



# **PORTFOLIO BUDGET STATEMENTS 2007-08**

**DEFENCE PORTFOLIO  
(Department of Defence, the Defence Materiel Organisation  
and Defence Housing Australia)**

**BUDGET INITIATIVES AND EXPLANATIONS  
OF APPROPRIATIONS SPECIFIED BY OUTCOMES AND OUTPUTS  
2007-08**

**BUDGET RELATED PAPER NOs. 1.4A and 1.4C**

## **2007-08 BUDGET PAPERS**

### Budget Speech

- No. 1      Budget Strategy and Outlook 2007-08  
Contains information on the economic and financial outlook, together with information on the fiscal strategy.
- No. 2      Budget Measures 2007-08  
Provides a comprehensive statement on the budget expense, revenue and capital measures in the 2007-08 Budget.
- No. 3      Federal Financial Relations 2007-08  
Provides information on the Australian Government's financial relations with the States, Territories and local government.
- No. 4      Agency Resourcing 2007-08  
Contains information on resourcing for Australian Government agencies (including the Appropriation Bills Nos. 1 and 2 and the Appropriation (Parliamentary Departments) Bill No. 1).

## **2007-08 BUDGET RELATED PAPERS**

- No. 1      Portfolio Budget Statements  
Detailed information on the expected financial position of each Australian Government agency for 2007-08.

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ISBN 978-0-642-29659-7

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MINISTER FOR DEFENCE  
THE HON DR BRENDAN NELSON MP

Senator the Hon Paul Calvert  
President of the Senate  
Australian Senate  
Parliament House  
CANBERRA ACT 2600

02 MAY 2007

The Hon David Hawker MP  
Speaker  
House of Representatives  
Parliament House  
CANBERRA ACT 2600

Dear Mr President and Mr Speaker

I hereby submit Portfolio Budget Statements in support of the 2007-08 Budget for the Department of Defence, the Defence Materiel Organisation and Defence Housing Australia.

These statements have been developed, and are submitted to the Parliament, as a statement on the outcomes for the Defence portfolio. They also cover the purpose of portfolio budget measures.

I present these statements by virtue of my responsibility for accountability to the Parliament and, through it, the public.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brendan Nelson', with a large, stylized flourish extending from the bottom left of the signature.

BRENDAN NELSON



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# USER GUIDE TO THE PORTFOLIO BUDGET STATEMENTS

## Purpose of the Portfolio Budget Statements

The purpose of the 2007-08 Portfolio Budget Statements is to inform Senators and Members of Parliament of the proposed allocation of resources to Government outcomes by agencies within the portfolio. Agencies receive resources from the annual appropriations acts, special appropriations (including standing appropriations and special accounts), and revenue from other sources.

A key role of the Portfolio Budget Statements is to facilitate the understanding of proposed annual appropriations in Appropriation Bills No. 1 and No. 2 2007-08 (or Appropriation Bill [Parliamentary Departments] No. 1 2007-08 for the parliamentary departments). In this sense the Portfolio Budget Statements are Budget related papers and are declared by the Appropriation Acts to be 'relevant documents' to the interpretation of the Acts according to section 15AB of the *Acts Interpretation Act 1901*.

The Portfolio Budget Statements provide information, explanation and justification to enable Parliament to understand the purpose of each outcome proposed in the Bills.

As required under section 12 of the *Charter of Budget Honesty Act 1998*, non-general government sector entities are not consolidated into the Commonwealth general government sector fiscal estimates and accordingly, these entities are not reported in the Portfolio Budget Statements.

## Structure of the Portfolio Budget Statements

The Portfolio Budget Statements are presented in three sections, aligned in several ways to the Budget Papers, as outlined below.

<b>SECTION ONE: DEFENCE</b>	
Chapter One — Overview	An overview of Defence's strategic objectives and environment, force structure and Defence's organisational structure.
Chapter Two — Resourcing	Defence's financial outlook for 2007-08, including a budget summary and measures, and Defence's purchaser-provider arrangements.
Chapter Three — Capital Investment Program	A summary of Defence's capital budget, including projects to be considered in 2007-08, medium and major capital facilities projects, other capital purchases and capital receipts.
Chapter Four — People	This chapter provides a summary of personnel initiatives for 2007-08 and a summary of Defence's workforce.
Chapter Five — Planned Outcome Performance	A brief overview of Defence's outcomes and outputs for 2007-08. It details the estimated cost of Defence's outputs and outcomes and describes each outcome and output including planned performance targets.

Chapter Six — Management Reforms and Efficiencies	Information on the implementation of internal business processes in 2007-08, designed to ensure sustainable delivery of outcomes.
Chapter Seven — Budgeted Financial Statements	Defence's budgeted financial statements, in accrual format, covering 2007-08, the current year and three out-years.
<b>SECTION TWO: DEFENCE MATERIEL ORGANISATION</b>	
Chapter One — Overview	An overview of the organisation, including the challenges and opportunities facing the Defence Materiel Organisation (DMO) and the organisational structure.
Chapter Two — Resourcing	The DMO's financial outlook for 2007-08, including DMO's purchaser-provider arrangements.
Chapter Three — Planned Outcome Performance	An overview of the DMO's outcome and outputs, including the Top 30 Projects.
Chapter Four — Governance and Materiel Reform	This chapter contains a summary of the DMO's governance activities and reform initiatives.
Chapter Five — People	This chapter provides a summary of personnel initiatives for 2007-08 and a summary of the DMO's workforce.
Chapter Six — Budgeted Financial Statements	The DMO's budgeted financial statements, in accrual format, covering 2007-08 and three out-years.
<b>SECTION THREE: DEFENCE HOUSING AUSTRALIA</b>	
	An overview of Defence Housing Australia (DHA), including performance forecasts for 2007-08, DHA's outcome and output, and its 2007-08 budgeted financial statements.
<b>APPENDICES</b>	
	A list of tables and charts, a glossary, acronyms and abbreviations, and an alphabetical index.

## PORTFOLIO BUDGET STATEMENTS AND BUDGET PAPERS

Comprehensive information on all government decisions announced in the Budget are in Budget Paper No. 2, *Budget Measures 2007-08*. The Portfolio Budget Statements include Budget appropriations for this Budget in each agency's Table 2.2, 2007-08 Budget Measures.

The following chart shows the parts of Portfolio Budget Statements which relate to specific Budget papers.

Budget Paper	Portfolio Budget Statements
<b>Budget Paper No. 1: Budget Strategy and Outlook</b>	
<b>Statement 1: Fiscal Strategy and Budget Priorities</b> Overview of the fiscal and economic outlook	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two
<b>Statement 2: Fiscal Outlook</b> Budget aggregates and variations to the fiscal balance estimates	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two
<b>Statement 10: AAS Financial Statements</b> Accrual financial statements for the general government sector	Defence – Section One, Chapter Seven DMO – Section 2, Chapter Six
<b>Budget Paper No. 2: Budget Measures</b>	
Budget revenue, expense and capital measures	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two

Budget Paper	Portfolio Budget Statements
<b>Budget Paper No. 3: Federal Financial Relations</b>	
Information on the Australian Government's relations with States, Territories and local government, in particular, Specific Purpose Payments (SPPs)	Defence – Section One, Chapters Two and Chapter Five
<b>Budget Paper No. 4: Agency Resourcing</b>	
Resourcing for Australian Government agencies, including Appropriation Bills	Defence – Section One, Chapter Two DMO – Section Two, Chapter Two

## Departmental and Administered items

Under the Australian Government's accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies decide (departmental transactions) are separately budgeted for and reported on from transactions agencies make on behalf of others (administered transactions). This ensures that the transactions decided by agencies are reported separately from other transactions in their accounts.

### Departmental

Revenues, expenses, assets and liabilities in relation to an agency or authority that are controlled by the agency. Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by the agency in providing its goods and services.

### Administered

Revenues, expenses, assets and liabilities that are managed by an agency or authority on behalf of the Government according to set the Government's directions. Administered expenses include subsidies, grants and personal benefit payments and Administered revenues include taxes, fees, fines and excises.

## Appropriations in the accrual budgeting framework

In the accrual budgeting framework, separate annual appropriations are provided for:

- Departmental price of outputs appropriations: representing the Government's funding for outputs from agencies;
- Departmental capital appropriations for investments by the Government for either additional equity or loans to agencies or payments from previous years' outputs;
- Administered expense appropriations: for the estimated administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the States and Territories; and
- Administered capital appropriations: for increases in administered equity through funding non-expense administered payments.

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to State governments). The appropriation framework is discussed further in the introduction to Budget Paper No. 4, *Agency Resourcing 2007-08*.

## Components of agency financial statements

Reporting requirements for budgeted financial statements differ between agencies (for example, according to whether the agency participates in administered transactions). Therefore, not all agencies are required to report against all schedules.

The budgeted financial statements contain the estimates prepared in accordance with the requirements of the government’s financial budgeting and reporting framework, including the principles of the Australian Accounting Standards and Statements of Accounting Concepts, as well as specific guidelines issued by the Department of Finance and Administration. They show the planned financial performance for the 2007-08 Budget year and each of the forward years from 2008-09 to 2010-11. The statements also include the estimated actual for 2006-07 for comparative purposes.

The schedules included in the budgeted financial statements for 2007-08 are as follows.

Schedule	Purpose
<b>Budgeted departmental income statement</b>	Shows the expected financial results for the agency. Identifies full accrual expenses and revenues, which highlights whether the agency is operating at a sustainable level.
<b>Budgeted departmental balance sheet</b>	The financial position of the agency. It helps decision makers to track the management of assets and liabilities.
<b>Budgeted departmental statement of cash flows</b>	Provides information on the extent and nature of cash flows by categorising them into expected cash flows from operating activities, investing activities and financing activities.
<b>Budgeted departmental statement of changes in equity — summary of movement</b>	This is a new statement for Portfolio Budget Statements that represents the movement of parent entity (the Commonwealth) interest in the agency. The statement has been prepared to reflect the net operating result, movements of capital return and additional capital injections from the Commonwealth.
<b>Departmental capital budget statement</b>	Shows all planned departmental capital expenditure (capital expenditure on non-financial assets), whether funded through capital appropriations for additional equity or borrowings, or from funds from internal sources.
<b>Departmental property, plant, equipment and intangibles — summary of movement</b>	Shows budgeted acquisitions and disposals of non financial assets during the Budget year.

Schedule	Purpose
<b>Schedule of budgeted income and expenses administered on behalf of government</b>	Identifies the main revenues and expenses administered on behalf of government.
<b>Schedule of budgeted assets and liabilities administered on behalf of government</b>	Shows the assets and liabilities administered on behalf of government.
<b>Schedule of budgeted administered cash flows</b>	Shows cash flows administered on behalf of government.
<b>Schedule of administered capital budget</b>	Shows details of planned administered capital expenditure.
<b>Schedule of administered property, plant, equipment and intangibles — summary of movement</b>	Discloses details of movements in administered non financial assets.

## Abbreviations and Conventions

The following notations may be used:

NEC/nec	not elsewhere classified
-	nil
..	not zero, but rounded to zero
na	not applicable (unless otherwise specified)
nfp	not for publication
\$m	\$ million

Figures in tables and in the text may be rounded. Figures in text are generally rounded to one decimal place, whereas figures in tables are generally rounded to the nearest thousand. Discrepancies in tables between totals and sums of components are due to rounding.

## Enquiries

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## **References**

Previous years' Defence Portfolio Budget Statements, Portfolio Additional Estimates Statements and Annual Reports can be found at:  
[www.defence.gov.au/budget](http://www.defence.gov.au/budget)

The Defence Update 2005 can be found at: [www.defence.gov.au/update2005](http://www.defence.gov.au/update2005)