

SECTION TWO
DEFENCE MATERIEL
ORGANISATION

CHAPTER ONE – OVERVIEW

OVERVIEW

Overview of the 2007-08 budget

Organisational structure

OVERVIEW

The DMO's mission is to acquire and sustain equipment for the ADF.

The DMO is managing 215 major projects and over 150 minor projects, across more than 50 locations in Australia and overseas.

Overview of the 2007-08 Budget

The 2007-08 DMO revised estimates totals around \$9.1b in departmental funding. This is approximately \$0.5b lower than the funding estimated at 2007-08 budget estimates.

Organisational structure

During July 2007, the DMO management structure underwent several changes to assist the Chief Executive Officer of the DMO (CEO DMO) to transform the culture to a more business-like focus. The major changes were the creation of the following positions:

- General Manager Systems – This position is responsible for the delivery of acquisition and sustainment services through the DMO's systems divisions. During October 2007, the Explosive Ordnance Division was established; it comprises of the Guided Weapons and Explosive Ordnance Branch and Guided Weapons Acquisition Branch. The Electronic and Weapon Systems Division has been renamed to Electronic Systems Division. The DMO's six systems divisions are as follows: Aerospace, Electronic Systems, Maritime, Helicopter, Land, and Explosive Ordnance.
- General Manager Corporate – This position is responsible for the delivery of the DMO's corporate operations and support through three Senior Executive Service Band 2 officers: the Chief Finance Officer, the General Counsel, and the Program Manager Corporate Strategy and Assurance². This arrangement covers the corporate areas of finance, legal, information technology, business improvement, governance, policy, people, and learning and development.
- General Manager Programs – This position oversees the DMO's major acquisition programs, the Industry Division, and the Defence Export Unit.

SENIOR EXECUTIVE CHANGES

Mr Kim Gillis was promoted to the position of General Manager Systems on 2 July 2007.

Ms Jane Wolfe was appointed to the position of General Manager Corporate on 2 July 2007.

Mr Warren King was promoted to the position of General Manager Programs on 12 September 2007.

Rear Admiral Boyd Robinson was appointed Head Maritime Systems Division, effective 4 July 2007, on the retirement of Rear Admiral Trevor Ruting.

Mr Frank Lewincamp transferred to Defence during July 2007.

In August 2007, Mr Tim Youngberry transferred to the Department of Finance and Administration (now titled Department of Finance and Deregulation). Mr Graham Weber was acting Chief Finance Officer DMO between August and 10 December 2007.

Mr Simon Ash was appointed Chief Finance Officer DMO on 10 December 2007.

In November 2007, Mr Harry Dunstall was appointed to the position of Special Counsel to the CEO DMO.

In December 2007, Mr Anthony Klenthis was promoted to the newly created position of Head Explosive Ordnance Division.

² The title of this position was reported as Chief Operating Officer in the Defence *Portfolio Budget Statements 2007-08*.

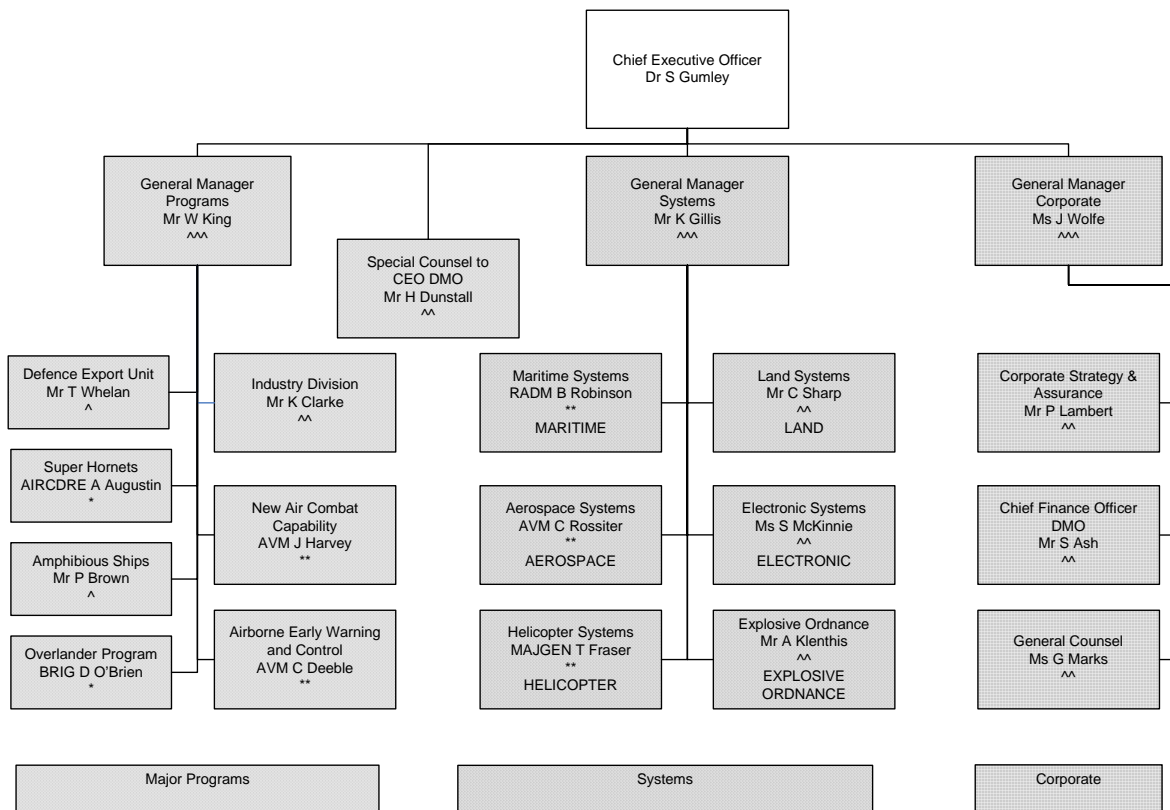
Mr Tony Hindmarsh was acting Program Manager Corporate Strategy and Assurance from December 2007 through to 28 January 2008.

Mr Peter Lambert was appointed Program Manager Corporate Strategy and Assurance on 29 January 2008.

ORGANISATIONAL STRUCTURE

Figure 1.1 shows the organisational structure of the DMO at 4 February 2008.

Figure 1.1—The DMO organisational structure at 4 February 2008



* - Military 1 star positions ** - Military 2 star positions
 ^ - Civilian SES Band 1 ^^ - Civilian SES Band 2 ^^ - Civilian SES Band 3

CHAPTER TWO – RESOURCING

RESOURCES FOR 2007-08

Appropriation and other resources

Breakdown of additional estimates by appropriation bill

Other receipts available to be used

Estimates of special account flows

Savings and Efficiency Measures

RESOURCES FOR 2007-08

Appropriation and other resources

The change to the DMO's direct appropriation relates to the application of the indexation parameter (non-farm GDP deflator) and the application of the efficiency dividend, resulting in a budget decrease of \$0.157m in 2007-08. There are no DMO specific measures included at Additional Estimates.

Table 2.1—Additional Estimates and Variations to Outcomes

	2007-08 (\$'000)	2008-09 (\$'000)	2009-10 (\$'000)	2010-11 (\$'000)
Outcome 1				
Variations (departmental appropriation)				
Indexation adjustments	273	1983	2074	1140
Application of Efficiency Dividend	-430	-1823	-1820	-1787
Total variation	-157	160	254	-647

Breakdown of additional estimates by appropriation bill

The decrease to appropriations for 2007-08 is due to application of the efficiency dividend, partly offset by the application of indexation.

Table 2.2—Appropriation Bill (No 3) 2007-08

	2006-07 Available (\$'000)	2007-08 Budget (\$'000)	2007-08 Revised (\$'000)	Additional estimates (\$'000)	Reduced estimates (\$'000)
DEPARTMENTAL OUTPUTS					
Outcome 1					
Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel	46,120	93,413	93,256	–	157
Total	46,120	93,413	93,256	–	157

Other receipts available to be used

Table 2.3 provides details of other receipts available to be used, including special accounts (non-appropriation receipts) and resources received free of charge.

The decrease in other receipts is due to the following:

- An increase in foreign government receipts for collaborative projects
- Reprogramming of Approved Major Capital Investment Projects estimates to future years.

Table 2.3—Other receipts available to be used^{[1][2]}

Outcome 1:	Budget estimate 2007-08 (\$'000)	Revised estimate 2007-08 (\$'000)	Variation 2007-08 (\$'000)
Defence capabilities are supported through efficient and effective acquisition and through-life support of materiel			
Departmental other receipts			
Goods and services from Defence	9,441,587	8,876,417	-565,170
Funding from foreign governments for collaborative projects	30,000	80,000	50,000
Resources received free of charge	41,929	37,521	-4,408
Own source revenue	2,353	2,360	7
Total departmental other receipts available to be used	9,515,869	8,996,298	-519,571

Note

1. GST is not included in this table. Departmental other receipts are disclosed in Table 6.3—Budgeted Departmental Statement of Cash Flows.
2. Table 2.4 outlines the estimates of special account flows and resulting closing balance for 2007-08, which will also reflect the reprogramming of Major Capital Projects to future years.

Estimates of special account flows

Movements to flows in the DMO's special account are explained in Chapter Six – Budgeted Financial Statements.

Table 2.4—Estimates of special account flows^[1]

	Opening balance 2007-08 2006-07 (\$'000)	Receipts 2007-08 2006-07 (\$'000)	Payments 2007-08 2006-07 (\$'000)	Adjustments 2007-08 2006-07 (\$'000)	Closing balance 2007-08 2006-07 (\$'000)
DMO Special Account ^[2]	564,819	10,041,545	9,614,904	–	991,460
	190,785	9,246,811	8,872,777	–	564,819
DMO Other Trust Monies Special Account ^[3]	905	–	–	–	905
	375	530	–	–	905
Total special accounts 2007-08 revised estimate	565,724	10,041,545	9,614,904	–	992,365
Total special accounts 2006-07 actual	191,160	9,247,341	8,872,777	–	565,724

Notes

1. GST and the direct appropriation are included in this table.
2. The DMO Special Account is established under Section 20 of the *Financial Management and Accountability Act 1997*.
3. The DMO Other Trust Monies Special Account is established under Section 20 of the *Financial Management and Accountability Act 1997*.

Savings and efficiency measures

Since the 2007–08 Budget, a one-off two per cent efficiency dividend has been applied. Table 2.5 shows the savings to be returned to the budget from 2007-08 to 2010-11.

Table 2.5 – Savings returned to the budget 2007-08 to 2010-11

	2007-08 (\$'000)	2008-09 (\$'000)	2009-10 (\$'000)	2010-11 (\$'000)
Defence Materiel Organisation	-430	-1,823	-1,820	-1,787

CHAPTER THREE – PLANNED OUTCOME PERFORMANCE

PLANNED OUTCOME PERFORMANCE

Summary of Outcome and contribution to Outcome

**Performance and evaluation information for the DMO
Outcome**

Output 1.1 – Management of capability acquisition

Output 1.2 – Management of capability sustainment

**Output 1.3 – Provision of policy advice and management
services**

PLANNED OUTCOME PERFORMANCE

Performance information is as reported in the *Portfolio Budget Statements 2007-08*, except for the revisions detailed in this chapter.

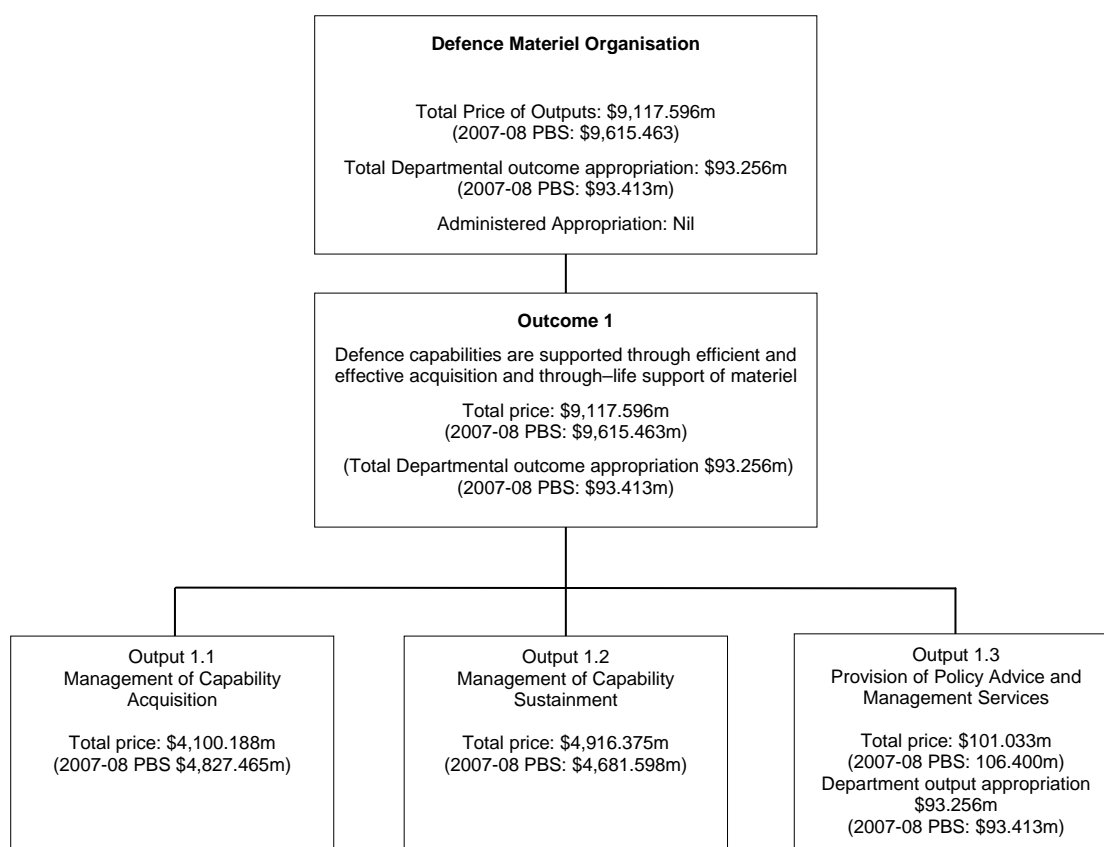
The price of the DMO's outcome and outputs has been updated to reflect the decreased direct appropriation for output 1.3 provision of policy advice and management services.

Revenue estimates have also decreased to reflect reprogramming of major projects estimates to future years, and indexation and exchange rate adjustments.

Summary of outcome and contribution to outcome

The relationship between activities of the DMO and its outcome is summarised in Figure 3.1, in terms of accrual-based prices rather than cash received from Defence and the Government. Prices have been updated in accordance with the revised estimates.

Figure 3.1—Contributions to outcome and outputs



Performance and evaluation information for the DMO Outcome

Information remains as reported in the *Defence Portfolio Budget Statements 2007-08*.

Output 1.1 —Management of capability acquisition

Information reported against performance target for output 1.1 – management of capability acquisition remains as reported in the *Portfolio Budget Statements 2007-08*, except for the revisions detailed below.

Planned resource use for output 1.1 is revised from \$4,827.5m to \$4,100.2m. The reduction is mainly due to the foreign exchange update and the reprogramming of project funding to future years.

APPROVED MAJOR CAPITAL EQUIPMENT PROJECTS

The DMO manages the approved major capital equipment component of the Defence investment program. Details on performance outcomes for the top 30 projects ranked by forecast expenditure is included in the *Portfolio Budget Statements 2007-08*. Planned expenditure for these projects has been updated, with variations reported in Table 3.1

TOP 30 PROJECTS, BY EXPENDITURE, AS FORECAST IN THE *DEFENCE PORTFOLIO BUDGET STATEMENTS 2007-08*

Table 3.1 lists the Top 30 Government-approved projects in 2007-08, and includes explanations for variations to estimated expenditure.

Table 3.1—Top 30 projects, by expenditure, as forecast in the *Portfolio Budget Statements 2007-08*

	Project number	Approved project expenditure	Cumulative expenditure to 30 June 2007	Budget estimate 2007-08	Revised estimate 2007-08	Variation	Explanation of variation
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	
Aerospace Systems Division							
C-17 Globemaster Heavy Airlift Capability	AIR 8000 Phase 3	1,840	1,132	241	76	-165	The variation does not indicate schedule slippage, rather it is due to the early achievement of aircraft payments and a re-estimate by the United States government of Foreign Military Sales (FMS) case termination liability requirements.
Air-to-Air refuelling capability	AIR 5402	1,733	499	198	237	39	Increase reflects the delivery of the second commercial aircraft being brought forward into 2007-08.
F/A-18 Hornet upgrade	AIR 5376 Phase 2	1,870	1,108	110	147	37	Increase reflects the decision to procure an alternate radar warning receiver solution requiring a real cost increase.
F/A-18 Hornet upgrade – Structural refurbishment	AIR 5376 Phase 3.2	861	97	106	63	-43	Decrease reflects the change in contracting strategy for installation of the centre barrel replacements.
Airborne surveillance for land operations	JP 129 Phase 2	125	1	34	18	-16	The variation is due to the delay of design activity expenditure to 2008-09 because of contractor delays in the development of mission and support system specifications, and contractor design plans. This resulted from contractor change in nature of the program to be more developmental, as opposed to off-the-shelf, than planned at contract commencement.
Air Warfare Destroyer Program							
Design Activity	SEA 4000 Phase 2	225	185	177	40	-137	This phase of the project has been closed. Scope and funds have been transferred to Phase 3. For further information on Phase 3 refer to Additional Project Information later in this chapter.
Aegis Weapon System	SEA 4000 Phase 3.1	150	150	112	-	-112	This phase of the project has been closed. Scope and funds have been transferred to Phase 3. For further information on Phase 3 refer to Additional Project Information later in this chapter.
Airborne Early Warning and Control Program							
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	3,465	2,468	160	139	-21	Decrease reflects further delays in the prime contract schedule and reprogramming of ancillary contracts to align with the revised schedule.
Corporate Strategy and Assurance							
Improvements to the Logistics Information Systems (MILIS)	JP 2077 Phase 2B	124	42	38	37	-1	Due to an extension in the development of training artefacts to support the improved financial interface between the Defence Logistics and Financial Enterprise Resource Planning Systems. The variation will be recovered in 2008-09.

	Project number	Approved project expenditure	Cumulative expenditure to 30 June 2007	Budget estimate 2007-08	Revised estimate 2007-08	Variation	Explanation of variation
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	
Electronic Systems Division							
Electronic warfare self protection for selected ADF aircraft	AIR 5416 Phase 2	303	129	69	49	-20	Decrease reflects the delay in AIR 5376 Phase 2.3 (Hornet Upgrade Project) radar warning selection, preventing AIR 5416 Phase 2A achieving planned spend on the radar warning element of its program. Also the additional workload imposed by the Army minor project (15.41) delayed AIR 5416 Phase 2A by six months.
Mulwala redevelopment project	JP 2086 Phase 1	341	-	58	54	-4	Due to a minor reduction in planned expenditure resulting from more robust payment data becoming available following the finalisation of contract negotiations for the Design & Construction Contract, together with favourable exchange rate variations.
Explosive ordnance reserve stocks	JP 2085 Phase 1B	202	115	54	47	-7	Decrease reflects a delay with finalisation of the technical and performance specification for the Excalibur Precision Guided Munitions to be acquired under FMS. Two or more quarterly FMS payments for Excalibur will now slip to 2008-09.
Follow-on stand off weapon	AIR 5418 Phase 1	369	65	50	37	-13	Due to the cumulative effect of additional payments of about \$1m for contract milestones that had been programmed for payment in 2006-07, reprogramming of approximately \$17m of FMS payments based on updated forecast information from the US FMS case manager and approximately \$3m engineering effort brought forward into the current year.
Lightweight torpedo replacement	JP 2070 Phase 3	281	48	49	48	-1	Due to exchange rate variation between projected and actual exchange rates.
High frequency modernisation (HF MOD)	JP 2043 Phase 3A	628	355	42	9	-33	Decrease reflects delays in the development and delivery of the final capability by the prime contractor. Dispute over certain contractual conditions has also delayed progress on work currently outside the prime contract.
New air defence command and control systems for control and reporting units 2 & 3 (2CRU/3CRU)	AIR 5333	258	105	32	15	-17	Decrease reflects a delay by the prime contractor in achieving the critical design review milestone.
MILSATCOM terrestrial infrastructure	JP 2008 Phase 3E	209	157	32	30	-2	Due to an over-estimation of price variation.
Helicopter Systems Division							
Additional troop lift helicopter	AIR 9000 Phase 2	3,484	556	432	325	-107	The Budget was based on training contract expectations that were refined and re-planned as a consequence of tender evaluation and contract negotiation. This accounted for \$38m of the variation. The remainder is caused by a re-scheduling of Prime Contract Earned Value Management milestones following a baseline review following conclusion of the AIR 9000 Phases 4 and 6 contract changes and underachievement by the contractor against previous milestones.
Armed reconnaissance helicopter	AIR 87 Phase 2	2,002	1,219	182	50	-132	Acquisition payments to the contractor were stopped on 1 July 2007 as a consequence of failing to deliver against the stop payment milestone of Initial Operating Capability. Principally this involved the non-delivery of training and training devices. The Commonwealth and the contractor are in formal dispute over the matter, with associated negotiations ongoing. Subject to the outcomes of those negotiations, payments may resume in the final quarter of 2007-08; however, estimates of amounts liable to be expensed within the period cannot be made at this stage.

	Project number	Approved project expenditure	Cumulative expenditure to 30 June 2007	Budget estimate 2007-08	Revised estimate 2007-08	Variation	Explanation of variation
		(\$m)	(\$m)	(\$m)	(\$m)	(\$m)	
Land Systems Division							
Upgrade of M-113 armoured vehicles	LAND 106	614	208	116	108	-8	The variation is due to the technical risks previously reported delaying production in conjunction with delays in the procurement of major sub-assemblies, which have combined to reduce the expenditure estimate. A credit note from the prime contractor, resulting from resolution of contractual issues, will further reduce the revised estimate.
Bushmaster Infantry Mobility Vehicles	LAND 116 Phase 3	516	280	46	118	72	Due to the original forecast which was based on the delivery of the remaining vehicles and deliverables under the contract, subsequently the acquisition of an additional 143 vehicles under the Enhanced Land Force acquisition was approved resulting in an increase to the forecast. In December 2007, Thales advised a change to the delivery schedule to support a potential overseas contract.
Tank Replacement Project	LAND 907 Phase 1	552	420	43	5	-38	Due to the project opening FMS pre-payment balance for the period of \$38m. Disbursements by the US Government in 2007-08 are \$6.064m, with a pre-payment of \$31.936m yet to be drawn down. The project does not expect to meet the original forecast nor make any additional FMS payments in 2007-08 or 2008-09.
Maritime Systems Division							
Guided Missile Frigate (FFG) Upgrade Implementation	SEA 1390 Phase 2.1	1,494	1,068	96	96	-	No variation.
Standard Missile (SM-1) Missile Replacement	SEA 1390 Phase 4B	570	104	78	64	-14	The variation is resulting from FMS case accounts being ahead of the disbursement schedule, and forecast payments have reduced for 2007-08 items slipping into 2008-09.
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2A	352	102	40	46	6	The variation is due to combat management deliverables being brought into 2007-08.
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	426	22	81	37	-44	The underspend is due to slippage of the production phased array radar contract and emerging cost drivers into 2007-08.
Anzac Ship Project	SEA 1348 Phase 2	5,376	5,320	55	33	-22	Due to payments in the prime contract that were brought forward into 2006-07.
Collins Replacement Combat System	SEA 1439 Phase 4A	450	352	48	40	-8	Due to contracted deliverables received for lesser actual costs than the original quotations.
Armidale class Patrol Boat	SEA 1444 Phase 1	556	400	35	72	37	The variation resulting from delay in acceptance of boats from 2006-07.
Ships Self Defence Capability – RAPID Acquisition	SEA 1779 Phase 1	48	10	33	13	-20	Decrease reflects the reduction of the development budget estimate at contract negotiations in early 2007, and schedule slippage of contract award into 2008-09.
TOTAL		29,424	16,717	2,847	2,053	-794	

ADDITIONAL PROJECT INFORMATION

Table 3.2 shows additional information for projects that were not listed in the Top 30 in the *Portfolio Budget Statements 2007-08*.

Table 3.2 — Additional Project Information^[1]

Project number	Approved project expenditure (\$m)	Cumulative expenditure to 30 June 2007 (\$m)	Budget estimate 2007-08 (\$m)	Revised estimate 2007-08 (\$m)	Variation (\$m)	Explanation of variation
Air Warfare Destroyer						
Air Warfare Destroyer Build SEA 4000 Phase 3	7,025	–	–	299	299	Funds have been transferred to Phase 3 due to the closure of Phases 2 and 3.1.
New Air Combat Capability (Super Hornet)						
Bridging Air Combat Capability Phase 1 AIR 5349	3,185	55	548	235	–313	The revised end of year forecast is based on receiving the latest data from the US Navy regarding projected obligations and disbursement for the acquisition FMS case. Financial planning and programming will remain volatile during the early stages of the FMS acquisitions process. This will improve as the program matures and contracts are awarded during the first half of 2008.
Bridging Air Combat Capability Phase 2 AIR 5349	164	–	25	4	–21	
Weapons						
TOTAL	10,374	55	573	538	–35	

Note

- These amounts in the PBS were shown as supplementary to approved programs.

AIR 5349 Phase 1 & 2— Bridging Air Combat Capability – F/A-18F Block II Super Hornet Aircraft

Prime Contractor: Boeing Company under an Foreign Military Sales (FMS) arrangement with the United States(US) Government.

Financial planning and programming will remain volatile during the early stages of the FMS acquisition process. This will improve as the Program matures and contracts are awarded during the first half of 2008.

SEA 4000 Phase 3—Air Warfare Destroyer (Build)

Prime Contractors: Contract is in place between the Commonwealth and Alliance Industry Participants ASC AWD Shipbuilder Pty Ltd and Raytheon Australia Pty Ltd. The Commonwealth also has a contract with Navantia S.A. as the Platform System Designer and an FMS case with the United States Navy for the supply of the core Aegis Combat System.

The key outcomes of Phase 3 will be the finalisation of detailed design, construction of the ships, set to work of systems, test and trials and ultimately the delivery to Navy of the Air Warfare Destroyer capability, including the support system. The support system includes crew training, technical documentation, shore facilities, maintenance schemes and spare parts inventories.

TOP 30 PROJECT DESCRIPTIONS

Information relating to the following projects remains as reported in the *Defence Portfolio Budget Statements 2007-08*.

- AIR 5418 Phase 1 – Follow-on Stand Off Weapon
- SEA 1348 Phase 2 – Anzac Ship Project
- SEA 4000 Phase 2 – Air Warfare Destroyer Design Activity
- SEA 4000 Phase 3.1 – Air Warfare Destroyer AEGIS Combat System

UPDATED INFORMATION ON TOP 30 PROJECTS

Information relating to the projects listed below is different to that reported in the *Portfolio Budget Statements 2007-08*.

AIR 8000 Phase 3—Heavy Airlift Capability

Prime Contractor: Boeing (United States)

A Foreign Military Sales (FMS) case was signed with the United States Government for the provision of the aircraft, spares, ancillary supplies and support. The second aircraft was delivered in May 2007. The last two aircraft are scheduled to arrive in Australia by mid-2008. Initial operating capability was achieved in September 2007 and the two aircraft are currently operating in an air logistics support role (for purposes such as personnel and cargo transport).

Initial training has been completed, with follow-on training for additional aircrew and maintenance personnel continuing until December 2008 at which time the Air Force will manage ongoing training requirements.

AIR 5402—Air-to-Air Refuelling Capability

Prime Contractors:

- EADS CASA, Spain (acquisition)
- Qantas Airways Ltd (through-life support).

The acquisition contract also establishes the infrastructure necessary to deliver services including engineering, maintenance, spares management, technical data, software and training support. The through-life support contract that commences with delivery of the first modified A330 aircraft was signed with Qantas Airways Ltd in February 2007.

Expenditure for the second commercial aircraft has been brought forward from 2008-09 to reflect the latest Airbus production schedule.

The first phase of flight testing commenced in early November 2007 following completion of structural modifications, including installation of the new refuelling boom and underwing pods, and installation of a comprehensive suite of flight test instrumentation.

AIR 5376 Phase 2—F/A-18 Hornet Upgrade

Prime Contractors:

- Boeing (United States) – Aircraft Cockpit Upgrade
- Raytheon Australia – Hornet Aircrew Training System.

The three Hornet Aircrew Training System simulators have been delivered and are in use.

Fleet modification of the pilot situational awareness system, including cockpit display, continued through 2006-07 with the final operating capability achieved in December 2007. Production will continue on the balance of the fleet in conjunction with other upgrade work. The Supplementary Counter-measures Dispensing System acquisition and sustainment contract is due to be signed by May 2008. An FMS case for the ALR-67(V)3 Radar Warning Receiver has been signed, with deliveries due to commence in 2008.

AIR 5376 Phase 3.2—Hornet Upgrade – Structural Refurbishment Program Stage 2

Prime Contractor: L-3 Communications MAS Inc (Canada) is undertaking low rate initial production in Mirabel, Canada.

Phase 3.2 is the second stage of a multi-stage structural refurbishment program for the RAAF F/A-18 Hornet fleet. This phase provides for up to 49 centre barrel replacements with low rate initial production to be carried out in Mirabel, Canada. The first prototype aircraft has been returned from Canada for reassembly in Australia and will be delivered to the Commonwealth in February 2008.

JP 129 Phase 2—Airborne Surveillance for Land Operations

Prime Contractor: Boeing Australia Ltd

The initial operating capability, including completion of operational test and evaluation and military airworthiness certification for the first Tactical Unmanned Aerial Vehicle System, is planned for August 2010.

Projected major achievements for 2007-08 will be completion of the system definition for both the mission and support systems.

AIR 5077 Phase 3—Airborne Early Warning and Control System (AEW&C)

Prime Contractor: Boeing (United States)

Boeing now plans to deliver the first aircraft in March 2009, a total delay of 28 months against the contract baseline. Defence is still working the underlying details of the schedule delay with Boeing and assesses that the risk to delivery dates is increasing.

Boeing Australia Ltd started modification of the sixth aircraft at RAAF Amberley in July 2007. Boeing commenced the formal aircraft test program in December 2007, three months late. The third aircraft is scheduled to complete its modification and fly to the USA to participate in the test program in January 2008. Construction of AEW&C facilities at RAAF Tindal commenced in July 2007. The Operational Flight Trainer is now planned for delivery in March 2008, while the delivery of spares and technical publications has been realigned to the delivery schedule for the prime equipment.

JP 2077 Phase 2B—Improvements to the Logistics Information Systems

Prime Contractor: Mincom Ltd is providing the core software system to be known as the Military Integrated Logistics Information System (MILIS).

This Project is a Logistics Transformation Program to improve supply chain management capability to the warfighter.

The Defence Capability Plan has committed over \$650m in four distinct phases from 2007 to 2014:

- Phase 2B.1 will provide new core software and improved financial management capability. It commenced the acquisition phase with the prime contractor, Mincom Ltd, in September 2006 and is currently on schedule and budget to be delivered.
- Phase 2B.2 will provide a deployable capability as well as improved in-transit visibility of cargo in the supply chain. It is expected to sign a contract with the preferred vendor in early 2008 and will then commence a 24 month acquisition phase.
- Phase 2C provides a radio frequency identification capability to allow the tracking of supplies in transit. This system was successfully delivered, in partnership with Savi Technology Ltd (a Lockheed Martin Company), throughout Australia in December 2006. It has been progressively deployed to the Middle East Area of Operations since March 2007.
- Phase 2D will address eight high priority capability upgrade proposals and received first pass approval from the Government in May 2007. It commenced a 24 month requirements phase in July 2007 and has released a Request for Proposal to industry in the global marketplace.

AIR 5416 Phase 2—Electronic Warfare Self Protection for Selected ADF Aircraft—Echidna

Prime Contractors:

- Phase 2A – BAE Systems
- Phase 2B – Tenix Defence

The Echidna Phase 2A Program has successfully completed detailed design for the Black Hawk aircraft with aircraft modification scheduled for commencement in February 2008.

The Echidna 2A Program has taken responsibility for the implementation of an approved Army Minor Project which provides interim early delivery of a subset of the Echidna 2A capability, a Missile Warning System and Counter-measures Dispensing System, onto 12 Black Hawk aircraft. As a consequence, the delivery of the full Echidna 2A capability on the first Black Hawk aircraft has extended by six months. The first Black Hawk under the Army Minor project has been modified and will enter flight testing in early 2008.

The first build of the Electronic Warfare Software has nearly completed development and the testing program is expected to commence early 2008.

With the high operational demands for the Chinook aircraft, and with a much smaller fleet, an aircraft will not be available for the planned first article modification.

Phase 2B – The first eight of the 12 C-130H aircraft to be modified under this project were completed on schedule by the contractor over the period November 2006 to November 2007. The schedule for the full modification program for all 12 C-130H aircraft will see the final aircraft returned to the RAAF by mid-2008.

JP 2086 Phase 1—Mulwala Redevelopment Project

Prime Contractor: Bovis Lend Lease

A contract was signed with Bovis Lend Lease in June 2007 for the design and construction of the modernised facility.

In addition to the risks normally associated with a construction project, the DMO needs to ensure that the new facility is able to produce the required military propellants to specification. This risk is being mitigated by having the Australian construction company partner with an experienced US propellant manufacturer, and by establishing contractual arrangements that require the contractor to demonstrate that all propellants meet relevant performance specifications prior to final acceptance.

JP 2085 Phase 1B—Explosive Ordnance Reserve Stocks

Prime Contractors: Multiple purchase contracts with Australian and overseas munitions suppliers

A significant number of deliveries, against current contracts, have been received during the first half of 2007-08; they include the following types of ammunition: Mk 84 bombs, and 84mm, 30mm and 5.56mm. A new contract was raised for acquisition of SMArt 155 precision guided munitions and deliveries are expected in early 2008.

The major focus for 2007-08 is the acquisition of 155mm precision guided munitions. The major risk for this project is the acquisition and introduction into service of the 155mm precision guided munitions from overseas sources to schedule and budget. One of the products being considered is under development and awaiting final acceptance and material release in the country of origin.

JP 2070 Phase 3—Lightweight Torpedo Replacement

Prime Contractors: Eurotorp and Thales

The project will open the MU90 Torpedo Maintenance and Integration Facility at HMAS Stirling in Western Australia in the second quarter 2008.

JP 2043 Phase 3A—High Frequency Modernisation

Prime Contractor: Boeing Australia Ltd

Following the detailed design review for the final fixed network system, completed in September 2006, the second stage fixed network system is being introduced. This was planned to be completed in early 2008; however, due to contractor delays, completion is now expected in early 2009. Installation into mobile platforms will extend to at least 2010.

AIR 5333 Vigilare—New Air Defence Command and Control Systems for Control and Reporting Units—2CRU/3CRU

Prime Contractor: Boeing Australia Ltd

The project's critical design review is to be completed during 2008, which will also see the commencement of the integration and test phase. Both of these activities were expected to be completed within 2006-07. However, major delays resulted from an underestimation of required effort by the contractor and delayed delivery of required interfaces by Defence. Mitigation action is underway to address delivery delays and the contractor is applying greater resources to complete the work. Due to the overall complexity of integration and the large number of unique interfaces involved, the project remains a high risk project.

JP 2008 Phase 3E—MILSATCOM Terrestrial Infrastructure

Prime Contractor: BAE Systems (Australia)

All 26 land terminals have been delivered and accepted by the Commonwealth, with 13 of these having been delivered to the Navy and the remainder to be rolled-out by June 2008. Nine of which have now been installed on Navy ships; three more are under installation and the remaining three terminals, including the training suite, will be installed from early 2008. The prime contractor has achieved both budget and schedule requirements. The project remains on target with only minor variations, due primarily to ship availability.

The Primary Injection Facility, which provides the theatre broadcast capability, has been successfully installed into the Defence Network Operations Centre. The system has achieved interim operational release and is providing services to both the Navy and Army satellite communications terminals in Australia and areas of operation.

AIR 9000 Phase 2—Additional Troop Lift Helicopter

Prime Contractor: Australian Aerospace

Training for aircrew, maintenance and support personnel commenced in mid-2007, and the in-service date was achieved on time on 18 December 2007; when the Commonwealth accepted the first two MRH-90. The Navy initial operational capability of one aircraft at sea planned for 2010 and the Army initial operational capability of a troop of four aircraft are expected to be achieved in 2011.

AIR 87 Phase 2—Armed Reconnaissance Helicopter

Prime Contractor: Australian Aerospace

The Commonwealth has accepted 10 Tiger Armed Reconnaissance Helicopters, and four of the six ground training devices. A total of 14 aircraft are planned to have been accepted by mid-2008, and all 22 of the aircraft by mid-2009. The full flight and mission simulator was accepted on 13 December 2007.

LAND 106—Upgrade of M113 Armoured Vehicles

Prime Contractor: Tenix Defence

Further vehicle testing by Defence confirmed the success of Tenix's vehicle modifications in resolving the key technical problems. The contractor has commenced production and has completed the vehicles required to bring the initial capability of three vehicle variants into service, commencing in November 2007. Crew and maintenance training has commenced and is continuing. Procurement of

initial spares, special tools and test equipment to support the initial introduction of vehicles has commenced and will continue in parallel with vehicle production. Design development of the remaining four vehicle variants will continue through to the end of 2009.

The major design development technical risks have been retired due to the initial testing of the first three vehicle variants using a drive system that is common across all vehicle variants. The logistic vehicle encompasses a new hull design and will be the most technically challenging of the remaining vehicle variants. A comprehensive development test program has been scheduled. The contractor has advised that the previously reported unrecoverable delay of six months to the project schedule, caused by the brake and other technical issues, is being addressed by running a second shift at the production facility. The contractor has advised that the delivery of the last vehicle will be as contracted in December 2010. Defence assesses that this is a high risk production schedule and the required number of production personnel to support a second shift will be difficult for the contractor to recruit.

LAND 116 Phase 3—Bushmaster Infantry Mobility Vehicles

Prime Contractor: Thales Australia

This phase of the Project is to deliver 443 vehicles in six variants (troop, command, assault pioneer, mortar, direct fire weapon and ambulance).

All 289 troop, command, assault pioneer, mortar and direct fire weapon variants under the current acquisition contract have been delivered on schedule. The deliveries of the first Enhanced Land Force vehicles commenced in November 2007 and will be completed by March 2009.

In August 2007, the Government approved the purchase of an additional 250 Bushmaster vehicles as part of Land 121 Project Overlander. The delivery of these vehicles will commence in mid-2009 and is scheduled to be completed by mid-2012. The through-life support contract has been operating since 25 March 2006. The project office is currently seeking a contract amendment to include the additional vehicles.

In June 2007, the Government approved the rapid acquisition of an additional 72 protected weapon stations, 116 Fire Explosion Suppression Systems and 116 purpose-designed spall curtains to further enhance the protection level of those vehicles currently deployed on operations and the pre-deployment training fleet. The fitting of the stations to deployed vehicles will commence in early 2008 with the fitting of the suppression systems and spall curtains commencing in mid-2008.

Testing and evaluation of the ambulance variant is a risk to schedule. This risk is being mitigated by Thales which is providing additional resources to support the testing. Configuration management has been identified as a risk. This risk is being mitigated by regular audits and intensive management by the project office.

LAND 907 Phase 1—Tank Replacement Project

Prime Contractor: United States FMS Program

The project achieved the in-service date of one squadron on 1 July 2007, six months ahead of schedule. All M1A1 Abrams tanks and M88A2 armoured recovery vehicles arrived in Australia by March 2007. Deliveries of simulators, tank transporters and fuel trucks are complete. Conversion training for operators and maintainers was completed in November 2007 and a significant portion of the ammunition, facilities and spare parts have been delivered.

The risk of a delay in the establishment of an Australian-based through-life support contract was identified early in the project. This risk has been managed through the establishment of Cooperative Logistics Services Support Arrangements, directly with the US government, through the FMS program. This arrangement will provide interim through-life support until the Australian-based support contract is in place, which is planned for 2009.

SEA 1390 Phase 2.1—Guided Missile Frigates (FFG) Upgrade – Implementation

Prime Contractor: ADI Ltd trading as Thales Australia

There are known deficiencies with the underwater warfare systems, electronic support system and Australian Distributed Architecture Combat System software. Under the provisions of the contract, work by the prime contractor is to continue to rectify deficiencies before HMAS *Sydney's* acceptance, which is scheduled for late 2008. HMAS *Sydney's* initial operational release is now due in early 2008 allowing for resolution of Navy concerns with support deficiencies. HMAS *Melbourne* achieved provisional acceptance in October 2007. HMAS *Darwin* has completed the upgrade docking. HMAS *Newcastle* entered the upgrade docking in November 2007.

SEA 1390 Phase 4B—Standard Missile–1 (SM–1) Replacement

Prime Contractor: The DMO is the procurement coordinator and is supported by the US Department of Defense under an FMS case and a range of commercial contractors.

A mix of US commercial and FMS cases will deliver equipment hardware, software development, integration, equipment installation and system testing. Development work required for the guided missile launching system, onboard training and land-based simulation systems and the fire control system will be delivered by commercial contracts. The contract for the guided missile launching system was awarded in January 2008.

SEA 1448 Phase 2A—Anzac Ship Anti–Ship Missile Defence

Prime Contractor: The contract management is under the formal Alliance Agreement: Anzac Ship Integrated Materiel Support Program Alliance (Commonwealth of Australia with Tenix and Saab). The Government is also contracted directly with CEA Technologies for radar equipment design, development and production.

The first upgraded Anzac class ship is planned for delivery to Navy in 2011, which accommodates a combined Phase 2A and Phase 2B schedule. Phase 2B was approved in 2006, and is to be reviewed by the Government in 2008.

Final Phase 2A deliverables will be received in 2007-08, including some long-lead production components and engineering development modules. The Project is intending to seek approval to combine Phases 2A and 2B in 2008-09.

SEA 1448 Phase 2B—Anzac Ship Anti–Ship Missile Defence

Prime Contractor: The contract management is under the formal Alliance Agreement: Anzac Ship Integrated Materiel Support Program Alliance (Commonwealth of Australia with Tenix and Saab). The Government is also contracted directly with CEA Technologies for radar equipment design, development and production.

Overall, the risk rating for Phase 2B remains high with a downward trend in technical risk as system development and testing progresses. The capability payoffs and Australian industry support dividends are high.

Latent schedule risks for the program are emerging from the Phase 2B phased array sub-program. Production contract negotiations with CEA Technologies are progressing. These negotiations include alternative test and verification strategies and other mitigation of technical risks. Schedule confidence was improved post preliminary design review, as CEA ramps up to production of the phased array radars. The Alliance contracting strategy will maintain maximum incentives and pressure on schedule performance of all parties.

SEA 1439 Phase 4A—Collins Replacement Combat System

Prime Contractors: Commonwealth of Australia is the Prime with the US Department of Defense under an FMS case and an Armaments Cooperative Project; Raytheon Australia Pty Ltd; Thales Australia and SonarTech.

System trials in HMAS *Waller* are to be completed during post-docking sea trials in early 2008.

SEA 1444 Phase 1—Armidale Class Patrol Boat

Prime Contractor: Defence Maritime Services

This project is to deliver 14 Armidale class patrol boats, associated infrastructure and provide 15 years in-service support.

The wharf facilities in Darwin were upgraded in December 2007. With sustainment support included in the prime acquisition contract for the first 15 years, the project will provide the ongoing materiel support for the patrol boat operational capability. Trials related to the fuel system reliability continue with participation of the project, the Navy and the prime contractor. The patrol boats are meeting the Navy's availability requirements.

SEA 1779 Phase 1—Ships Self Defence Capability – Rapid Acquisition

Prime Contractors:

- Alliant Tech Systems Inc. for the supply of 25mm Bushmaster Naval Variant Cannons
- Rafael Armament Development Authority (Israel) for the supply and integration of the Toplite, Mini-Typhoon and Typhoon systems.

The ship modification design package was delivered in May 2007. Contracts were then placed for the modification of the ships to meet those designs with a planned completion date of June 2008.

Emergent ship availability risks reduced the time and dockyard capacity for the fit-out of mountings and fixtures. The risks are mitigated by consultation with Navy and engagement of an engineering design contractor with knowledge of the weapon system requirements and previous experience in developing the design for the initial capability in Navy ships.

CURRENT STATUS OF ACQUISITION PROJECTS NOT INCLUDED IN THE TOP 30

Table 3.3 provides an update on the status of major projects reported in previous financial years. These projects dropped below the top 30 expenditure threshold at the time of producing the *Defence Portfolio Budget Statements 2007-08*.

Table 3.3—Status of previously reported Top 30 projects

	Project number	Financial year(s) reported in Top 30	Approved project expenditure (\$m)	Cumulative expenditure to 30 June 2007 (\$m)	Budget estimate 2007-08 (\$m)	Revised estimate 2007-08 (\$m)	Variation (\$m)	Status Report
Aerospace Systems Division								
Hornet Upgrade Project – Target Designation System	AIR 5376 Phase 2.4	2006-07	143	51	28	44	16	The contractor has established in-service support RAAF Bases Williamtown and Tindal. The majority of Litening targeting pods have been delivered and operational test and evaluation has been completed. The Project is currently finalising technical and logistic aspects to obtain full service release.
P-3C Update Implementation	AIR 5276 Phase 2	2004-05	903	851	16	18	2	The increase is due to a delay in the contract signature process. A delay in the commencement of the work and in turn the payments schedule. The increase is the expected spend from 2006-07 being re-phased into 2007-08.
F/A-18 Hornet Structural Refurbishment Program	AIR 5376 Phase 3.1	2004-05	125	84	11	9	-2	This phase will deliver the first stage of a multi-stage Structural Refurbishment Program on the Hornet fleet to ensure sufficient fatigue life remains to achieve planned withdrawal date. Full rate production is underway at RAAF Williamtown with half of the fleet completed to date.
Amphibious Vessels								
Maritime Operations Support Capability	SEA 1654 Phase 2A	2006-07	144	126	3	4	1	Contracts are now in place for the development of technical Information to meet Navy requirements for initial operational release.
Helicopter Systems Division								
Anzac Ship Helicopter	SEA 1411 Phase 1	2006-07	1,108	947	15	20	5	In May 2007, the Government announced the continuation of the Project. The decision included a real cost increase for the Automatic Flight Control System remediation and rectification of identified and emergent airworthiness issue. Due to the fluidity of the Project and the Contractor's ongoing inability to deliver to schedule; together with the absence of the required satisfactory contracting arrangements for future work, payments which were originally considered low risk are now unlikely to occur during the period.
Maritime Systems Division								
New Heavyweight Torpedo	SEA 1429 Phase 2	2006-07	427	190	28	25	-3	Sea trials of the modifications to HMAS <i>Waller</i> were completed successfully in 2007. Modification to HMAS <i>Farncomb</i> and HMAS <i>Dechaineux</i> are progressing on schedule. The first new weapons arrived in May and December 2006 with additional weapons scheduled to arrive in January 2008. Payments are lower than planned due to late arrival of weapons from the US and delay in the US Navy review of invoices.

	Project number	Financial year(s) reported in Top 30	Approved project expenditure (\$m)	Cumulative expenditure to 30 June 2007 (\$m)	Budget estimate 2007-08 (\$m)	Revised estimate 2007-08 (\$m)	Variation (\$m)	Status Report
Collins Class Reliability and Sustainability Improvements	SEA 1439 Phase 3	2006-07	391	209	25	40	15	Changes to the submarine full cycle docking and maintenance increased design and revised implementation plans, resulting in an increase in work performed in 2007-08. Capability Group provided funds for a scope change in the installation of special forces modifications to HMAS <i>Dechaineux</i> and to bring forward the Propulsion Control Reference System in the submarine school at HMAS Stirling, WA.
Underwater and Surface Warfighting Upgrade Program	SEA 1348 Phase 3	2002-03 2003-04 2004-05	159	131	6	5	-1	First of class initial operational release in HMAS <i>Warramunga</i> was completed and a further four ships have received installations. Support is being provided to RAN for acceptance into operational service activity. Underspend is due to variations in the earned value work packages
Mine Hunter Coastal Acquisition	SEA 1555 Phase 2	2001-02	1,253	1,148	3	8	5	Six Huon class coastal mine hunter vessels and associated supplies have been delivered and project closure is being progressed. Variance is to meet contract changes, engineering orders, deviations and waivers, latent defects, and closing deed issues in 2007-08.
Evolved SeaSparrow Missile	SEA 1428 Phase 2B/3	2004-05	276	244	2	4	2	Integration into all Anzac class ships is complete. HMAS <i>Sydney</i> conducted the first FFG Upgrade Missile firing. All missiles have been ordered for final delivery by the end of 2008. Missile firing results are being reviewed. Variation is due to the new requirement for funding for Mk612 Test Set reliability.
Electronic Systems Division								
Jindalee Radar Network	JP 2025 Phase 3 & 4	2005-06	1,247	1,226	5	2	-3	Project has delivered primary capability. There remains some minor engineering capability which must be acquired to allow successful integration of any future enhancements and upgrades. The project, with assistance of Defence Support Group, is progressing the use of grid power in lieu of diesel generators at the Longreach, Qld site, however an extended approval process has caused a reduction in 2007-08 forecasts.
Lightweight Torpedo Replacement	JP 2070 Phase 2	2005-06	330	161	22	33	11	Recent French Navy sea trials of the weapon confirm performance. Australian torpedoes underwent Factory Acceptance Testing in July 2007.
TOTAL			6,506	5,368	164	212	48	

MINOR CAPITAL INVESTMENT PROGRAMS

Planned resource use for the Minor Capital Investment Program has been revised from \$176.4m to \$117.4m for 2007-08.

Output 1.2—Management of capability sustainment

Planned resource use for Output 1.2 is revised from \$4,681.6m to \$4,916.4m for 2007-08. The variation largely results from an increase in funding for overseas Operations.

Table 3.4—Top 20 Sustainment products by expenditure, as forecast in the *Defence Portfolio Budget Statements 2007-08*

	Budget estimate 2007-08 (\$m)	Revised estimate 2007-08 (\$m)	Variation (\$m)	Explanation for variation
Aerospace Systems Division				
F-111 Weapons System	146	145	-1	Minor variation.
P-3/AP-3C Orion Weapons System	121	126	5	Increase reflects inclusion of Operations funding.
F/A-18 Hornet Weapons System	119	111	-8	Decrease is due to a reduction in the rate of effort and a variation in foreign exchange movements.
Lead-In Fighter Hawk 127	95	96	1	Minor variation.
C-130J-30 Weapons System	65	120	55	Increase reflects inclusion of Operations, and Net Personnel & Operating Cost funding.
C-17 Weapons System	55	52	-3	Minor variation due to foreign exchange movements.
Helicopter Systems Division				
S70B-2 Seahawk Weapons System	79	56	-23	Decrease reflects downward revision of Logistics Supplementation figures and revised estimate of total product requirements.
S70A-9 Black Hawk Weapons System	67	76	9	Increase reflects inclusion of Army Aviation Training and Training Support costs following contract roll-out.
SH-2G(A) Super Seasprite Helicopter	55	49	-6	Decrease reflects revised estimate of total product requirements.
Maritime Systems Division				
Fuels and Lubricants – Air Force, Navy, Army	430	468	38	Increase reflects additional funding provided for exercise Talisman Sabre. There have also been significant movements in fuel prices and foreign exchange rates.
Collins class submarines	322	326	4	Increase reflects changes in the method of allocating costs relating to the purchase of common inventories.
Anzac class frigate (FFH)	238	252	14	Increase reflects inclusion of Operations funding.
Adelaide class frigate (FFG)	126	119	-7	Decrease reflects changes in the method of allocating costs relating to the purchase of common inventories.
Mine Hunter Coastal (MHC)	61	62	1	Minor variation.
Land Systems Division				
ADF Clothing and Equipment	101	135	34	Increase reflects additional support required for Operations and combat clothing.
ADO Commercial Vehicle Fleet	81	73	-8	Decrease reflects improved forecast of actual budget requirement.
B Vehicles	85	141	56	Increase reflects inclusion of Operations, Rapid Acquisition and Enhanced Land Forces funding.
Electronic Systems Division				
Explosive Ordnance – Air Force, Navy, Army	266	298	32	Increase reflects demand for Operations

	Budget estimate 2007-08 (\$m)	Revised estimate 2007-08 (\$m)	Variation (\$m)	Explanation for variation
				support in excess of predicted requirements at the time the Budget estimate was compiled.
Wide Area Surveillance Capability	74	74	-	No variation.
Battlespace Communications Systems	63	70	7	Increase reflects demand for Operations support in excess of predicted requirements.
Top 20 Approved Products Price	2,649	2,849	200	
Total funds available	4,622	4,807	185	

Updated information on DMO sustainment products

AEROSPACE SYSTEMS

Information remains as reported in the Defence *Portfolio Budget Statements 2007-08*, except for the following:

Aerospace systems products

F-111 weapons system

A contract realignment strategy is in progress to support the planned withdrawal of the F-111 in 2010. The F-111G model is expected to be withdrawn from service during 2007-08 as planned.

F/A-18 Hornet weapons system

The major challenge in supporting the F/A-18 fleet is maintaining aircraft availability during the complex Hornet Upgrade Program while addressing ageing aircraft issues. A new contracting strategy is being developed to provide through-life support for the maintenance and modifications to the Hornet. Interim contracting provisions are being put in place for the continuance of the Hornet Upgrade and maintenance, prior to enactment of the new support contracts at the end of 2008.

C-17 weapons system

A new Heavy Airlift Systems Program Office has been established at RAAF Amberley to manage sustainment of the new C-17 aircraft, and KC-30B multi-role tanker transport weapons system.

The C-17 initial operational capability occurred in August 2007, with two aircraft in service. Delivery of the final two aircraft will occur by mid-2008. The focus in 2007-08 will be on increased sustainment requirements and implementing the logistics support arrangements.

HELICOPTER SYSTEMS

Information remains as reported in the Defence *Portfolio Budget Statements 2007-08*, except for the following:

Helicopter systems products

S70A-9 Black Hawk weapons system

There are 34 S70A-9 Black Hawk helicopters, a full flight and mission simulator, a maintenance training aid and other facilities

Actions have been taken in 2007-08 to add additional deeper maintenance contractor capacity and to supplement the Army workforce. This additional capacity has been generated by an additional deeper maintenance contract and via technicians laterally recruited from overseas.

SH-2G(A) Super Seasprite Helicopter

The Super Seasprite is currently suspended from flying due to issues with the automatic flight control system. The Government announced on 25 May 2007 that the Super Seasprite project would continue subject to satisfactory contract arrangements being agreed with the prime contractor, Kaman Aerospace Corporation. These negotiations continue.

MARITIME SYSTEMS

Information remains as reported in the *Defence Portfolio Budget Statements 2007-08*, except for the following:

Maritime systems products

Anzac Class Frigate (FFH)

Navy manning reductions are achieved by Ship Keeping Teams and extension of the husbandry work undertaken by the contractor.

Three vessels are undergoing extended maintenance and capability upgrade activities during 2007-08.

LAND SYSTEMS

Information remains as reported in the *Defence Portfolio Budget Statements 2007-08*, except for the following:

As from 14 December 2007, the sustainment of land systems will be managed by ten System Program Offices. Land Systems sustainment activities support a diverse range of materiel ranging from armoured and non-armoured vehicle fleets, artillery and weapon systems, materiel handling equipment, bulk liquid distribution, simulation and air defence systems, medical and dental stores, tentage and general stores and uniforms and consumable stores such as combat rations.

Rapid acquisition projects are increasingly a significant component of the Land Systems Division workload and features as a high priority task. In addition Land Systems Division also supports the integration onto vehicles of equipment procured under Rapid Acquisition by Electronic Systems Division.

Other significant sustainment activities include:

- the Enhanced Land Force Program which is currently underway
- the revitalisation of clothing contracts
- the sustainment of land materiel relies heavily on maintenance services, warehousing, supply chain management, and distribution operations that are provided by the Joint Logistics Group.

Land systems product

ADF clothing and equipment

ADF clothing and personal equipment includes combat and non-combat uniforms, uniform accoutrements and personal protective and field equipment. Detailed planning for the acquisition and sustainment of ADF clothing and equipment is provided to industry through the annual ADF Clothing and Personal Equipment Procurement Plan 2008–2012. Updates to industry are provided through regular forums and workshops and the ADF Clothing quarterly newsletter *Threads*. A major risk to be mitigated is uneven demands placed on industry because of increased operational tempo.

ELECTRONIC SYSTEMS DIVISION AND EXPLOSIVE ORDNANCE DIVISION

Information remains as reported in the *Defence Portfolio Budget Statements 2007-08*, except for the following:

A contract for rationalisation of the existing in-service support of the ADF's inventory of combat net radios and ancillaries has been in place since February 2007. Consolidation of heavy grade repair,

engineering and supply support of selected single channel radio systems equipment and ancillaries has proven very successful. An assessment and redistribution of any resource savings to higher priority sustainment areas is nearing completion.

The ADF continues to introduce a range of electronic warfare equipment in support of current operations. Many of these acquisitions will be transitioned to sustainment to ensure ongoing support to operations. While putting in place robust sustainment will be challenging, the sustainment authority will be required to be highly responsive to changes in operational threats and continue to deliver evolving counter-measures to the changing threat environment.

Explosive ordnance product

Explosive ordnance—Navy, Army, Air Force

Personnel resource levels to satisfy the requirements associated with current operations and alternative contracting strategies to better streamline procurement are being addressed by organisational changes in the Guided Weapons and Explosive Ordnance Branch. This encompasses a review and improvement of all systems, processes and resources required to deliver explosive ordnance to Navy, Army and Air Force and seeks greater customer focus, accountability and flexibility.

Output 1.3—Provision of policy advice and management services

The DMO's direct appropriation for Output 1.3 has decreased from \$93.4m to \$93.3m for 2007-08. The decrease is due to the application of the efficiency dividend, partly offset by the application of indexation.

CHAPTER FOUR – GOVERNANCE AND REFORM

GOVERNANCE AND REFORM

Defence industry policy

GOVERNANCE AND REFORM

Information remains as reported in the *Defence Portfolio Budget Statements 2007-08* except for the following information.

Defence industry policy

The Government's defence industry policy aims to deliver an innovative and competitive defence industry in Australia that is able to supply and support the Australian Defence Force to the maximum extent possible. For high value acquisition programs tenderers are to develop detailed strategies to engage Australian industry not only to meet Australia's requirements, but also to become involved in meeting international demand. The new Government supports the underlying principles of the Defence and Industry Policy Statement 2007 and the implementation strategies outlined in the *Defence Portfolio Budget Statements 2007-08*.

Information regarding the Defence and Industry Policy Statement 2007 remains as reported in the *Defence Portfolio Budget Statements 2007-08*, except for the following information –

The policy has two key underpinnings:

- a strategic imperative - to ensure that Defence retains access to local industry capabilities that support the ADF's warfighting efforts – those essential industrial capabilities required to support ADF operational capability and to meet Australia's sovereign, military self-reliance needs.
- a commercial imperative - to create the right commercial environment to maximise the level of local industry engagement in defence procurement, based on best value for money principles.

With respect to the strategic imperative, work has been undertaken to identify essential industry capabilities and to look at the strategies available to ensure that these capabilities are sustained in accordance with Australia's national security needs. Priority Local Industry Capabilities (PLICs) will be determined from the Government's strategic plans for the use of the ADF, and an analysis of the necessary underpinning industrial capabilities. A Defence Self-Reliance Plan, detailing identified PLICs, will be prepared in conjunction with the new Defence White Paper and the Defence Capability Plan.

With respect to the commercial environment, Defence will create opportunities for Australian firms by requiring that all tenders over \$50m are to include advice on how opportunities for Australian industry participation were tested and planned where cost effective to do so. Defence also is using purchases to leverage access to global supply chains for Australian industry where they are competitive. Consultation and feedback was sought from Defence, industry and industry associations on the original Australian Industry Capability (AIC) Manual exposure drafts in 2007. To provide broad exposure and equal footing with wider Defence procurement policy, an AIC manual chapter will be published in the Defence Procurement Policy Manual (DPPM). The DPPM will be updated in late February outlining the application of the new approach. An AIC manual and toolkit for practitioners will be published electronically to complement the DPPM update.

CHAPTER FIVE — PEOPLE

PEOPLE

Workforce summary

Civilian workforce

Military workforce

PEOPLE

Workforce summary

The overall DMO workforce is forecast to increase to 7,512, which is an increase of 186 (or almost three per cent) from the projected result of 7,326. The increase is a consequence of significant growth in projects, and funds under management. The growth for the period is made up of an increase of 415 Australian Public Service (APS), a reduction of 38 Professional Service Providers (PSP), a reduction of 26 ADF Permanent Forces. Total DMO revenues for delivery of goods and services will increase by 10 per cent.

As the DMO is a prescribed agency, its APS and PSP workforce information has been excluded from Defence. As military personnel are provided to the DMO under a 'fee for service' model, they are reported in both the DMO and Defence workforce numbers.

Table 5.1 shows the breakdown of personnel numbers by Service, classification and rank.

Table 5.1—Breakdown of personnel numbers by service and rank⁽¹⁾

	Budget	Revised	Variation	
	estimate	estimate	No	%
	2007-08	2007-08		
APS				
Senior Executives ^[2]	32	37	5	16
Senior Officers ^[3]	1,339	1,440	101	8
Other APS Staff	3,741	4,050	309	8
Sub-total : APS	5,112	5,527	415	8
Backfilling of ADF Vacancies	165			
Sub-total : APS	5,277	5,527	250	5
PSP Workforce ^[4]	301	263	-38	-13
Sub-total civilian workforce	5,578	5,790	212	4
NAVY				
Star Ranked Officers	6	6	—	—
Senior Officers ^[3]	47	48	1	2
Junior Officers	136	139	3	2
Other Ranks	156	157	1	1
Sub-total: Permanent Navy	345	350	5	1
Reserve Force ^[5]	110	110	—	—
Sub-total Navy	455	460	5	1
ARMY				
Star Ranked Officers	6	6	—	—
Senior Officers ^[3]	47	49	2	4
Junior Officers	210	204	-6	-3
Other Ranks	219	216	-3	-2
Sub-total: Permanent Army	482	475	-7	-2
Reserve Force ^[5]	75	75	—	—
Sub-total Army	557	550	-7	-1
AIR FORCE				
Star Ranked Officers	8	9	1	13
Senior Officers ^[3]	79	92	13	16
Junior Officers	414	458	44	11
Other Ranks	350	357	7	2
Sub-total: Permanent Air Force	851	916	65	8
Reserve Force ^[5]	50	50	—	—
Sub-total Air Force	901	966	65	7
Sub-total ADF permanent workforce	1,678	1,741	63	4

Expected ADF Shortfalls	-165	-254		
Sub-total permanent ADF workforce	1,513	1,487	-26	-2
Sub-total ADF Reserves Force⁽⁴⁾	235	235	-	-
Total DMO workforce	7,326	7,512	216	3

Notes

1. Reflects the APS, PSP, ADF permanent and reserve forces for 2007-08. Numbers for the ADF Permanent Forces includes Reservists undertaking Continuous Full Time Service.
2. Senior Executives include one Chief Executive Officer and three General Managers at SES Band 3 level.
3. Senior Officers are of Colonel or Lieutenant Colonel rank equivalent and substantive APS Executive Levels 1 & 2.
4. PSPs are individuals with specialist skills contracted to fill line positions.
5. ADF Reserve figures represent numbers of active Reservists (excluding Reservists undertaking full-time service and Foreign Service Reservists) who rendered service during 2007-08 and the DMO ADF Reservist bids for 2007-08.

Civilian workforce

APS WORKFORCE

The estimated APS full-time equivalent average (FTE-A) funded strength for 2007-08 is 5,527 which is a net increase of 415 from the 2007-08 projected result. This increase reflects a five per cent growth in APS personnel associated with the following activities:

- an increase of 344 FTE-A due to new projects
- an increase of 19 due to the civilianisation of military positions
- an increase of 52 due to the conversion of PSPs to FTE-A.

The APS workforce estimate represents about 73 per cent of the total DMO workforce.

PSP WORKFORCE

The estimated PSP FTE-A funded strength for 2007-08 is 263 which is a reduction of 38 (or 13 per cent) from the 2006-07 projected result. This net decrease reflects the reduction in PSPs associated with the following activities;

- an increase of 14 FTE in new projects
- a decrease of 52 due to the conversion of PSPs to FTE-A.

The PSP workforce estimate represents about four per cent of the total DMO workforce.

Military workforce

ADF PERMANENT FORCE

The estimated ADF permanent average funded strength for 2007-08 is 1,487, which is a net decrease of 26 from the 2007-08 projected result. This decrease is as result of a shortfall in military manning.

The ADF Permanent Force estimate represents about 20 per cent of the total DMO workforce.

ADF RESERVE FORCE

The estimated size of the Reserve Force employed within the DMO for 2007-08 is 235, which is in line with the budget estimate. This figure represents the active component of the Reserve element that is expected to undertake paid service during the reporting period. These figures do not include Reservists undertaking full-time service, as they are included in the Permanent Force numbers (see Note 1 to Table 5.1). The ADF Reserve Force estimate represents about three per cent of the total DMO workforce.

CHAPTER SIX – BUDGETED FINANCIAL STATEMENTS

BUDGETED FINANCIAL STATEMENTS

Analysis of Budgeted Financial Statements

Budgeted Departmental Income Statement

Budgeted Departmental Balance Sheet

Budgeted Departmental Statement of Cash Flows

BUDGETED FINANCIAL STATEMENTS

Analysis of Budgeted Financial Statements

Revisions to the budgeted departmental financial statements for the DMO since the *Portfolio Budget Statements 2007-08* are presented in this section.

Budgeted Departmental Income Statement

A decrease in the DMO's income (-\$497.9m) is largely a result of movements as detailed below:

- the reprogramming of major capital projects to future years (-\$440.8m)
- a reduction due to foreign exchange gain handback (-\$226.6m)
- an increase in sustainment funding for overseas operations (\$252.1m)
- adjustments for changes in opening balances in accordance with the DMO's annual financial statements for 2006-07.

Movements in expenses for the DMO correspond with the above.

Budgeted Departmental Balance Sheet

The Balance Sheet has been updated as a result of the 2006-07 audited financial statements and includes the reprogramming of major capital projects as noted above.

Budgeted Departmental Statement of Cash Flows

As a result of foreign exchange adjustments and reprogramming of major capital projects to future years there is a commensurate reduction in the estimate of cash required to be drawn in 2007-08 (-\$632.5m).

The corresponding movement of cash for operating activities represents a decrease in the cash received and cash used as detailed below:

- a decrease in payments to suppliers (-\$500.6m)
- a decrease in appropriation receipts (-\$0.1m)
- a decrease in payments to employees (-\$14.8m)
- a decrease in GST payments of (-\$117.1m).

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

	Actual	Revised	Forward	Forward	Forward
	2006-07	budget	estimate	estimate	estimate
	(\$'000)	2007-08	2008-09	2009-10	2010-11
		(\$'000)	(\$'000)	(\$'000)	(\$'000)
INCOME					
Revenue					
Revenues from Government	46,120	93,256	91,298	91,278	88,650
Goods and services	7,938,588	8,906,819	10,608,015	10,723,552	10,512,546
Other	88,491	80,000	80,000	80,000	80,000
Total revenue	8,073,199	9,080,075	10,779,313	10,894,830	10,681,196
Gains					
Foreign exchange	12,076	–	–	–	–
Other	37,678	37,521	37,521	37,521	37,521
Total gains	49,754	37,521	37,521	37,521	37,521
Total income	8,122,953	9,117,596	10,816,834	10,932,351	10,718,717
EXPENSE					
Employees	409,262	444,701	478,156	504,160	512,614
Suppliers	7,669,300	8,668,183	10,334,883	10,425,142	10,204,621
Depreciation and amortisation	6,964	4,712	3,795	3,049	1,482
Net losses from sale of assets	586	–	–	–	–
Other expenses	2,760	–	–	–	–
Total expenses	8,088,872	9,117,596	10,816,834	10,932,351	10,718,717
Net surplus or (deficit) attributable to the Australian Government	34,081	–	–	–	–

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

	Actual	Revised	Forward	Forward	Forward
	2006-07	budget	estimate	estimate	estimate
	(\$'000)	2007-08	2008-09	2009-10	2010-11
		(\$'000)	(\$'000)	(\$'000)	(\$'000)
ASSETS					
Financial assets					
Cash	21,967	21,967	21,967	21,967	21,967
Receivables	627,810	1,054,336	1,051,153	936,005	816,509
Total financial assets	649,777	1,076,303	1,073,120	957,972	838,476
Non-financial assets					
Infrastructure, plant and equipment	11,136	8,291	6,209	4,722	3,805
Intangibles	5,707	3,840	2,127	565	–
Other	1,279,015	1,279,015	1,279,015	1,279,015	1,279,015
Total non-financial assets	1,295,858	1,291,146	1,287,351	1,284,302	1,282,820
Total assets	1,945,635	2,367,449	2,360,471	2,242,274	2,121,296
LIABILITIES					
Provisions					
Employees	138,438	161,768	168,257	173,796	176,554
Total provisions	138,438	161,768	168,257	173,796	176,554
Payables					
Suppliers	840,040	840,040	840,040	840,040	840,040
Other Payables ¹	782,574	1,181,058	1,167,591	1,043,855	920,119
Total payables	1,622,614	2,021,098	2,007,631	1,883,895	1,760,159
Total liabilities	1,761,052	2,182,866	2,175,888	2,057,691	1,936,713
Net Assets	184,583	184,583	184,583	184,583	184,583
EQUITY					
Retained surpluses	42,859	42,859	42,859	42,859	42,859
Contributed Equity	141,724	141,724	141,724	141,724	141,724
Total parent entity interest	184,583	184,583	184,583	184,583	184,583
Total equity	184,583	184,583	184,583	184,583	184,583
Current Assets	1,659,783	2,086,309	2,083,126	1,967,978	1,848,482
Non-current Assets	285,852	281,140	277,345	274,296	272,814
Current Liabilities	1,480,191	1,902,005	1,895,027	1,776,830	1,655,852
Non-current Liabilities	280,861	280,861	280,861	280,861	280,861

Note

1. 'Other Payables' includes unearned revenue for cash received from Defence and foreign trust activities.

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

	Actual 2006-07 (\$'000)	Revised budget 2007-08 (\$'000)	Forward estimate 2008-09 (\$'000)	Forward estimate 2009-10 (\$'000)	Forward estimate 2010-11 (\$'000)
OPERATING ACTIVITIES					
Cash received					
Goods and services	8,226,195	8,878,777	10,597,731	10,714,964	10,508,306
Appropriations	46,120	93,256	91,298	91,278	88,650
GST Input Credit Receipts	519,463	562,871	675,704	686,554	671,727
Interest received from overseas bank accounts	4,942	–	–	–	–
Other	79,386	80,000	80,000	80,000	80,000
Total cash received	8,876,106	9,614,904	11,444,733	11,572,796	11,348,683
Cash used					
Employees	396,630	421,371	471,667	498,621	509,856
Interest paid to the Official Public Account	4,942	–	–	–	–
Suppliers	7,956,557	8,630,662	10,297,362	10,387,621	10,167,100
GST Payments to suppliers	514,386	562,871	675,704	686,554	671,727
Other	13	–	–	–	–
Total cash used	8,872,528	9,614,904	11,444,733	11,572,796	11,348,683
Net cash from or (used by) operating activities	3,578	–	–	–	–
INVESTING ACTIVITIES					
Cash received					
Proceeds from sales of property, plant and equipment	–	–	–	–	–
Total cash received	–	–	–	–	–
Cash used					
Purchase of property, plant and equipment	3,263	–	–	–	–
Purchase of computer software	1,929	–	–	–	–
Total cash used	5,192	–	–	–	–
Net cash from or (used by) investing activities	-5,192	–	–	–	–
FINANCING ACTIVITIES					
Total cash received	–	–	–	–	–
Total cash used	–	–	–	–	–
Net cash from or (used by) financing activities	–	–	–	–	–
Net increase or (decrease) in cash held	-1,614	–	–	–	–
Cash at the beginning of the reporting period	23,581	21,967	21,967	21,967	21,967
Cash at the end of the reporting period	21,967	21,967	21,967	21,967	21,967

Table 6.4—Departmental Statement of Changes in Equity — Summary of Movement (Budget Year 2007-08)

	Accumulated results (\$'000)	Asset revaluation reserve (\$'000)	Other reserves (\$'000)	Contributed equity/ capital (\$'000)	Total equity (\$'000)
Opening balance as at 1 July 2007					
Balance carried forward from previous period	42,859	–	–	141,724	184,583
Adjustment for changes in accounting policies					
Adjusted opening balance	42,859	–	–	141,724	184,583
Income and expense					
Income and expenses recognised directly in equity:					
Gain/loss on revaluation of property	–	–	–	–	–
Sub-total income and expense					
Net operating result	–	–	–	–	–
Total income and expenses recognised directly in equity	–	–	–	–	–
Transactions with owners					
<i>Distribution to owners</i>					
Returns on capital	–	–	–	–	–
Dividends					
Returns of capital					
Restructuring	–	–	–	–	–
Other					
<i>Contribution by owners</i>					
Appropriation (equity injection)	–	–	–	–	–
Other:					
Restructuring					
Sub-total transactions with owners	–	–	–	–	–
Transfers between equity components	–	–	–	–	–
Estimated closing balance as at 30 June 2008	42,859	–	–	141,724	184,583

Table 6.5—Departmental Capital Budget Statement

	Actual 2006-07 (\$'000)	Revised Budget 2007-08 (\$'000)	Forward Estimate 2008-09 (\$'000)	Forward Estimate 2009-10 (\$'000)	Forward Estimate 2010-11 (\$'000)
CAPITAL APPROPRIATIONS					
Total equity injections	–	–	–	–	–
Total loans	–	–	–	–	–
Total capital appropriations	–	–	–	–	–
Represented by:					
Purchase of non-financial assets	5,192	–	–	–	–
Total represented by:	5,192	–	–	–	–
PURCHASE OF NON-FINANCIAL ASSETS					
Funded by capital appropriation	–	–	–	–	–
Funded internally by					
Departmental resources	5,192	–	–	–	–
Total	5,192	–	–	–	–

Table 6.6—Departmental Property, Plant, Equipment and Intangibles — Summary of Movement (Budget Year 2007-08)

	Land	Investment Property	Buildings	Specialist military equipment	Other infrastructure, plant and equipment	Heritage and cultural assets (\$'000)	Computer software	Other intangibles	Total
	(\$'000)	(\$'000)	(\$'000)	(\$'000)	(\$'000)		(\$'000)	(\$'000)	(\$'000)
As at 01 July 2007									
Gross book value	–	–	–	–	19,438	–	20,414	5,090	44,942
Accumulated depreciation	–	–	–	–	-8,302	–	-15,861	-3,936	-28,099
Opening net book value	–	–	–	–	11,136	–	4,553	1,154	16,843
Additions:									
by purchase	–	–	–	–	–	–	–	–	–
Depreciation/amortisation expense	–	–	–	–	-2,845	–	-1,471	-396	-4,712
Disposals:									
other disposals	–	–	–	–	–	–	–	–	–
As at 30 June 2008									
Gross book value	–	–	–	–	19,438	–	20,414	5,090	44,942
Accumulated depreciation	–	–	–	–	-11,147	–	-17,332	-4,332	-32,811
Estimated closing net book value	–	–	–	–	8,291	–	3,082	758	12,131