The capability provided by the AWD's will form a critical element of the ADF's layered joint Air and Missile Defence Capability.

Ph2 of the SEA4000 Program will develop an 'Evolved' Gibbs & Cox design, based on the Arleigh Burke Class Destroyer, and an Australianised 'Existing' Navantia F100 design. Both designs will be fully costed for build in Australia and the results presented to Government for 2nd Pass consideration and Approval in mid 2007.

This project contributes to Navy capability.

### **SEA 1444 Ph1                      Armidale-class Patrol Boat**

**Prime Contractor:** Defence Maritime Services

This project will deliver a total of 14 Armidale-class patrol boats and provide 15 years in service support to replace the ageing Fremantle-class patrol boats. The contract will provide a 14-boat capability of 3,000 available days per year for Coastwatch and ADF support to operations, plus a surge capacity of up to 600 additional available days per year. The two additional patrol boats will be built after the initially contracted 12 boats, with delivery commencing in mid-2007.

Boats 07 to 12 are scheduled for delivery during 2006-07 with boats 13-14 scheduled for delivery 2007-08. This project will also deliver upgraded wharf facilities in Darwin and Cairns with transfer of facilities' funding occurring during 2006-07 and 2007-08.

This project contributes to Navy capability.

### **SEA 1390 Ph4B                      Standard Missile-1 (SM-1) Replacement**

**Prime Contractor:** DMO is the Procurement Coordinator, supported by United States Department of Defense under Foreign Military Sales case and selected commercial contracts.

SEA 1390 Phase 4B was approved by the Government on 12 July 2004 and provides for the integration of the SM-2 missile into four Adelaide-class guided missile frigates (FFGs), delivery of missiles with mid-course guidance capability, and acquisition of initial ship outfit and inventory stock missiles.

The acquisition of the SM-2 capability will be achieved through a mix of United States commercial and Foreign Military Sales case for the delivery of equipment hardware, software development, integration, equipment installation and system testing. Commercial contracts are established for development work required for the guided missile launching system and onboard training and land based simulation systems. These contracts deliver the preliminary design

materials with cost and schedule data for their respective planned procurements.

Foreign military sales procurement is established for the required number of Inertial Navigational System equipment and logistics support and SM-2 Block IIIA Tactical and Telemeter Missiles and Support. Missile delivery is scheduled to meet the required in service date for the lead ship of 2009. System design and integration work is being progressed under similar arrangements and remains work in progress.

A commercial contract for the fire control system to produce the preliminary design materials and cost and schedule for the planned Procurement of SM-2 Upgrades to the MK-92 Fire Control System solid state Continuous Wave Illuminator transmitter equipment is being progressed. The preliminary design review is now anticipated in third quarter of 2006 and the critical design review for late 2006.

This project contributes to Navy capability.

**SEA 1348 Ph2                      Anzac Ship Project**

**Prime Contractor:** Tenix

This project involves the delivery of ten ships, associated shore facilities and logistic support. Two of the ten ships (02 and 04) were for the Royal New Zealand Navy. Nine ships have been delivered and are in-service with the Royal Australian Navy and the Royal New Zealand Navy. Ship 10 (*Perth*) is the final ship planned for delivery in mid 2006. On-going delivery of spares, documentation and other Integrated Logistics Support deliverables are expected during 2006-07.

This project contributes to Navy capability.

**SEA 1390 Ph 2                      FFG Upgrade Implementation**

**Prime Contractor:** ADI Limited

This project seeks to regain a comparative regional capability for Adelaide-class guided missile frigates (FFGs) and ensure their through-life capability remains effective and supportable. The upgrade will improve the anti-ship missile defence and air surveillance capabilities of the ships.

Contractor hand back of the lead ship (HMAS *Sydney*) is expected by the end of April 2006. This will be with known functionality and documented deficiencies to contracted capability, with a program to correct these leading up to December 2006, when Contractor delivery is anticipated.

HMAS *Sydney's* sea trials have generally demonstrated promising single system performance. The Contractor is still obliged to demonstrate integrated systems performance prior to delivery. Commonwealth handover of HMAS *Melbourne*

to ADI to commence the combined maintenance and upgrade occurred in late February 2006. ADI currently estimates that *Melbourne's* upgrade will take approximately 70 weeks.

The commencement and completion dates of the other two remaining ships are subject to negotiation with Navy and ADI, and take into account Navy's operational requirements and ADI's industrial capacity to meet project completion now anticipated to be in 2009.

The Defence Capability Plan decision to remove the two oldest guided missile frigates from service has been implemented with HMAS *Canberra* decommissioning in November 2005 and operational life for HMAS *Adelaide* now extended to no later than end of 2007. These two ships are no longer being considered for upgrade under this project. The formal contract change to reduce the contract scope to four ships is well advanced.

This project contributes to Navy capability.

#### **SEA 1448 Ph2A                    Anti-Ship Missile Defence**

**Alliance Agreement:** Anzac Ship Alliance with Tenix and SAAB

This project will deliver an initial Anti-Ship Missile Defence (ASMD) operational capability, providing a level of self defence against modern anti-ship missiles for the Anzac-class frigates. It will also progress a Preliminary Phased Array Program to mitigate risk, and inform the design and development of a phased array architecture for incorporation into project SEA 1448 Phase 2B which will complete the ASMD capability.

Phase 2A will upgrade the Combat Management System and Fire Control System. It will also install an Infra Red Search and Track capability, which provides improved detection of low-level aircraft and anti-ship missiles when the ship is close to land. Initial Operational Capability delivery into the first Anzac-class ship is planned for 2009 which accommodates a combined Phase 2A and Phase 2B schedule.

Project SEA 1448 Phase 2B completes the ASMD capability by introducing Australian phased array technology which delivers multiple channels of fire, enabling more than one weapon to be controlled in flight at one time. This will support multiple engagements against incoming missile threats. After delivery of the combined Phase 2A and Phase 2B Initial Operational Capability in 2009, the remaining ships will be upgraded progressively over the period 2010 to 2013.

This project contributes to Navy capability.

## **SEA 1429 Ph2**

### **New Heavyweight Torpedo**

**Prime Contractor:** United States Department of Defense under a memorandum of understanding, with work being performed by Raytheon and the Naval Undersea Warfare Centre of the United States Navy

This project will acquire a replacement anti-surface and anti-submarine heavyweight torpedo for the Collins-class submarines. The new heavyweight torpedo will replace the United States Navy Mk48 Mod 4 heavyweight torpedo which is currently in service with the Royal Australian Navy. The Government approved the heavyweight torpedo project and Defence signed the memorandum of understanding with the United States Navy in March 2003.

The project scope includes the acquisition of the weapons; associated logistic support, weapon system interface equipment; operational support; analysis and test equipment, and transition into service. Development and production of torpedoes has commenced and will continue during 2006-07. The first batch of new weapons arrives in Australia in late 2006.

Under the Through Life Support Agreement, ASC Pty Ltd is currently performing physical modifications for the integration of the torpedo into HMAS *Waller* during 2006-07. Test and evaluation of the modifications to HMAS *Waller* is scheduled to commence in early 2007. Modification to HMAS *Dechaineux* by ASC Pty Ltd is expected to commence in mid-2006 after the boat enters its scheduled full-cycle docking.

This project contributes to Navy capability.

## **SEA 1439 Ph4A**

### **Collins Replacement Combat System**

**Prime Contractors:** United States Department of Defense under a foreign military sales case and an armaments cooperative project. Australian contractors: Raytheon Australia, Thales, Sonartech Atlas, Cerulean Solutions, Acoustic Technologies and ASC Pty Ltd.

This project will provide a replacement combat system for the Collins-class submarines, and contribute to the development of the submarine's full capability in conjunction with other project phases that will implement a program of modifications and enhancements to the submarine platform. Contracts will be established progressively to install the combat system in each of the submarines by the end of the decade.

Installation of the first replacement combat system is progressing in HMAS *Waller* during full-cycle docking scheduled for completion in early 2007. Sea trials for the system are to be completed in 2007 during post-docking sea trials. The second replacement combat system will be installed in HMAS *Dechaineux* during its full-cycle docking commencing in mid-2006.

This project contributes to Navy capability.

**SEA 1439 Ph3**

**Collins-class Reliability and Sustainability Improvements**

**Prime Contractor:** ASC Pty Ltd

This project will provide reliability and sustainability improvements to the Collins-class submarines by the ongoing implementation of the McIntosh/Prescott Report recommendations. Deficiencies in the submarine support infrastructure will also be addressed.

A number of modifications were incorporated into the last three submarines during build and the first two submarines during their full cycle dockings. Modifications are being incorporated into the third submarine, HMAS *Waller*, during its full-cycle docking which is scheduled to complete in early 2007.

This project contributes to Navy capability.

**LAND 907 Ph1**

**Tank Replacement Project**

**Prime Contractor:** United States Foreign Military Sales Program.

This project will replace the Leopard tank fleet with a modern, survivable and interoperable tank capability that will be supportable until at least 2020. The project scope includes 59 M1A1 Abrams main battle tanks, seven M88A2 Hercules recovery vehicles, simulators, tank transporters and fuel trucks, support equipment and spares, training ammunition, facilities and initial training.

The new tanks will be operated by the present Leopard units: 1st Armoured Regiment in Darwin, Northern Territory, the School of Armour in Puckapunyal, Victoria and the Army Logistic Training Centre in Bandiana, Victoria.

The project is ahead of schedule to meet the required initial in-service date of one squadron by December 2007. Deliveries to support this will commence in October 2006, with training of the first squadron group scheduled from January 2007.

During 2006-07, all the prime equipment, comprising the tanks, recovery vehicles, simulators, tank transporters and fuel trucks, should be delivered into Australia. Initial training of tank crews and maintainers should be complete.

This project contributes to Army capability.

**LAND 106**

**Upgrade of M113 Armoured Vehicles**

**Prime Contractor:** Tenix

This project will provide a major upgrade of 350 M113 armoured vehicles, to improve armour, mobility and firepower.

Early progress was good, but the need to resolve a number of problems identified in initial vehicle testing has delayed vehicle development, placing

pressure on the project schedule. Vehicle testing by Defence resumed following vehicle modifications by Tenix. Most vehicle testing has been proceeding satisfactorily; however, final reliability testing has identified a failure of the brake system which is now being investigated.

The contractor is planning to commence full production in 2006 and meet the key date of an initial capability in service by December 2006. However, due to the earlier technical problems, and the recent brake failure, achievement of the contracted schedule involves very high risk.

Key achievements during 2006-07 should include commencement of vehicle production, commencement of initial crew and maintainer training, and purchase of initial spare parts and special tools and test equipment, needed for the initial capability.

This project contributes to Army capability.

**LAND 116 Ph3                      Bushranger Infantry Mobility Vehicles**

**Prime Contractor:** ADI Limited

Project Bushranger will acquire 299 infantry mobility vehicles from ADI to enhance the mobility of the Army. The infantry mobility family of vehicles will consist of six variants: troop, command, assault pioneer, mortar, direct fire weapon and ambulance. The Air Force Airfield Defence Guards will employ 12 of the troop variants.

Full Design Acceptance was achieved in March 2006. ADI is currently in full production with all the troop variants scheduled to be delivered by late May 2006 with delivery of the command variant commencing in July 2006. Other variants will follow with the final delivery of the last variant, ambulance, scheduled to occur in July 2007. The capability will be fully delivered with this variant.

This project contributes to Army and Air Force capability.

**AIR 5416 Ph2                      Electronic Warfare Self Protection for Selected ADF Aircraft**

**Prime Contractors:** Phase 2A - BAE Systems; Phase 2B - Tenix Defence

Phase 2A - The CH-47D (Chinook) aircraft's Architectural Design Review is programed for July 2006, with the detailed design expected to be completed by April 2007. The modification of the first Chinook aircraft will commence in May 2007. The completion of the Black Hawk aircraft's detailed design is programed for January 2007 with the modification of the first aircraft expected to commence in February 2007.

Phase 2B - Following the induction of the first prototype C-130H aircraft in March 2005 and the second kit proof C-130H aircraft in April 2005, both aircraft

are scheduled to be returned to the Air Force in the first half of 2006. The schedule for the full modification program for all 12 C-130H aircraft will see the final aircraft returned to the Air Force by mid 2008.

This project contributes to Air Force capability.

### **JP 2070 Ph2 and Ph3    Lightweight Torpedo Replacement**

**Alliance Agreement:** Commonwealth of Australia, EuroTorp and Thales

Phase 2 of this project will introduce the EuroTorp MU90 lightweight torpedo into ADF service to replace the United States Navy Mk 46 lightweight torpedo. The weapon is to be integrated into the Anzac and Adelaide-class guided missile frigates, the Super Seasprite and Seahawk helicopters and the P-3 Orion maritime patrol aircraft. Phase 2 will acquire an initial stock of weapons, integrate the weapon into all platforms, establish a local weapon assembly facility and local in-service support and operator and maintainer training capabilities.

The weapon is being acquired under an alliance agreement between the Commonwealth, EuroTorp and Thales. The initial batch of MU90 torpedoes for test and evaluation are to be delivered in the second half of 2006.

Integration with Anzac-class frigates is expected to be completed towards the end of 2006, other frigates in early 2008, depending on ship maintenance schedules and fleet activity schedules. The integration contract for the P-3 Orion aircraft and helicopters remains to be determined.

Contract signature for the procurement of additional weapons under Phase 3 was signed on 31 August 2005.

This project contributes to Navy and Air Force capabilities.

### **JP 2085 Ph1B                    Explosive Ordnance Reserve Stocks**

**Contractors:** Multiple purchase contracts with Australian and overseas munitions suppliers.

Joint Project 2085 Phase 1B covers progressive acquisition from 2005 to 2008 of a range of explosive ordnance items to increase Defence's reserve stock holdings. Overall, the project will procure quantities of around 120 different items of explosive ordnance covering anti-armour ammunition, medium and field artillery, Army artillery ammunition, mortar ammunition, demolition stores, pyrotechnics, bombs and Navy shells.

During 2006-07 new contracts are planned to be awarded for procurement of a number of items, including Precision Guided Munitions for Army 155 mm artillery and Mk 83 Bombs for Air Force. Deliveries against current contracts of Bolide short range air defence missiles, 81mm mortars, and Mk82/Mk 84 Bombs are also expected during the period.

This project contributes to Navy, Army and Air Force capabilities.

### **JP 2025 Ph3 and Ph4 Jindalee Operational Radar Network**

**Prime Contractor:** RLM Management

The Jindalee Operational Radar Network (JORN) consists of the network control centre at RAAF Edinburgh near Adelaide, South Australia and two over-the-horizon radars: one near Longreach, Queensland and the other near Laverton, Western Australia. The previously existing Jindalee radar system near Alice Springs, Northern Territory has also been incorporated to form a three radar network that is centrally controlled from RAAF Edinburgh. With the successful delivery of the Jindalee Operational Radar Network in 2003 having resulted in a major enhancement of national surveillance capability, the project's acquisition component is essentially completed.

The remaining project work focuses on maintenance and support activities and engineering services that provide both facility sustainment and higher-end technical upkeep of the network's assets. The Auditor – General Audit report No 24 2005-06 concluded that the Project has achieved its major objectives and JORN is being effectively maintained and operating within its design parameters.

The major outcome for 2006-2007, will be the transition to new support contracts for support of JORN.

The project contributes to Air Force capability.

### **AIR 5333 New Air Defence Command and Control Systems for 2CRU/3CRU**

**Prime Contractor:** Boeing Australia Ltd

AIR5333 is major project that will replace the Air Defence Command and Control systems at Nos. 2 and 3 Control and Reporting Units located at RAAF Base Tindal (NT) and RAAF Base Williamtown (NSW) – in facilities known as Northern Region Operations Centre (NORTHROC) and Eastern Region Operations Centre (EASTROC) respectively. It will also design and deliver an integrated ADF Air Defence System communications network as well as provide facilities and transportable equipment to support deployed/remote network operations.

Major outcomes expected in 2006-07 are the completion of the project's Critical Design Review early in the financial year and commencement of the test and integration phase of the project.

The project contributes to Air Force capability.

### **SEA 1654 Ph2A Maritime Operations Support Capability**

**Prime Contractor:** Tenix Defence Pty Ltd

This project seeks to replace the Navy's existing afloat support capability (HMA Ships *Westralia* and *Success*). Planned withdrawal dates for the ships are 2006



that will provide the means for acquisition, support and ongoing development of the aircraft. Formal negotiations for this agreement are scheduled to conclude in June 2006, with signature planned December 2006.

In conjunction with the first-pass submission, Defence will be seeking funding approval for the period from 2006 to second pass approval in 2008. The subsequent acquisition stage of the project will be conducted in a number of phases and will acquire the aircraft and associated systems, and transition the capability into service.

This project contributes to Air Force capability.

### **Minor Capital Investment Programs**

Minor Capital projects deliver capability to meet emerging enhancement, replacement or new requirements of relatively low values and are funded from allocations outside the Defence Capability Plan. There are five Defence Minor Capital Investment Programs, from which Capability Managers allocate funds through Materiel Acquisition Agreements as described in Chapter 2. There are currently approximately 200 such Minor projects with an average value of around \$6m.

Planned resource use for the DMO Minor Capital Investment Program is \$153.0m in 2006-07.

## **PERFORMANCE TARGET FOR OUTPUT 1.2 – CAPABILITY SUSTAINMENT**

Sustainment involves the provision of in-service support for specialist military equipment, including platforms, fleets and systems operated by Defence. Typical services include repair and maintenance, engineering, supply, configuration management and disposal action. The level of DMO's service provision is linked to the level of capability preparedness directed by the Chief of the Defence Force, which in turn, is determined by the Government's funded requirements for the level of Defence capability.

The DMO's sustainment services to Defence, and the price the DMO receives for these services, are formalised in Materiel Sustainment Agreements between the DMO and Defence Capability Managers. Sustainment agreements are based around the DMO sustainment products, which have been defined by each of the Systems Divisions to reflect the output of their sustainment activity.

Products have been designed around key platforms, systems or fleets supported by the DMO. For example, key products include sustainment of F/A-18 Hornet aircraft, provision of explosive ordnance, sustainment of Collins-class submarines, sustainment of navigation warfare systems, and supply of ADF clothing.

Planned resource use for Output 1.2 is \$3,652.0m in 2006-07.

Planned resource use for Output 1.2 is \$3,652.0m in 2006-07.

## Maritime Systems

The sustainment of maritime materiel is managed by ten System Program Offices located proximate to the ship classes supported and generally aligned with the Navy Defence outputs.

All depot-level maintenance is contracted out. In-service support management is conducted by a variety of arrangements varying from Integrated Logistics Support and maintenance through a single prime contractor, to the System Program Office acting as the prime with separate contract and in-house support. The Logistic Support Agency – Navy provides the majority of inventory and repairable item management for most classes (except the hydrographic ships, the Armidale-class patrol boats and the Huon-class coastal mine hunter vessels).

The major challenges for sustainment during 2006-07 include:

- continued management of the obsolescence of equipment and repair parts for most classes;
- ongoing management of the Collins-class maintenance regime, particularly full-cycle dockings, to incorporate replacement combat system and new heavyweight torpedo implementation; and
- the introduction into service of HMAS *Sirius* (to replace HMAS *Westralia*) and implementation of the *Sirius* In-Service Support contract.

During 2006-07, new integrated materiel support contracts are expected to be negotiated and in place for the Leeuwin-class hydrographic ships and Huon-class coastal mine hunters. From 2006-07 Anzac-class sustainment will be delivered as part of the new Anzac Ships Materiel Support Program Alliance. A further six Armidale-class patrol boats are expected to enter service. These patrol boats will be supported by the prime contractor Defence Maritime Services, with eight vessels operated and supported from Darwin and four from Cairns.

## Land Systems

Sustainment involves the management and provision of services and products needed to meet the capability, preparedness and performance requirements of a materiel system. Typical services include maintenance, engineering, supply, configuration management and disposal action. Common products include spares, technical data, support and test equipment, training equipment and materials.

The sustainment of land systems is managed by eight System Program Offices. Land materiel product lines span a diverse range of equipment, including: armoured vehicles; B vehicles fleets; weapon and complex electronic systems;

deployable medical and dental equipment; tentage and stores; uniforms and consumable stores such as combat rations.

The major challenges for sustainment during 2006-07 include:

- the continued focus on the provision of high-quality support to ADF force elements deployed in operational theatres; and
- ongoing work on issues such as obsolescence management.

The DMO's sustainment of land systems is reliant on some heavy maintenance of land equipment, supply chain warehousing, and distribution operations, delivered through Joint Logistic Command in Defence.

### **Aerospace Systems**

Sustainment of aerospace systems is managed in seven System Program Offices. This support covers fixed and rotary wing assets as well as a range of aircraft simulators to support flying and maintenance training.

Major challenges for sustainment during 2006-07 include:

- negotiation and implementation of contracts with performance-based logistics contracts for the C-130 Hercules and P-3 Orion aircraft engines, elements of sustainment support of the P-3 Orion aircraft, PC-9/ A Pilatus and the next five years of through-life support arrangements for the A-27 Lead-in Fighter (Hawk aircraft); and
- logistics support for F/ A-18 Hornet, C-130J and C-130H Hercules, P-3 Orion, PC-9/ A Pilatus, Seahawk, Sea King, Super Seasprite and Black Hawk weapon systems.

Implementation of the support philosophies outlined in the Australian Defence Aerospace Sector Strategic Plan will continue to be a focus of activity. The plan, endorsed by the Government in June 2004, focuses on delivering an outcome-based and incentivised contracting framework for enhanced sustainment support of Defence aviation capabilities.

### **Electronic and Weapons Systems**

The sustainment of electronic and weapons systems are managed in 19 System Program and System Support Offices. These cover command and control systems, communications, airspace surveillance and control systems and their supporting radars, electronic warfare systems, guided weapons and explosive ordnance of all types.

Major challenges for sustainment during 2006-07 include:

- assess and redistribute any resource savings to higher priority sustainment areas as a result of the consolidation of heavy grade repair, engineering and supply support of selected single channel radio systems equipment. This

initiative to rationalise the existing in-service support of the ADF's inventory of combat net radios and ancillaries will be completed in 2006 and support arrangements will be streamlined into one contract;

- consolidation of sustainment of tactical electronic warfare materiel, for all three Services – in anticipation of new systems being introduced;
- support to command support systems has been centralised and efficiencies from standardising hardware platforms for deployable networks are being realised. The logistic management of these systems is improving which is allowing more effective support to military operations;
- an in-service support contract for the Nulka system was signed with BAE Systems Australia in December 2005 for an initial period of three years with an option to extend for a further three years;
- introduction into service of a number of new guided weapons, including the Javelin anti-armour missiles, the heavyweight torpedo and Hellfire missiles. Other new types of ammunition will start to be procured in anticipation of the delivery of the Abrams M1A1 main battle tank and rockets for the Armed Reconnaissance Helicopter. The Sparrow and Seasparrow missiles will be formally withdrawn from service late 2006;
- commencement of in-service support arrangements for the Australian Defence Air Traffic System and Tactical Air Defence Radar Systems that were introduced into service in late 2005-06. In addition, a significant upgrade to the Air Force's ground-based Link 11 tactical data link system will be fielded; and
- the Maritime Advanced Satellite Terrestrial Infrastructure System (MASTIS) Through Life Support contract commenced on the 14 March 2006, supporting terminals being delivered in 2006 through 2007. Under JP2008 3E Satellite Compact Transmit Receive Suites will also be delivered in 2006-07 with through life support arrangements in place from May 2005 with the successful delivery of the first units.

### **Chief Operating Officer Division**

The sustainment of logistics information systems includes support for the Standard Distribution and Supply System (SDSS), the Computer Aided Maintenance Management (CAMM2) system and a number of smaller logistics information systems.

The major challenge for sustainment of logistics information systems in 2006-07 will be the implementation and operation of a formal IT control framework designed to ensure that users operate and manage SDSS in a manner that achieves the highest possible level of data accuracy in financial reporting. This will be complemented by ongoing refinement of system operations to ensure user compliance is optimised.

## **PERFORMANCE TARGET FOR OUTPUT 1.3 – POLICY ADVICE AND MANAGEMENT SERVICES**

The DMO's departmental appropriation is \$45.5m, which funds Output 1.3. This represents less than one per cent of the DMO's total funding. Defence will provide the vast majority of the DMO's resources, in accordance with the prices set out in the Materiel Acquisition Agreements and the Materiel Sustainment Agreements.

Performance targets for Output 1.3 are the quality and timely provision of:

- contracting and procurement policy advice for Defence and the DMO, and quality contracting advice to the rest of Defence;
- industry policy and advice to both the Defence Portfolio and the Government; and
- corporate governance and reporting to meet the Government's requirements.

Planned resource use for Output 1.3 is \$47.9m in 2006-07.

**Table 3.4: Current Status of Previously Reported Top 30 Projects (Portfolio Budget Statements 2005-06 and Portfolio Additional Estimates Statements 2005-06)<sup>(1)</sup>**

Title	Project Number	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2006 \$m	2006-07 Expenditure Estimate \$m	Status Report
<b>LAND</b>					
General Service Field Vehicles - Overlander	LAND 121 PH 2	89	46	12	Key outcomes for the period 2006 - 2007 will be: the installation of an In-Cabin Noise Reduction system for the Mack Truck fleet to satisfy Occupational Health and Safety requirements, the delivery of roll over protective structures, effective seat and seatbelt systems and personnel/cargo segregation systems for 135 Unimog and 26 Mack Gun Tractors and the completion of pre-production activities and Design Acceptance of a personnel/cargo restraint and segregation system and a roll over protection system into the Land Rover 110 4x4 for the Regional Force Surveillance Vehicle as part of the Land Rover 110 4x4 Safety Improvement.
Australian Light Armoured Vehicle	LAND 112 Ph3	678	567	21	All 144 Phase 3 vehicles and 59 weapon stations have been delivered, and 61 of the 113 upgraded Phase 2 vehicles have been completed. Key outcomes for 2006-2007 will be the completion of the remaining 52 Phase 2 vehicles and delivery of nine Crew Procedural Trainers. The surveillance suite prototype will have completed the test and evaluation phase prior to prototype acceptance.

Title	Project Number	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2006 \$m	2006-07 Expenditure Estimate \$m	Status Report
<b>AEROSPACE</b>					
Strategic Airlift Capability	AIR 5216 Ph1	1,045	1,013	18	Activities in progress in 2006-07 include continuing investment in full-scale fatigue testing, installation of an operational loads management system, and incorporation of the Block 5.4 software build which is designed to correct a number of deficiencies, errors, latent defects and warranty problems in the software.
<b>ELECTRONIC AND WEAPON SYSTEMS</b>					
High Frequency Modernisation – Remainder of the network	JP 2043 Ph3A	616	330	29	The Detailed Design Review for the Fixed Network Final System is scheduled to be completed by September 2006.
MILSATCOM Ground Infrastructure	JP 2008 Ph3E	149	119	15	Defence is the prime systems integrator for the overall JP 2008 Phase 3E requirements, which includes (in addition to the maritime terminals and land terminals) broadcast software and a primary injection facility. The primary injection facility has been approved for installation into the Defence Network Operations Centre and installation will be conducted in April 2006.  The initial delivery of broadcast software from Ebor Computing was delivered in June 2005 and a contract was signed in September 2005 for the delivery of the mature Theatre Broadcast Software.

**Note**

1. These projects previously were in Top 30, now are outside Top 30 because of low spend.

**Table 3.5: Previously Reported Top 30 Projects (Financial Years 2004-05, 2003-04 and 2002-03)**

Title	Project Number	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2006 \$m	2006-07 Expenditure Estimate \$m
<b>Aerospace</b>				
F/A-18 Hornet Upgrade	AIR 5376 Ph 1	290	283	0
P-3C Update Implementation	AIR 5276 Ph 2	907	848	18
F/A-18 Hornet Structural Refurbishment Program – Stage 1	AIR 5376 Ph 3.1	123	80	24
Lead-in Fighter Capability	AIR 5367 Ph 1	1,023	1,003	11
<b>Maritime</b>				
Underwater and Surface Warfighting Upgrade Program	SEA 1348 Ph 3	158	131	10
Mine Hunter Coastal Acquisition	SEA 1555 Ph 2	1,248	1,149	9
Evolved SeaSparrow Missile (ESSM)	SEA 1428 Ph 2A SEA 1428 Ph 2B/3	354 275	348 243	2 1
Collins-class Submarine Augmentation	SEA 1446 Ph 1	234	202	4
New Submarine Project	SEA 1114 Ph 3	5,123	5,073	10
Amphibious Watercraft Project	JP 2048 Ph 1A JP 2048 Ph 4A/4B	59 38	38 19	1 9
<b>Land</b>				
Direct Fire Guided Weapon	LAND 40	148	92	20
Ground Surveillance Radar	LAND 53 Ph 1E	84	77	5
<b>Electronic and Weapons Systems</b>				
Air-to-Surface Stand-off Weapon Capability	AIR 5398 Ph 1	443	379	9
Air-to-Air Weapons Capability	AIR 5400 Ph 1	314	285	40
Air-to-Air Follow-on Buy	AIR 5400 Ph 3	177	142	70
MILSATCOM – Military Satellite Payload	JP 2008 Ph 3D	347	339	0
Tactical Air Defence Radar Systems	AIR 5375 Ph 1	208	168	5
E-Defence Project	JP 2054 Ph 1	116	56	1

# CHAPTER FOUR

## GOVERNANCE AND MATERIEL REFORM

The Defence Materiel Organisation achieved prescribed agency status on 1 July 2005.

The DMO will continue to be involved in Defence's planning and governance arrangements, notably through the Defence Committee and the Defence capability and budgeting processes. Many of its interactions and relationships with other parts of Defence have been formalised through agreements.

The DMO and Capability Development Group continue to work closely and cooperatively to strengthen and improve the capability development and assessment process before projects are progressed to the DMO.

In 2006-07, the DMO's governance will focus on the key areas of: Planning, Stewardship, Performance Management, Assurance, Reporting and Audit activities.

During 2006-07, the DMO Leadership Group will continue to use the Business Plan Review (BPR) to communicate with the DMO staff around Australia about the DMO's objectives, priorities and key activities.

The DMO has implemented a new Enterprise Risk Assessment and Management Plan, and revised its Fraud Control Plan. Further development is underway to strengthen the risk management system at the Enterprise, Division and Project levels, and to embed the appropriate risk management culture in the DMO.

The DMO reports monthly to the Defence Committee on the performance of its major acquisition projects and sustainment activities. The Acquisition and Sustainment Overview Report is a key tool in the DMO's progress in the delivery of Defence capability. This report is also provided to the Procurement Advisory Board and senior Ministers.

In November 2001, the DMO initiated a Materiel Governance Board function to provide independent advice and assurance to the DMO management of acquisition and sustainment activities. On 1 February 2006, the eight Governance Boards were replaced by five Materiel Assurance Boards, each aligned closely to a Domain Division. Each board will provide advice and assurance on acquisition, sustainment and management activities.

A Materiel Audit Committee (MAC) was established in July 2005, in recognition of the DMO's independent accountability under the *Financial Management and Accountability Act 1997*.

Some internal audit services are provided to the DMO by Defence, under a Shared Services Agreement. During 2006-07, the DMO will also appoint its own internal auditor to undertake additional work at the request of the CEO DMO or the Materiel Audit Committee.

## Materiel Reform

The CEO DMO's six key themes to implement organisational change are:

- **Professionalise** our workforce and encourage lifelong learning;
- **Reprioritise** our work so that effort is concentrated on the high-priority activities;
- **Standardise** our corporate business practices, including reporting, planning, finance, quality and knowledge management;
- **Benchmark** ourselves against national and international best practice and use these practices to improve the way we do business;
- **Improve industry relations** through open and honest dialogue and rewarding good performance; and
- **Lead reform in Defence** by developing and implementing successful reform in the DMO, which may facilitate change in Defence.

## Priorities and Initiatives for 2006-07

### PROFESSIONALISE

- Developing and implementing Certification Programs to address the professionalisation of project directors, project managers, engineering and technical officers, lawyers, accountants, commercial and business managers, procurement and contracting and logistics.
- The Corporate Institute will deliver strategic education and training programs, including project management, logistics and postgraduate programs.
- Continuing Business Acumen training to develop staff in business and commercial skills.
- Continuing Leadership Programs.
- Continuing the DMO Project Management Training and Project Management Coaching.

## **REPRIORITISE**

- Managing the DMO personnel, including military staffing, APS staff and professional service providers as an integrated workforce.
- More effective management of contractors, consultants and professional service providers.
- Rationalise the use of standing offer panels with the single DMO Support Services Panel, for engineering and other project support services.

## **STANDARDISE**

- Implement standardised corporate reporting across the DMO.
- Implement the outcomes of the Procurement Improvement Program's review of procurement and contracting material.
- Continuing the rollout of the DMO's corporate branding to build consistency in all our communications.
- Continue the development and rollout of standardised business tools and applications.

## **BENCHMARK**

- Enhance corporate performance reporting, using strategic Critical Success Factors.
- Monitor the DMO's cost and schedule performance against industry better practice.

## **IMPROVE RELATIONS WITH INDUSTRY**

- Further develop the Skilling Australia's Defence Industry program.
- Monitor utility and access to the Defence Small Business Access facility.
- Develop clearer industry understanding of the DMO contractor performance management systems.
- Promote the DMO initiatives more broadly into industry.

## **LEAD REFORM IN DEFENCE**

- Establish Project Management positions within Capability Development Group.
- Continue to work with Defence to develop an innovative and flexible *Defence Collective Agreement 2006-09* that is consistent with the DMO's strategic direction.
- Enhance recruitment and retention strategies to target key skills and competencies.

# CHAPTER FIVE

## PEOPLE

The Defence Materiel Organisation's (DMO) large, stable and experienced workforce has been built over many years. As a prescribed agency with the vision of becoming the premier project management and engineering services organisation, the DMO's primary people related goals for 2006-07 are to:

- upskill the people capability to meet new and evolving skilling needs;
- maintain and build upon our 'employer of choice' status in a competitive environment; and
- develop skilled personnel to take up senior roles in critical skilling areas as the DMO faces skilling shortages and an ageing workforce.

### PRIORITIES

Priorities in 2006-07 include:

- manage the implementation of changes in employment conditions included in the *Defence Collective Agreement 2006-09*;
- continuing to establish industry-recognised programs to professionalise the workforce across key job families: project management, engineering and technical, commercial and business, and logistics; and
- continued implementation of a professional framework for project managers that incorporates independent assessment against industry standards and the Australian Qualifications Framework, assessment of knowledge and experience, and performance assessment.

### Workforce Summary

The overall DMO workforce is forecast to increase by 369 in 2006-07 from the 2005-06 projected result of 6,460, as a consequence of the significant increase in funds under management.

As the DMO is a prescribed agency, its Australian Public Service (APS) and Professional Service Providers (PSP) workforce information has been excluded from Defence. However as military personnel are provided to the DMO under a 'fee for service' model, they are reported in both the DMO and Defence working numbers.

Table 5.1 shows the breakdown of personnel numbers by Service (APS, PSP, ADF Permanent and Reserves), and rank.

**Table 5.1: Breakdown of Personnel Numbers by Service and Rank** <sup>(1)</sup>

	2005-06	2005-06	2006-07	Variation from	
	Revised Estimates	Projected Result	Budget Estimate	Projected Result	
				-	%
<b>APS</b>					
Senior Executives	30	30	30	0	0.0
Senior Officers <sup>(2)</sup>	1,036	1,131	1,140	9	1%
Other APS Staff	3,342	3,265	3,450	185	6%
<b>Sub-total : APS</b>	<b>4,408</b>	<b>4,426</b>	<b>4,620</b>	<b>194</b>	<b>4%</b>
PSP Workforce <sup>(3)</sup>	338	374	374	0	0%
<b>Sub-total Civilian Workforce<sup>(4)</sup></b>	<b>4,746</b>	<b>4,800</b>	<b>4,994</b>	<b>194</b>	<b>4%</b>
<b>NAVY</b>					
Star Ranked Officers	5	6	6	0	0%
Senior Officers <sup>(2)</sup>	49	49	49	0	0%
Junior Officers	141	108	141	33	30%
Other Ranks	156	136	156	20	15%
<b>Sub-total: Permanent Navy</b>	<b>351</b>	<b>299</b>	<b>352</b>	<b>53</b>	<b>18%</b>
Reserve Forces <sup>(5)</sup>	49	49	56	7	14%
<b>Sub-total Navy</b>	<b>400</b>	<b>348</b>	<b>408</b>	<b>60</b>	<b>17%</b>
<b>ARMY</b>					
Star Ranked Officers	5	5	7	2	40%
Senior Officers <sup>(2)</sup>	45	42	44	2	5%
Junior Officers	218	189	218	29	15%
Other Ranks	217	188	215	27	14%
<b>Sub-total: Permanent Army</b>	<b>485</b>	<b>424</b>	<b>484</b>	<b>60</b>	<b>14%</b>
Reserve Forces <sup>(5)</sup>	54	54	59	5	9%
<b>Sub-total Army</b>	<b>539</b>	<b>478</b>	<b>543</b>	<b>65</b>	<b>14%</b>
<b>AIR FORCE</b>					
Star Ranked Officers	6	6	6	0	0%
Senior Officers <sup>(2)</sup>	72	72	74	2	3%
Junior Officers	403	384	413	29	8%
Other Ranks	346	333	348	15	5%
<b>Sub-total: Permanent Air Force</b>	<b>827</b>	<b>795</b>	<b>841</b>	<b>46</b>	<b>6%</b>
Reserve Forces <sup>(5)</sup>	39	39	43	4	10%
<b>Sub-total Air Force</b>	<b>866</b>	<b>834</b>	<b>884</b>	<b>50</b>	<b>6%</b>
<b>Sub-total AFS (Military) Workforce<sup>(6)</sup></b>	<b>1,663</b>	<b>1,518</b>	<b>1,677</b>	<b>159</b>	<b>10%</b>
<b>Sub-total Reserve Workforce</b>	<b>142</b>	<b>142</b>	<b>158</b>	<b>16</b>	<b>11%</b>
<b>Total DMO Workforce</b>	<b>6,551</b>	<b>6,460</b>	<b>6,829</b>	<b>369</b>	<b>6%</b>

**Notes**

1. Reflects the APS, PSP, ADF permanent and reserve forces for 2006-07. Numbers for the ADF Permanent Force (include Standby Reservists undertaking full-time service) and APS/PSP is based on average funded strengths (AFS) and full-time equivalent (FTE) respectively.
2. Senior Officers are of Colonel or Lieutenant Colonel rank equivalent and substantive APS EL 1 and 2.
3. PSPs are individuals under contract filling line positions.
4. The APS and PSP numbers are excluded from Defence workforce budget estimates.
5. ADF Reserve figures represent estimated actual numbers of standby or active Reservists who rendered service during 2005-06 and the DMO ADF Reservist bids for 2006-07.
6. The military workforce numbers are included in Defence's estimated military numbers, as they are supplied to DMO under a 'fee for service' model.

## **CIVILIAN WORKFORCE**

### **APS Workforce**

The estimated APS full-time equivalent average (FTE-A) funded strength for 2006-07 is 4,620, which is an increase of 194 from the 2005-06 projected result. This increase reflects a 4 per cent growth in APS personnel numbers associated with the 23 per cent (\$1.6b) increase in funds under management for 2006-07 and the use of alternative labour to meet the shortfall in ADF permanent workforce average funded strength (AFS) provided by Defence. APS personnel represent 68 per cent of the total DMO workforce.

### **PSP Workforce**

The estimated PSP FTE-A funded strength for 2006-07 is not forecast to increase from the projected result. PSP personnel represent 5 per cent of the total DMO workforce.

## **MILITARY WORKFORCE**

### **ADF Permanent Force**

The estimated ADF permanent average funded strength (AFS) for 2006-07 is 1,677 which is an increase of 159 from the 2005-06 projected result. This is an increase of over 10 per cent and re-aligns the estimate with the approved budgeted AFS to be provided by Defence to the DMO for 2006-07. ADF permanent personnel represent 25 per cent of the total DMO workforce.

### **ADF Reserve Force**

The estimated size of the Reserve Force employed within the DMO for 2006-07 is 158, which is an increase of 16 personnel from the 2005-06 projected result. This figure represents the active component of the Reserve element that is expected to undertake paid service during 2006-07. These figures do not include Reservists undertaking full-time service, as they are included in the Permanent Force numbers (see Note 5 to Table 5.1). ADF reserve force represents 2 per cent of the total DMO workforce.

## CHAPTER SIX

### BUDGETED FINANCIAL STATEMENTS

The DMO's 2006-07 budget and forward estimates incorporate funding required to support approved activities including future activities associated with the Defence Capability Plan.

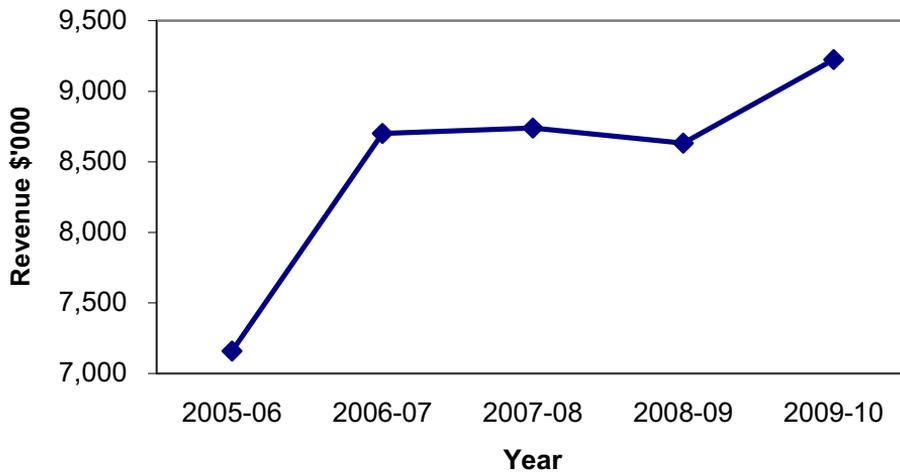
#### Income Statement

The DMO is budgeting for a break-even operating result for 2006-07, with total revenue and expenses of \$8,783.2m. Of this amount, the DMO will earn \$8,669.6m (98.7 per cent) from Defence, \$45.5m (0.5 per cent) through direct appropriation, \$38.1m (0.4 per cent) from own sources and \$30.0m (0.3 per cent) from foreign governments.

DMO's suppliers expenses are expected to increase in line with revenue. DMO will retain funding to meet its commitments that, because of timing issues, will now occur in 2006-07.

The price received from Defence for the delivery of Outputs 1.1 and 1.2 is recorded as revenue to the extent that the DMO delivers goods and services to Defence during the year. Amounts received for goods and services not yet delivered to Defence are recorded as a liability (unearned revenue within Payables - Other) in the DMO financial statements.

The trend in total agency revenue across the budget and forward estimate years is illustrated in Chart 6.1.

**Chart 6.1: Revenue by Budget Year and Forward Estimate Years**

## Balance Sheet

In comparing the 2006-07 budget estimates with the estimated 2005-06 actual result, there are a number of changes to DMO's balance sheet. These include:

- a decrease to the receivables (-\$326m) resulting from the provision of goods and services originally planned for delivery in 2005-06 (with a corresponding reduction in payables) and additional expenditure related to fuel purchases; and
- other adjustments such as a reduction in intangibles (-\$23m), an increase in employee provision (+\$1.5m), and a reduction in creditors.

## Statement of Cash Flows

The net increase in cash received from operating and investing activities is \$1,306m and the net increase in cash used of \$1,336m from 2005-06 estimated actual is mainly a result of movements in 'Operating Activities'.

The net increase in 'Operating Activities' - Cash Received' (+\$1,305m) is mainly due to:

- a net increase in Goods and Services' (+\$1,224m);
- retention of 2005-06 funding (+\$321m) to meet commitments that, because of timing issues, will now occur in 2006-07;
- a reduction in funding from foreign governments (-\$144m);
- a decrease in 'GST Input Credit Receipts' (-\$97m); and

The net increase in 'Operating Activities – Cash Used' (+\$1,358m) is due to:

- a net increase in 'Suppliers' (+\$1,917m);
- expenditure of cash held in the Official Public Account in 2005-06 for work still to be performed (-\$200m) and payable liabilities (-\$151m) and carry forward of funding from foreign governments (-\$119m);
- a reduction in 'GST Payments to Suppliers' (-\$97m); and
- an increase in 'Employees' (+\$8m).

**Table 6.1: Budgeted Departmental Income Statement (for the period ended 30 June)**

	Estimated Actual 2005-06 \$'000	Budget Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
<b>INCOME</b>					
<b>Revenue</b>					
Revenues from Government	44,257	45,469	45,859	46,087	46,963
Goods and services	7,023,227	8,669,587	8,685,168	8,626,627	9,174,773
Other	57,115	32,260	32,278	32,300	32,345
<b>Total revenue</b>	<b>7,124,599</b>	<b>8,747,316</b>	<b>8,763,305</b>	<b>8,705,014</b>	<b>9,254,081</b>
<b>Gains</b>					
Net gains from sale of assets	33,572	34,411	34,686	35,032	35,699
Other	1,500	1,500	1,500	1,500	1,500
<b>Total gains</b>	<b>35,072</b>	<b>35,911</b>	<b>36,186</b>	<b>36,532</b>	<b>37,199</b>
<b>Total income</b>	<b>7,159,671</b>	<b>8,783,227</b>	<b>8,799,491</b>	<b>8,741,546</b>	<b>9,291,280</b>
<b>EXPENSE</b>					
Employees	354,266	362,075	362,965	358,368	363,590
Suppliers	6,698,844	8,313,752	8,330,809	8,286,315	8,830,160
Depreciation and amortisation	72,989	72,989	71,031	61,831	61,831
Write-down of assets and impairment of assets	-	-	-	-	-
Net losses from sale of assets	33,572	34,411	34,686	35,032	35,699
Net foreign exchange losses	-	-	-	-	-
Other	-	-	-	-	-
<b>Total expenses</b>	<b>7,159,671</b>	<b>8,783,227</b>	<b>8,799,491</b>	<b>8,741,546</b>	<b>9,291,280</b>

**Table 6.2: Budgeted Departmental Balance Sheet (as at 30 June)**

	Estimated Actual 2005-06 \$'000	Budget Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
<b>ASSETS</b>					
<b>Financial assets</b>					
Cash	30,176	30,176	30,176	30,176	30,176
Receivables	607,874	281,746	306,512	320,459	332,635
<b>Total financial assets</b>	<b>638,050</b>	<b>311,922</b>	<b>336,688</b>	<b>350,635</b>	<b>362,811</b>
<b>Non-financial assets</b>					
Land and buildings	-	-	-	-	-
Infrastructure, plant and equipment	240,525	256,775	264,849	265,193	266,485
Investment properties	-	-	-	-	-
Heritage and cultural assets	-	-	-	-	-
Inventories	-	-	-	-	-
Intangibles	77,562	54,228	32,852	20,676	8,500
Biological assets	-	-	-	-	-
Assets held for sale	-	-	-	-	-
Other	602,663	602,663	602,663	602,663	602,663
<b>Total non-financial assets</b>	<b>920,750</b>	<b>913,666</b>	<b>900,364</b>	<b>888,532</b>	<b>877,648</b>
<b>Total assets</b>	<b>1,558,800</b>	<b>1,225,588</b>	<b>1,237,052</b>	<b>1,239,167</b>	<b>1,240,459</b>
<b>LIABILITIES</b>					
<b>Provisions</b>					
Employees	116,826	118,364	121,754	123,525	123,525
Other	-	-	-	-	-
<b>Total provisions</b>	<b>116,826</b>	<b>118,364</b>	<b>121,754</b>	<b>123,525</b>	<b>123,525</b>
<b>Payables</b>					
Suppliers	774,805	623,805	623,805	623,805	623,805
Other	359,102	175,352	183,426	183,770	185,062
<b>Total payables</b>	<b>1,133,907</b>	<b>799,157</b>	<b>807,231</b>	<b>807,575</b>	<b>808,867</b>
Liabilities included in disposal groups held for sale	-	-	-	-	-
<b>Total liabilities</b>	<b>1,250,733</b>	<b>917,521</b>	<b>928,985</b>	<b>931,100</b>	<b>932,392</b>
<b>EQUITY</b>					
<b>Parent entity interest</b>					
Contributed equity	308,067	308,067	308,067	308,067	308,067
Retained surpluses or accumulated deficits	-	-	-	-	-
<b>Total parent entity interest</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>
<b>Total equity</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>	<b>308,067</b>
<b>Current assets</b>	<b>1,240,591</b>	<b>914,529</b>	<b>939,290</b>	<b>953,234</b>	<b>965,407</b>
<b>Non-current assets</b>	<b>318,209</b>	<b>311,059</b>	<b>297,762</b>	<b>285,933</b>	<b>275,052</b>
<b>Current liabilities</b>	<b>1,194,388</b>	<b>860,434</b>	<b>870,263</b>	<b>871,524</b>	<b>872,816</b>
<b>Non-current liabilities</b>	<b>56,345</b>	<b>57,087</b>	<b>58,722</b>	<b>59,576</b>	<b>59,576</b>

**Table 6.3: Budgeted Departmental Statement of Cash Flows (for the period ended 30 June)**

	Estimated Actual 2005-06 \$'000	Budget Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
<b>OPERATING ACTIVITIES</b>					
<b>Cash received</b>					
Goods and services	7,237,087	8,460,965	8,668,476	8,613,024	9,163,889
Appropriations	44,257	45,469	45,859	46,087	46,963
GST Input Credit Receipts	648,735	551,478	476,326	468,225	498,556
Cash from Official Public Account	30,176	351,000	-	-	-
Other	176,115	32,260	32,278	32,300	32,345
<b>Total cash received</b>	<b>8,136,370</b>	<b>9,441,172</b>	<b>9,222,939</b>	<b>9,159,636</b>	<b>9,741,753</b>
<b>Cash used</b>					
Employees	353,032	360,537	359,575	356,597	363,590
Suppliers	6,545,956	8,463,252	8,329,309	8,284,815	8,828,660
GST Input Credit Receipts	648,735	551,478	476,326	468,225	498,556
Cash to Official Public Account	470,000	-	-	-	-
Other	-	-	-	-	-
<b>Total cash used</b>	<b>8,017,723</b>	<b>9,375,267</b>	<b>9,165,210</b>	<b>9,109,637</b>	<b>9,690,806</b>
<b>Net cash from or (used by) operating activities</b>	<b>118,647</b>	<b>65,905</b>	<b>57,729</b>	<b>49,999</b>	<b>50,947</b>
<b>INVESTING ACTIVITIES</b>					
<b>Cash received</b>					
Proceeds from sales of property, plant and equipment	33,572	34,411	34,686	35,032	35,699
<b>Total cash received</b>	<b>33,572</b>	<b>34,411</b>	<b>34,686</b>	<b>35,032</b>	<b>35,699</b>
<b>Cash used</b>					
Purchase of property, plant and equipment	122,043	100,316	92,415	85,031	86,646
Other	-	-	-	-	-
<b>Total cash used</b>	<b>122,043</b>	<b>100,316</b>	<b>92,415</b>	<b>85,031</b>	<b>86,646</b>
<b>Net cash from or (used by) investing activities</b>	<b>-88,471</b>	<b>-65,905</b>	<b>-57,729</b>	<b>-49,999</b>	<b>-50,947</b>
<b>FINANCING ACTIVITIES</b>					
<b>Total cash received</b>	-	-	-	-	-
<b>Total cash used</b>	-	-	-	-	-
<b>Net cash from or (used by) financing activities</b>	-	-	-	-	-
<b>Net increase or (decrease) in cash held</b>	<b>30,176</b>	-	-	-	-
Cash at the beginning of the reporting period	-	30,176	30,176	30,176	30,176
<b>Cash at the end of the reporting period</b>	<b>30,176</b>	<b>30,176</b>	<b>30,176</b>	<b>30,176</b>	<b>30,176</b>

**Table 6.4: Departmental Capital Budget Statement**

	Estimated Actual 2005-06 \$'000	Budget Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000	Forward Estimate 2008-09 \$'000	Forward Estimate 2009-10 \$'000
<b>CAPITAL APPROPRIATIONS</b>					
Total loans	-	-	-	-	-
<b>Total capital appropriations</b>	-	-	-	-	-
<b>PURCHASE OF NON-FINANCIAL ASSETS</b>					
Funded internally by Departmental resources	122,043	100,316	92,415	85,031	86,646
<b>Total</b>	<b>122,043</b>	<b>100,316</b>	<b>92,415</b>	<b>85,031</b>	<b>86,646</b>

**Table 6.5: Departmental Property, Plants, Equipment and Intangibles — Summary of Movement (Budget year 2006-07)**

	Land	Investment Property	Buildings	Specialist Military Equipment	Other infrastructure, plant and equipment	Heritage and cultural assets	Computer software	Other intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 1 July 2006</b>									
Gross book value	-	-	-	-	261,586	-	96,201	117,510	475,297
Accumulated depreciation	-	-	-	-	21,061	-	75,843	60,306	157,210
<b>Opening net book value</b>	-	-	-	-	<b>240,525</b>	-	<b>20,358</b>	<b>57,204</b>	<b>318,087</b>
Additions:	-	-	-	-	-	-	-	-	-
by purchase	-	-	-	-	100,316	-	-	-	100,316
Depreciation/amortisation expense	-	-	-	-	49,655	-	11,158	12,176	72,989
Disposals:	-	-	-	-	-	-	-	-	-
other disposals	-	-	-	-	34,411	-	-	-	34,411
<b>As at 30 June 2007</b>									
Gross book value	-	-	-	-	300,372	-	96,201	117,510	514,083
Accumulated depreciation	-	-	-	-	43,597	-	87,001	72,482	203,080
<b>Estimated closing net book value</b>	-	-	-	-	<b>256,775</b>	-	<b>9,200</b>	<b>45,028</b>	<b>311,003</b>

## Notes to the Budgeted Financial Statements

### **BUDGETED FINANCIAL STATEMENTS**

The budgeted financial statements income, balance sheet, cash flows and a budgeted capital statement show the revenues, expenses, assets and liabilities of the DMO. These budgeted statements contain estimates prepared in accordance with the requirements of the Government's financial budgeting and reporting framework and reflect the planned financial performance of the DMO in delivering its outputs to Defence.

Unless otherwise stated, the convention used in these budgeted financial statement is to round amounts to the nearest \$'000.

### **DEPARTMENTAL REVENUE**

Appropriation Revenue from the Government for Output 1.3 is recognised to the extent that it will be received into the Agency's bank account.

Revenue is recognised for the delivery of Outputs 1.1 and 1.2 on the basis of the delivery of goods and services to Defence in the budget year. The DMO will record a liability to the extent that Defence has provided funds and the DMO has not delivered goods and services, for example, inventory purchased but not issued.

Revenue from other sources represents sales to non-Defence organisations for goods and services and is recognised at the time that it is imposed on customers.

### **DEPARTMENTAL EXPENSES**

#### **Employees**

Employees include payments and net increases in entitlements to civilian employees for services rendered in the financial year. The DMO pays a fee for service to Defence for the use of military personnel. This fee is reported as part of suppliers expenses.

#### **Suppliers**

This includes payments to suppliers for goods and services used in providing Agency outputs and cost of sales expenses associated with the delivery of goods and services to Defence. The 2006-07 suppliers expense estimate includes an amount of \$166.7m to cover the fee for service for the provision to the DMO of military personnel.

### **Depreciation and Amortisation**

Items of property, plant and equipment and intangible assets are depreciated to their estimated residual values over their estimated useful lives. In all cases, the 'straight-line' method of depreciation is used.

### **Departmental Assets–Financial Assets**

The primary financial assets are cash and receivables.

### **Departmental Non–Financial Assets**

This includes infrastructure, plant and equipment and intangibles, which are used in the production of outputs. This includes the Defence commercial vehicle fleet. The reported value represents the purchase price paid less depreciation incurred to date in using the asset.

### **Departmental Liabilities – Provisions**

Provision has been made for the Agency's liability for employee entitlements, arising from services rendered by employees. This liability includes unpaid annual leave and long service leave.

### **Departmental Liabilities – Payables**

Payables include unpaid suppliers and an unearned revenue liability associated with goods and services awaiting delivery to Defence.