

# DEFENCE

## CHAPTER ONE

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# OVERVIEW

## STRATEGIC ENVIRONMENT

The current security environment has proved as complex and challenging as predicted in the 2000 Defence White Paper and the 2003 and 2005 Defence Updates. Australia's strategic environment is characterised by the impacts of globalisation, the challenges of supporting regional nations at risk, threats of terrorism, the proliferation of weapons of mass destruction, and the maturing relationships between the major powers in the Asia-Pacific region. Countering the threats of terrorism and the proliferation of weapons of mass destruction, and supporting regional states in difficulty remain the Government's highest operational defence priorities.

## OPERATIONAL TEMPO

The Australian Defence Force's (ADF's) operational tempo remains high, with around 4,000 personnel currently serving on operations within Australia, the region and around the world. As noted in the 2005 Defence Update, the tempo of operations is likely to continue and this places significant demands on the ADF in terms of preparedness, sustainability and capabilities. Defence continues to plan and structure for its primary role in the defence of Australia and its interests and maintains the capacity to support current commitments and provide response options to the Government to meet the range of potential future domestic, regional and global scenarios. This includes working collaboratively with our neighbours and the broader international defence community and contributing to coalition operations in support of Australia's national interests.

## DEFENCE PLANNING

Defence manages the challenges of the complex strategic environment and current operational tempo through the Defence Strategic Planning framework. The framework enables Defence to assess the strategic environment, identify and direct appropriate responses, and recommend supporting resources, capability developments or preparedness requirements. The framework consists of classified and unclassified documents that are revised periodically to ensure quality advice and direction is available to guide Defence activities.

## DEFENCE MANAGEMENT REFORMS

The Defence Management Review presented its findings to the Minister for Defence in April 2007. It acknowledged the successes Defence has had over the last decade and the significant reforms that have been undertaken in an unprecedented period of high operational activity. It also identified areas where performance could be improved.

The review provides Defence with a platform to take forward the important reforms required to effectively position the organisation for the successful conduct of operations into the future. A number of new initiatives will be implemented to address the review's recommendations that will build on the existing program of reforms and strengthen the organisation's capacity in four key areas: accountability and governance; supporting our Minister and the Government; people management; and business system reform. Well planned and coordinated implementation of these initiatives will be a key area of focus for Defence in 2007-08.

## FORCE STRUCTURE

Defence maintains a force structure to meet the strategic tasks outlined in the 2000 Defence White Paper and the 2003 and 2005 Defence Updates. The shape of the force structure is influenced, among other things, by lessons learnt during major operations. The force-in-being consists of the following major combat or combat-support elements:

- a surface combatant force of five Adelaide-class guided missile frigates (to be reduced to four at the end of 2007) and eight Anzac-class frigates;
- a naval aviation force comprising 16 Seahawk naval combatant helicopters, six Sea King maritime support helicopters and 13 Squirrel naval training helicopters. The Sea King helicopters are due to be progressively replaced by MRH90 helicopters from 2010. The introduction of the Super Seasprite helicopter to operational service has been delayed by the need to resolve a system problem identified during the flight test program. While the Super Seasprite helicopter is scheduled for initial operating capability in 2011 the Government will make a final decision on its future sometime later this year;
- Armidale-class patrol boats to provide patrol, and response capability in Australia's maritime approaches. The Fremantle-class patrol boats have been progressively withdrawn from service as more Armidale-class patrol boats have been introduced. The last of the Fremantle-class patrol boats will be retired by mid-2007, by which time 12 Armidale-class patrol boats will be in service. An additional two Armidale-class patrol boats will be delivered by 2008;

- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships, one heavy landing ship and six heavy landing craft;
- a mine warfare force comprising six Huon-class coastal mine hunter vessels, two auxiliary minesweepers and two clearance diving teams;
- a Hydrographic force comprising two Leeuwin-class Hydrographic ships, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and a deployable geospatial support team;
- an afloat support force comprising one auxiliary oil tanker and one fleet replenishment ship;
- nine combined arms battlegroups to provide depth, sustainability, utility and flexibility for the Army;
- a Reserve Force designed to provide specified individual and collective capabilities to support, sustain and reinforce the Army's operational forces;
- three regional force surveillance units;
- a Special Operations Command consisting of the Special Air Services Regiment, a Regular Army commando regiment, an Army Reserve commando regiment, an Incident Response Regiment, a Special Forces Training Centre and a Special Operations Logistics Squadron;
- as part of implementing Stage 1 of the Enhanced Land Force initiative, an additional infantry battalion was raised in December 2006. In 2007, infantry battalion growth is to occur and support capabilities are being raised. Under Stage 2, funding for a second infantry battalion and supporting capabilities are likely to be considered by the Government in late 2007 or early 2008;
- an air combat force consisting of three F/A-18 squadrons and two F-111 squadrons (to be retired from service in 2010), supported by a training wing comprising four units;
- an airlift and air-to-air refuelling force that operates one heavy airlift squadron operating four Boeing C-17 Globemaster III aircraft by 2008, one C-130 Hercules airlift squadron, one squadron each of DHC-4, B-707, and Special Purpose Aircraft (B-737 BBJ and CL-604 Challenger) supported by a training squadron;
- a combat support group consisting of two expeditionary combat support wings that provide the essential air base combat support required to conduct deployed air operations on bare bases and in low infrastructure conditions, and a health support wing;

- a maritime patrol force comprising two front line P-3 Orion squadrons and one conversion unit. The Wedgetail airborne early warning and control aircraft which will enter service from late 2009;
- a battlespace management force consisting of a command and control capability for air operations, wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other supporting elements;
- a training group consisting of an air training wing that conducts specialist and *ab-initio* training for aircrew, and a ground training wing that includes a school of technical training, a post-graduate college and other training units; and
- diverse capabilities for intelligence collection and analysis.

The major combat elements are being integrated through a robust communications network and information systems required to support the ADF's mission command, intelligence, surveillance, reconnaissance, imagery and military geospatial information sharing requirements. Capabilities such as satellite communications, tactical information exchange links and the command support environment are being progressed.

The delivery of Defence capabilities continues to be dependent on the support of the Defence Science and Technology Organisation.

## OVERVIEW OF THE 2007-08 BUDGET

The Government has allocated Defence an additional \$14.0 billion over 10 financial years in new budget measures comprising:

- A package of recruitment and retention measures that are designed to increase recruitment intakes and reduce military separation rates (\$2.1 billion).
- An additional \$1,278m for Defence operations comprising:
  - \$703m over three years (including \$32.4m for the reimbursement of costs incurred in 2006-07) to expand Australia's commitment to operations in Afghanistan, including the redeployment of Special Forces and other enabling support elements including a mobile control and reporting unit, and the redeployment of Chinook helicopter support;
  - \$389.4m over three financial years to maintain a deployment of about 1,575 ADF personnel;
  - \$134.8m over two years to maintain the present ADF force level commitment to Timor-Leste to assist in the restoration of stability and security; and

- \$51.6m over four years for the continued surveillance of Australia's northern approaches as part of Operation Resolute.
- A strengthening of Australia's Defence intelligence and security capabilities to better protect Australia and advance its national interests (\$382.2m).
- The acquisition of 24 F/A-18F Block II Super Hornet multi role aircraft to ensure that Australia maintains its air combat capability edge during its transition to the F-35 Joint Strike Fighters over the next decade (around \$6 billion over 10 years).
- Additional logistics sustainment funding to ensure that the ADF continues to be well prepared and able to respond to contingencies (\$1.8 billion).
- The personnel and operating costs of the four C-17 heavy lift airlift that the Government agreed to acquire in the 2006-07 Budget (\$1.3 billion).
- Investment in security measures to protect Defence personnel, key assets, facilities and infrastructure at Defence bases (\$135.4m).
- Additional funding to ensure that Defence Housing Australia meets competitive neutrality requirements with this measure budget-neutral at the whole-of-government level (\$953.8m).
- A contribution of \$20.5m to help establish the Jezzine Barracks Community Trust.

This is the seventh consecutive budget in which the Government has met or exceeded its Defence White Paper funding commitment. The current status of the White Paper funding commitment is detailed in Chapter Two – Resourcing.

A number of budget adjustments have also been agreed by Government including the reprogramming of the capital investment program, and price and exchange rate variations. These total \$4.127 billion over 10 years and together with the \$14.043 billion provided in new budget measures, means that an additional \$18.171 billion has been added to Defence's budget allocations over the next 10 years. These are detailed in Table 1.1.

Excluding the administered appropriations of \$2,802m, Defence's total Departmental funding for 2007-08 is \$21,999m, which is 9.3 per cent of Australian Government outlays and 2 per cent of Gross Domestic Product (GDP). Further details on budget allocations are contained in Chapter Two – Resourcing.

Table 1.1: Additional Funding Provided to Defence in the 2007-08 Budget (Pre-ERC Outturned Prices)

	2007-08 (\$m)	2008-09 (\$m)	2009-10 (\$m)	2010-11 (\$m)	Total FE (\$m)	2011-12 (\$m)	2012-13 (\$m)	2013-14 (\$m)	2014-15 (\$m)	2015-16 (\$m)	2016-17 (\$m)	TOTAL (\$m)
Remuneration Structure Reform	-	59.7	60.6	61.9	182.2	63.3	64.7	66.3	67.8	69.4	71.7	585.4
Defence Home Ownership Assistance Scheme	-	40.9	52.9	64.7	158.6	77.5	97.2	134.8	140.2	130.4	125.2	863.8
Royal Australian Navy Sea Change	1.9	8.6	8.7	8.9	28.1	9.2	9.4	9.6	9.8	10.1	10.3	86.5
Marketing and Service Branding	24.6	26.6	26.8	27.5	105.5	19.3	19.7	20.2	20.6	21.0	21.6	227.8
Defence Apprenticeships	5.0	6.7	6.8	7.0	25.5	7.2	7.3	7.5	7.6	7.8	8.0	71.0
Medical Officer Professional Development	0.6	0.9	1.0	1.1	3.6	1.3	1.3	1.4	1.4	1.4	1.4	12.1
Expanding Cadets	10.0	10.0	10.0	10.0	40.0	10.0	10.0	10.0	10.0	10.0	10.0	100.0
Reform of Defence Force Recruiting: Transition Service and Financial Advice Scheme	4.4	12.2	12.5	12.7	41.9	13.0	13.3	13.6	13.9	14.3	14.6	124.6
<b>1. Sub-Total Australian Defence Force Retention and Recruitment - further initiatives</b>	<b>46.5</b>	<b>165.8</b>	<b>179.2</b>	<b>193.9</b>	<b>585.3</b>	<b>200.8</b>	<b>223.0</b>	<b>263.4</b>	<b>271.4</b>	<b>264.3</b>	<b>262.8</b>	<b>2,071.1</b>
Afghanistan - Australian Defence Force deployments	447.9	191.8	30.9	-	670.5	-	-	-	-	-	-	670.5
Afghanistan - Australian Defence Force deployments (reimbursement costs incurred in 2006-07 for expansion)	32.4	-	-	-	32.4	-	-	-	-	-	-	32.4
Iraq - continued funding for stabilisation and reconstruction activities	301.7	59.7	28.1	-	389.4	-	-	-	-	-	-	389.4
East Timor - continued funding to help restore peace and stability	107.7	27.1	-	-	134.8	-	-	-	-	-	-	134.8
Coastal surveillance - continuation	12.6	12.8	13.0	13.3	51.6	-	-	-	-	-	-	51.6
<b>2. Sub-Total Operations Funding</b>	<b>902.3</b>	<b>291.3</b>	<b>71.9</b>	<b>13.3</b>	<b>1,278.8</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,278.8</b>
Strengthening National Security - improved Defence intelligence capability	17.9	26.8	30.0	31.8	106.5	31.6	32.3	33.0	33.8	34.6	35.4	307.2
Strengthening National Security - reducing national e-security risk	7.0	6.2	5.7	8.1	27.0	7.1	7.8	8.2	7.7	8.3	8.8	75.0
<b>3. Sub-Total Intelligence Funding</b>	<b>24.9</b>	<b>33.0</b>	<b>35.7</b>	<b>39.9</b>	<b>133.5</b>	<b>38.7</b>	<b>40.1</b>	<b>41.3</b>	<b>41.5</b>	<b>42.9</b>	<b>44.2</b>	<b>382.2</b>
Air combat capability - acquisition of Super Hornets	621.0	990.7	1,286.7	1,072.1	3,970.5	612.8	383.0	280.2	282.5	271.1	274.7	6,074.8
Logistics - additional funding	107.9	291.3	236.2	243.3	878.6	211.8	195.2	175.2	136.4	87.8	114.9	1,800.0
C-17 heavy airlift - personnel and operating funding <sup>(1)</sup>	-	73.8	111.9	132.7	318.3	151.0	157.3	169.0	172.9	177.4	180.9	1,326.9



	2007-08 (\$m)	2008-09 (\$m)	2009-10 (\$m)	2010-11 (\$m)	Total FE (\$m)	2011-12 (\$m)	2012-13 (\$m)	2013-14 (\$m)	2014-15 (\$m)	2015-16 (\$m)	2016-17 (\$m)	TOTAL (\$m)
Strengthening National Security - enhanced protective security	33.1	33.5	34.0	34.8	135.4	-	-	-	-	-	-	135.4
Defence housing - supplementation for competitive neutrality policy	87.4	88.5	89.7	91.7	357.3	93.8	96.0	98.2	100.5	102.8	105.2	953.8
Jezzine Barracks - gift to the Townsville City Council	20.5	-	-	-	20.5	-	-	-	-	-	-	20.5
<b>4. Sub-Total Other Budget Measures</b>	<b>869.8</b>	<b>1,477.8</b>	<b>1,758.4</b>	<b>1,574.6</b>	<b>5,680.7</b>	<b>1,069.6</b>	<b>831.5</b>	<b>722.6</b>	<b>692.2</b>	<b>639.1</b>	<b>675.7</b>	<b>10,311.4</b>
<b>Total Defence 2007-08 Budget Outcome (1+2+3+4)</b>	<b>1,843.5</b>	<b>1,967.9</b>	<b>2,045.3</b>	<b>1,821.6</b>	<b>7,678.3</b>	<b>1,309.0</b>	<b>1,094.6</b>	<b>1,027.3</b>	<b>1,005.2</b>	<b>946.4</b>	<b>982.7</b>	<b>14,043.5</b>
Reprogramming of approved capital investment program	-615.0	-	631.0	-	16.1	-	-	-	-	-	-	16.1
Further reprogramming of the approved capital investment program	-378.0	-230.0	-559.3	37.8	-1,129.4	193.3	542.7	382.1	-	-	120.3	109.0
Update of price indexation	380.0	419.1	458.6	516.9	1,774.6	567.8	625.8	697.0	787.7	880.7	655.0	5,988.7
Foreign exchange movements	-78.6	-102.2	-110.3	-107.9	-399.0	-116.8	-124.0	-150.5	-153.4	-168.6	-118.3	-1,230.7
Transfer from Department of Foreign Affairs and Trade for relocation of overseas missions	0.025	-	-	-	0.025	-	-	-	-	-	-	0.025
Transfer to Department of Veterans' Affairs for F-111 Deseal/Reseal health costs	-0.8	-0.7	-0.4	-0.4	-2.2	-	-	-	-	-	-	-2.2
Transfer to Defence Materiel Organisation for Skilling Australia's Defence Industry	-20.5	-20.8	-21.0	-21.5	-83.8	-22.0	-22.5	-23.0	-23.6	-24.1	-	-199.1
Transfer to Defence Materiel Organisation for Defence Industry Policy	-26.3	-25.7	-24.7	-21.3	-98.1	-21.3	-10.5	-10.6	-7.3	-7.5	-8.4	-163.7
Special Account interest	0.028	-	-	-	0.028	-	-	-	-	-	-	0.028
Reimbursement of 2006-07 operations expenditure - Afghanistan	27.3	-	-	-	27.3	-	-	-	-	-	-	27.3
Reimbursement of 2006-07 operations expenditure - Iraq	4.4	-	-	-	4.4	-	-	-	-	-	-	4.4
Adjustment to funding beyond 2010-11 to correct error in original calculations	-	-	-	-	-	-90.2	-83.0	-83.2	-83.2	-83.2	-	-422.8
<b>5. Sub-Total Other Budget Adjustments</b>	<b>-707.4</b>	<b>39.8</b>	<b>373.9</b>	<b>403.6</b>	<b>109.9</b>	<b>510.8</b>	<b>928.5</b>	<b>811.8</b>	<b>520.2</b>	<b>597.3</b>	<b>648.7</b>	<b>4,127.2</b>
<b>Total variation to Defence funding</b>	<b>1,136.1</b>	<b>2,007.7</b>	<b>2,419.2</b>	<b>2,225.3</b>	<b>7,788.3</b>	<b>1,819.8</b>	<b>2,023.1</b>	<b>1,839.1</b>	<b>1,525.4</b>	<b>1,543.7</b>	<b>1,631.4</b>	<b>18,170.7</b>

**Note.**

- Defence will contribute \$103m from existing funding to this measure over the Budget and Forward Estimates period.

## **FINANCIAL STATEMENTS AND MANAGEMENT IMPROVEMENT**

In 2007-08, Defence will continue the reform of its financial statements and management processes to ensure that the Government receives the optimal Defence capability for its investment in Defence. The reform agenda will focus on further improvement to Defence's financial statements, to build on the 'except for' audit opinion achieved in 2005-06, and the continued implementation of a rigorous system of financial controls. Further details on the financial statements and management reform agenda are included in Chapter Six – Management Reforms and Efficiencies.

### **ORGANISATIONAL STRUCTURE**

#### **Senior Executive Changes**

Mr Nick Warner commenced as Secretary of Defence on 4 December 2006 (as reported in the *Portfolio Additional Estimates Statements 2006-07*).

Mr Stephen Merchant was appointed to the position of Deputy Secretary Intelligence and Security on 22 February 2007.

On 26 January 2007, Major General Grant Cavenagh replaced Air Vice-Marshal Christopher Spence as the Commander Joint Logistics.

#### **Organisational Structure Changes**

A review focusing on organisational efficiency and effectiveness across the Defence organisation was conducted in 2006-07. A number of changes to the organisational structure are being made in order to implement the recommendations of this review.

These include:

- The creation of a strategic HR function headed by an SES Band 3-level officer to be focused on policy, planning and evaluation to support better decision-making.
- The appointment of an expert Chief Information Officer (CIO) as the SES Band 3-level officer to drive a substantial information technology reform agenda.

- The establishment of a Policy, Governance and Coordination function led by a new SES Band 3-level officer. This organisation will support the Secretary and the Chief of the Defence Force in delivering high quality policy advice, driving organisational reform and exercising strategic leadership.

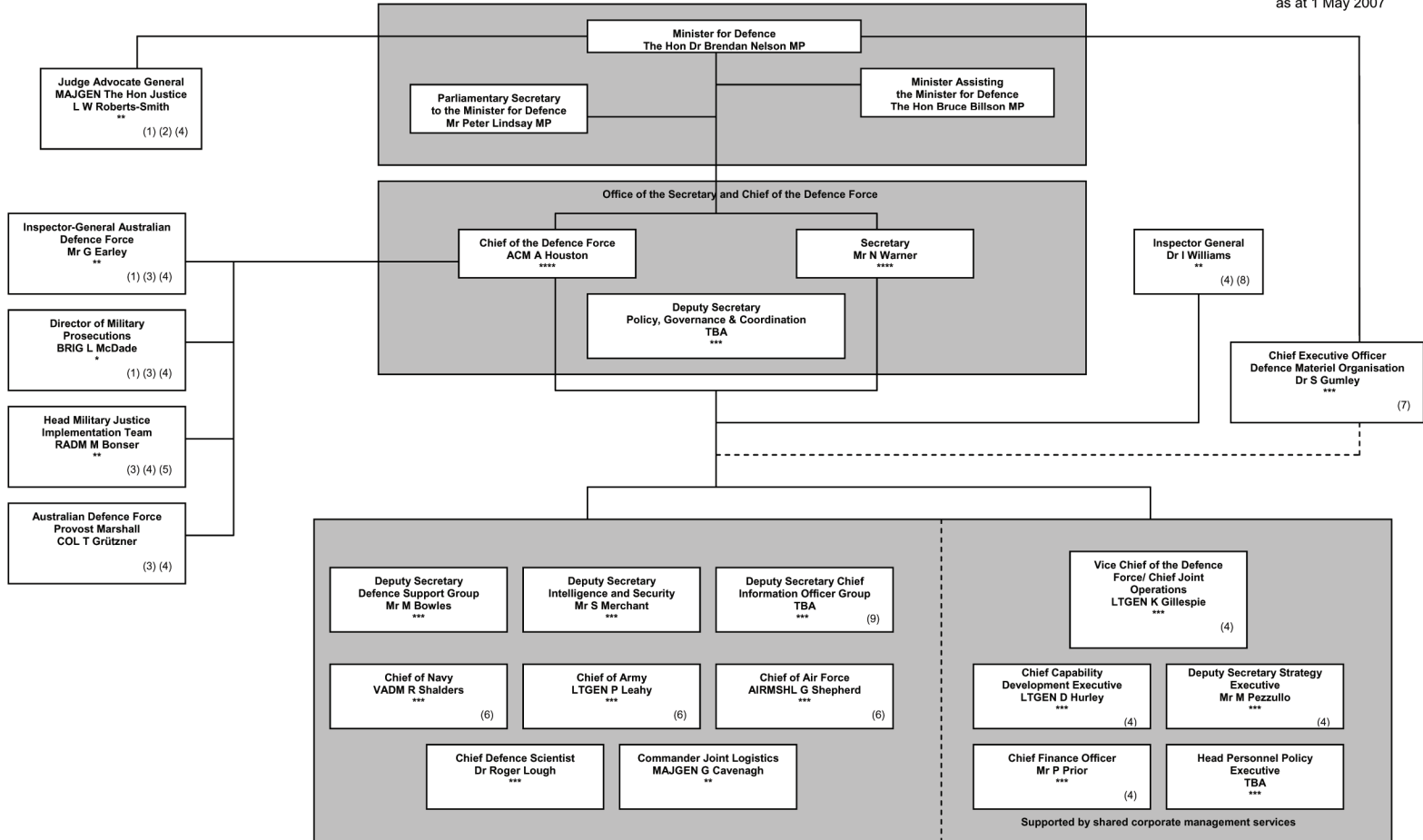
Further detail on the Defence Management Review can be found in Chapter Six – Management Reforms and Efficiencies.

## Organisational Structure

Figure 1.1 depicts the structure of the organisation as at 1 May 2007.

Figure 1.1 –Structure of the Organisation as at 1 May 2007

as at 1 May 2007



(1) Statutory appointment.  
 (2) The Judge Advocate General reports directly to the Minister for Defence in accordance with Section 196A of the Defence Force Discipline Act 1982.  
 (3) Directly responsible to the Chief of the Defence Force.  
 (4) Supported by shared corporate management services.  
 (5) Position will exist to end of 2007.  
 (6) Section 9(3) of the Defence Act, 1903 requires the Service Chiefs to advise the Minister on matters relating to their command.

(7) Under the agreed business model for DMO as a prescribed agency, the CEO DMO Ministerial Directive identifies that the CEO DMO is directly accountable to the Minister for DMO's performance but remains accountable to the Secretary and CDF.  
 (8) The Inspector-General reports directly to the Secretary and Chief of the Defence Force.  
 (9) New position

## Changes to the Defence Outcome and Output Structure

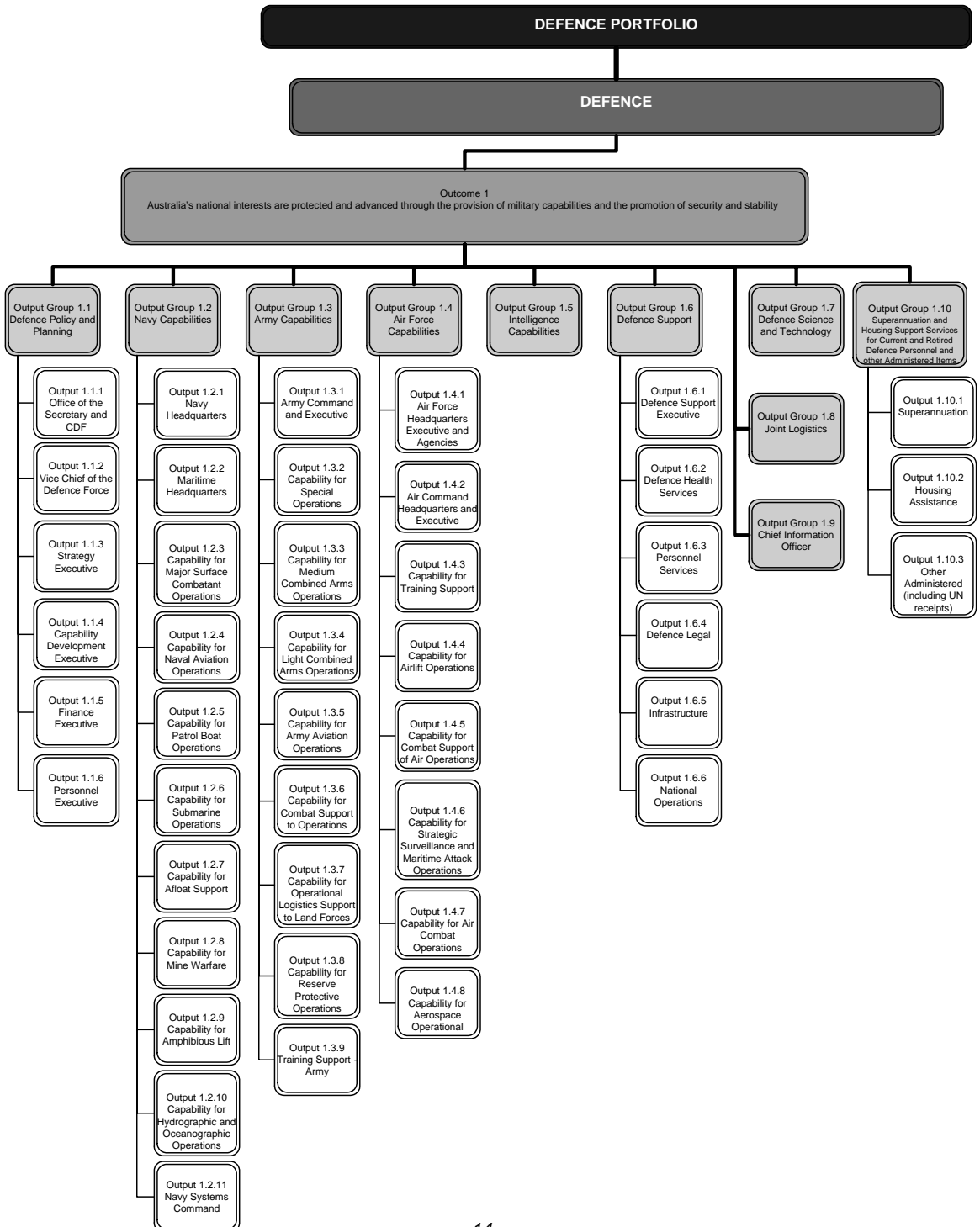
As part of a whole-of-government review into agencies' outcomes, the Minister for Finance and Administration recently approved revisions to the outcome and output structure within Defence. The new outcome structure for Defence (see Figure 1.2) is intended to better reflect the Government's Defence policy objectives and what Defence actually delivers to the Government and the community. Defence intends to report against this structure in its *Portfolio Additional Estimates Statements 2007-08*.

Under the new structure, Defence will report against the following three departmental outcomes:

- Outcome 1: Australia's national interests are protected and advanced through the provision of military capabilities and the promotion of security and stability;
- Outcome 2: Military operations and other tasks directed by the Government to achieve the desired results; and
- Outcome 3: Defence's support to the Australian community and civilian authorities to achieve the desired results.

This new framework will provide Defence with the opportunity to align its outcomes and outputs with recent organisational changes. As well as improving accountability, the new structure will provide an opportunity for Defence to simplify its budgeting processes and address related audit issues, while at the same time providing a greater level of transparency to the Government.

**Figure 1.2 –Revised Defence Outcome and Output Structure (as at 1 July 2007)**



**Figure 1.2 –Revised Defence Outcome and Output Structure (as at 1 July 2007)**

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