

DEFENCE CHAPTER TWO RESOURCING

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2007-08 BUDGET SUMMARY

Defence has budgeted to receive \$24.802 billion in total resourcing in 2007-08 comprising \$21.999 billion for departmental funding and \$2.802 billion for administered appropriations. Total Defence resourcing is summarised in Table 2.1.

Departmental funding (serial 7 of Table 2.1) is the most common way of presenting the Defence budget and is consistent with the presentation of the Defence White Paper. The various ways in which the Defence budget is presented are explained in Chapter Seven – Budgeted Financial Statements.

In 2007-08, total departmental funding of \$21,999.1m is provided from the following four sources:

- revenue from the Government for Defence outcomes (\$19,170.1m);
- an equity injection (\$2,062.8m);
- own-source revenue (\$709.2m); and
- net capital receipts (\$56.9m).

The total level of departmental funding for 2007-08 of \$21.999 billion is an increase of \$1,197.3m or 5.8 per cent from the previous estimate published in the *Portfolio Additional Estimates Statements 2006-07*. The increase provides for:

- \$1,843.5m for new budget measures;
- -\$707.4m for other budget adjustments including re-programming of the capital investment program; and
- \$61.2m for additional own-source revenue.

The 2007-08 Defence budget of \$21,999.1m is 10.6 per cent more than the forecast outcome for 2006-07 of \$19,898.6m, and represents 2 per cent of GDP.

Table 2.1: Total Defence Resourcing

Serial No	2006-07		2007-08	2007-08	Variation		2008-09	2009-10	2010-11
	Estimated Actual		Previous Estimate ⁽¹⁾	Budget Estimate	\$'000	%	Forward Estimate	Forward Estimate	Forward Estimate
	\$'000		\$'000	\$'000	\$'000		\$'000	\$'000	\$'000
Departmental									
1	17,157,664 ⁽²⁾	Revenue from Government for Outcomes	17,885,333	19,170,126	1,284,793	7.2	19,065,666	19,286,597	19,707,273
2	1,998,277	Equity Injection	2,211,529	2,062,804	-148,725	-6.7	3,403,841	4,430,996	4,550,650
3	19,155,941	Total Revenue from Government (1+2)	20,096,862	21,232,930	1,136,068	5.7	22,469,507	23,717,593	24,257,923
4	685,050	Own-Source Revenue ⁽³⁾	648,042	709,226	61,184	9.4	726,150	742,979	763,998
5	57,603	Net Capital Receipts	56,919	56,919	-	-	56,221	39,011	37,658
6	742,653	Sub Total (4+5)	704,961	766,145	61,184	8.7	782,371	781,990	801,656
7	19,898,594	Total Departmental Funding (3+6)	20,801,823	21,999,075	1,197,252	5.8	23,251,878	24,499,583	25,059,579
Administered									
8	2,817,000	Administered appropriations	2,842,000	2,802,468	-39,532	-1.4	2,935,854	3,042,915	3,159,693
9	22,715,594	Total Defence Resourcing (7+8)	23,643,823	24,801,543	1,157,720	4.9	26,187,732	27,542,498	28,219,272

Notes

- As reported in the *Portfolio Additional Estimates Statements 2006-07* (p. 17).
- Excludes \$63.998m in accrued appropriation revenue.
- 'Own-source revenue' excludes revenue from 'assets now recognised', 'net gains from sales of assets' and other gains.

OTHER RESOURCES AVAILABLE TO BE USED

Serials 4 and 5 of Table 2.1 show the resources obtained by Defence for provision of goods and services, and from the sale of assets. These resources are approved for retention and use by Defence in accordance with the 'Section 31 Agreement' between the Minister for Defence and Minister for Finance and Administration.

In 2007-08, the principle sources of 'Section 31 receipts' for Defence will be:

- receipts from the DMO for the employment of ADF personnel in the DMO and other services provided to DMO;
- contributions from ADF members for the subsidised housing provided to them;
- payments from ADF members for rations and quarters;
- recovery of fuel sales to foreign governments;
- sale of assets including commercial vehicles; and
- retained proceeds from the sale of other property, plant and equipment assets.

2007-08 BUDGET MEASURES

Defence's budget will be increased by \$1.8 billion in 2007-08 and \$7.7 billion over the Budget and Forward Estimates period for new budget measures agreed by the Government in the context of the 2007-08 Budget. These budget measures include:

- a package of recruitment and retention initiatives that are designed to increase recruitment intakes and reduce military separation rates (\$585.3m);
- an additional \$1,278.8m for Defence operations including \$32.4m in reimbursements for costs incurred in 2006-07 comprising:
 - \$703.0m over three years (including \$32.4m reimbursed for 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 1,500 ADF personnel in Iraq;
 - \$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 (\$133.5m);
- 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 (\$3,970.5m);
- additional logistics sustainment funding to ensure that the Australian Defence Force (ADF) is well prepared and able to respond to contingencies now and in the future (\$878.6m);
- the personnel and operating costs of the four C-17 heavy airlift that the Government agreed to acquire in the 2006-07 Budget (\$318.3m);
- 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. This measure is budget-neutral at the whole-of-government level (\$357.3m); and
- the gifting of Jezzine Barracks to the Townsville City Council and the provision of funding to enable its development for community use and heritage protection (\$20.5m).

Explanations of all new budget measures are contained in *Budget Paper No.2 Budget Measures 2007-08*. Funding for the new budget measures over the forward estimates period is shown in Table 2.2 below.

Table 2.2: Summary of New Budget Measures in the 2007-08 Budget

New funding measures	Defence Outcome	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000	Total \$'000
<i>Australian Defence Force Retention and Recruitment - further initiatives</i>						
Remuneration Structure Reform	Various	-	59,700	60,600	61,900	182,200
Defence Home Ownership Assistance Scheme ⁽¹⁾	7	-	40,927	52,889	64,743	158,559
Reform of Defence Force Recruiting	Various	4,429	12,248	12,468	12,724	41,869
Marketing and Branding Services	Various	24,553	26,614	26,796	27,490	105,453
Defence Apprenticeships	Various	5,008	6,712	6,791	7,032	25,543
Expanding Cadets	Various	10,000	10,000	10,000	10,000	40,000
Royal Australian Navy Sea Change	Various	1,875	8,648	8,684	8,861	28,068
Medical Officer Professional Development	Various	604	909	1,013	1,117	3,643

New funding measures	Defence Outcome	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000	Total \$'000
Sub-total Australian Defence Force Retention and Recruitment - further initiatives		46,469	165,758	179,241	193,867	585,335
Operation measures						
Afghanistan - Australian Defence Force deployments	1	447,886	191,760	30,865	-	670,511
Afghanistan - Australian Defence Force deployments (reimbursement costs incurred in 2006-07 for expansion)	1	32,448	-	-	-	32,448
Iraq - continued funding for stabilisation and reconstruction activities	1	301,661	59,673	28,099	-	389,433
East Timor - continued funding to help restore peace and stability	1	107,723	27,100	-	-	134,823
Coastal surveillance - continuation	1	12,602	12,791	12,957	13,255	51,605
Sub-total Operations measures		902,320	291,324	71,921	13,255	1,278,820
Intelligence measures						
Strengthening National Security - improved Defence intelligence capability	6	17,908	26,826	29,956	31,840	106,530
Strengthening National Security - reducing national e-security risk	6	6,963	6,192	5,749	8,053	26,957
Sub-total Intelligence measures		24,871	33,018	35,705	39,893	133,487
Other budget measures						
Air combat capability - acquisition of Super Hornets	4	621,000	990,700	1,286,700	1,072,100	3,970,500
Logistics - additional funding	Various	107,851	291,301	236,150	243,330	878,632
C-17 heavy airlift - personnel and operating funding ⁽²⁾	4	-	73,784	111,858	132,660	318,302
Strengthening National Security - enhanced protective security	Various	33,100	33,500	34,000	34,800	135,400
Defence housing - supplementation for competitive neutrality policy	Various	87,390	88,526	89,677	91,739	357,332

New funding measures	Defence Outcome	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000	Total \$'000
Jezzine Barracks - gift to the Townsville City Council	Various	20,500	-	-	-	20,500
Sub-total other measures		869,841	1,477,811	1,758,385	1,574,629	5,680,666
Total New Funding Measures		1,843,501	1,967,911	2,045,252	1,821,644	7,678,308

Note

1. This budget measure is funded through administered appropriations and therefore does not appear in Table 2.3.
2. Defence will contribute \$103m from existing funding to this measure over the Budget and Forward Estimates period.

Other Budget Adjustments

In addition to the above budget measures, the Government has agreed a number of other budget adjustments and these are detailed below.

REPROGRAMMING OF THE CAPITAL INVESTMENT PROGRAM

Due to industry capacity issues and schedule slippage in a number of major capital equipment projects, an amount of \$1,113.3m has been reprogrammed from the Budget and Forward Estimates into later years. These funds are not foregone, but have been moved to reflect revised project schedules and projections of industry's capacity to deliver the expanding capital program.

UPDATE OF PRICE INDEXATION

The Defence budget is price updated at each budget milestone to reflect movements in the non-farm GDP deflator. As a result, funding to Defence for price movements has been increased by \$380.0m in 2007-08 and an additional \$1.4 billion has been provided over the forward estimates years (2008-09 to 2010-11).

FOREIGN EXCHANGE MOVEMENTS

Under the no-win/no-loss arrangements, Defence is required to return to the Government any surplus foreign exchange supplementation for an appreciation of the Australian dollar relative to other currencies. Conversely, where the Australian dollar depreciates relative to other currencies, Defence is supplemented under these arrangements. Taking into account movements in exchange rates since the 2006-07 Additional Estimates, Defence is required to return \$78.6m to the Budget in 2007-08 and a further \$320m over the forward estimates period.

TRANSFER FROM DEPARTMENT OF FOREIGN AFFAIRS AND TRADE FOR RELOCATION OF OVERSEAS MISSIONS

As part of this estimates update, \$0.025m in appropriation funding and \$0.243m in equity has been transferred from the Department of Foreign Affairs and Trade to Defence for 2007-08 for the relocation of overseas missions for security purposes.

TRANSFER TO DEPARTMENT OF VETERANS' AFFAIRS FOR F-111 DESEAL/RESEAL HEALTH COSTS

As part of this estimates update, Defence has transferred to the Department of Veterans' Affairs a total of \$2.2m over the Budget and Forward Estimates period for the on-going health management of former ADF members who have medical conditions arising from the F-111 Deseal/Reseal activity.

TRANSFER TO DEFENCE MATERIEL ORGANISATION FOR 'DEFENCE INDUSTRY POLICY'

In accordance with Government direction, Defence has transferred \$98.1m to the Defence Materiel Organisation's direct appropriation over the Budget and Forward Estimates period to enable that organisation to implement the outcomes of the Government's Defence Industry Policy Review.

TRANSFER TO DEFENCE MATERIEL ORGANISATION FOR 'SKILLING AUSTRALIA'S DEFENCE INDUSTRY'

Defence has transferred \$83.8m to the Defence Materiel Organisation's direct appropriation over the Budget and Forward Estimates period to enable that organisation to implement the Skilling Australia's Defence Industry initiative.

REIMBURSEMENT OF 2006-07 OPERATIONS EXPENDITURE

In the 2007-08 Budget, Defence will be reimbursed \$31.7m for costs incurred on operations in 2006-07 including:

- \$10.3m for the payment of the International Campaign Allowance to ADF members serving in Afghanistan;
- \$17.0m for the increased number of ADF personnel deployed to Afghanistan; and
- \$4.4 m for the increased number of ADF personnel deployed to Iraq.

SPECIAL ACCOUNT INTEREST

During 2005-06, Commonwealth agencies were instructed to move funds held in bank accounts outside of the Commonwealth to the Official Public Account. Under these new arrangements, agencies are appropriated an amount equivalent to the notional interest payable on the funds held in the Official

Public Account. Defence's budget in 2007-08 will be increased by \$0.028m for notional interest payments, to give effect to this decision.

Movement in Funding Provided by the Government for Departmental Appropriations

Table 2.3 below shows the movement in total revenue provided by the Government to Defence (refer serial 3 of Table 2.1), from that published in the *Portfolio Additional Estimates Statements 2006-07*.

Table 2.3: Movement in Defence Revenue Provided by the Government since the 2006-07 Additional Estimates ⁽¹⁾⁽²⁾

	2007-08	2008-09	2009-10	2010-11
	\$m	\$m	\$m	\$m
Published in the <i>Portfolio Additional Estimates Statements 2006-07</i> (refer serial 3 of Table 2.1)	20,096.9	20,502.7	21,351.3	22,097.4
New budget measures funded through departmental appropriations ⁽³⁾	1,843.5	1,927.0	1,992.4	1,756.9
Budget adjustments:				
Reprogramming of the approved capital investment program	-615.0	-	631.0	-
Further reprogramming of capital investment program	-378.0	-230.0	-559.3	37.8
Update of price indexation	380.0	419.1	458.6	516.9
Foreign exchange movements	-78.6	-102.2	-110.3	-107.9
Transfer from Department of Foreign Affairs and Trade for relocation of overseas missions	0.025	-	-	-
Transfer to Department of Veterans' Affairs for F-111 Deseal/Reseal health costs	-0.8	-0.7	-0.4	-0.4
Transfer to Defence Materiel Organisation for Skilling Australia's Defence Industry	-20.5	-20.8	-21.0	-21.5
Transfer to Defence Materiel Organisation for Defence Industry Policy	-26.3	-25.7	-24.7	-21.3
Reimbursement of 2006-07 operations expenditure	31.7	-	-	-
Special Account interest ⁽⁴⁾	0.028	-	-	-
Published in the <i>Portfolio Budget Statements 2007-08</i> (refer serial 3 of Table 2.1)	21,232.9	22,469.5	23,717.6	24,257.9

Notes

1. Revenue from Government is the sum of Revenue for Outcomes and the Equity Injection.
2. The funding baseline at each published budget milestone reflects the Forward Estimates at that time.
3. Excludes funding for the new Defence Home Ownership Assistance Scheme which is funded through a special appropriation. This explains the difference between this line and the Budget measures in Table 2.2.
4. The amount appropriated is \$28,000. It is only to be credited to Special Accounts entitled to receive funds appropriated for interest equivalent supplementation.

STATUS OF DEFENCE WHITE PAPER FUNDING

In *Defence 2000: Our Future Defence Force* (the Defence White Paper), the Government committed to increase Defence spending by an average of three per cent real growth a year from 2000-01 to 2010-11. In the 2006-07 Budget, the Government decided to continue the three per cent growth per annum commitment for a further five years until 2015-16. The allocation of these funds was detailed in the *Portfolio Budget Statements 2006-07* (Table 1.2 at page 6).

Defence's departmental funding in 2007-08 and beyond continues to be based primarily on the allocations approved by the Government in the context of the 2000 Defence White Paper and the 2006-07 Budget decision. The additional funding commitment over the initial period 2001-01 to 2010-11 totals \$29.4 billion (outturned 2007-08 Budget prices) over 11 years and represents the most specific long-term funding commitment for Defence for more than 25 years. The additional Defence White Paper funding is being applied to:

- the Defence Capability Plan, containing a program of capital investment in addition to the investment program already planned at the time (\$20.4 billion);
- provision for the through-life support costs of the capability enhancements in the Defence Capability Plan (\$3.0 billion);
- provision for two per cent per capita growth in personnel costs from 2004-05 onwards, reflecting the cost of maintaining a highly skilled workforce in a sustainable way (\$5.0 billion); and
- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings (\$1.0 billion).

Table 2.4 shows the current status of the original Defence White Paper funding.

Table 2.4: Current White Paper Funding Allocations (2007-08 Budget Prices, Outturned)

	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
A Major Capital Investment																		
Original White Paper Allocation	510	1,051	1,506	1,552	1,722	2,350	2,507	2,375	2,887	3,551	-	-	-	-	-	-	-	20,010
\$200m underspend in 2002-03 reprogrammed 2008-09	-	-200	-	-	-	-	-	233	-	-	-	-	-	-	-	-	-	33
\$642m slippage 15-20 per cent	-	-	-212	-201	-146	-95	-	190	294	171	111	-	-	-	-	-	-	112
\$500m underspend in 2003-04	-	-	-500	-	-	-	-	174	178	181	62	-	-	-	-	-	-	95
\$170m bring forward for AEW&C payment	-	-	170	-	-	-	-	-199	-	-	-	-	-	-	-	-	-	-29
DCP reprogramming agreed in 2004-05 PBS	-	-	-	-75	-314	-393	-143	-	209	142	202	314	225	-	-	-	-	167
DCP reprogramming agreed in 2005-06 PBS	-	-	-	-	300	-	-	-	-109	-111	-115	-	-	-	-	-	-	-35
DCP reprogramming agreed in 2006-07 PBS	-	-	-	-	-	156	215	54	218	-	-	-351	-358	-	-	-	-	-66
DCP reprogramming agreed in 2006-07 PAES	-	-	-	-	-	-390	114	294	-	-	-	-	-	-	-	-	-	18
DCP reprogramming agreed in 2007-08 Pre-ERC	-	-	-	-	-	-	-622	-	636	-	-	-	-	-	-	-	-	14
DCP reprogramming agreed in 2007-08 PBS	-	-	-	-	-	-	-382	-232	-564	38	194	545	384	-	-	120	-	104

	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
B	Sub-Total Capital Reprogramming																
	-	-200	-542	-276	-160	-722	-818	515	862	421	454	508	251	-	-	120	413
C	Revised Major Capital Investment Allocation (A+B)																
	510	851	964	1,276	1,562	1,628	1,688	2,889	3,749	3,972	454	508	251	-	-	120	20,423
	Through-life Support Costs for New Equipment																
	Original allocation																
	-	-	-	195	242	299	447	530	621	663	-	-	-	-	-	-	2,997
	Reprogramming																
	-	8	21	-134	-64	-5	-	13	87	79	-	-	-	-	-	-	5
	Contribution to C-17 Operating Costs																
	-	-	-	-	-	-	-62	-31	-11	-	-	-	-	-	-	-	-104
	C-17 Operating Costs (in part)																
	-	-	-	-	-	-	62	31	11	-	-	-	-	-	-	-	104
D	Revised Through-Life Support Allocation																
	-	8	21	61	178	294	447	543	708	742	-	-	-	-	-	-	3,002
E	2 per cent Real Growth in Personnel Costs																
	-	-	-	238	380	531	694	852	1,014	1,242	-	-	-	-	-	-	4,951
F	Operating Baseline Adjustment																
	-	-	-	117	135	146	153	157	163	165	-	-	-	-	-	-	1,036
G	Total (C+D+E+F)																
	510	859	985	1,692	2,255	2,599	2,983	4,441	5,634	6,121	454	508	251	-	-	120	29,413

The allocation of the additional funds provided by Government in the 2006-07 Budget, to continue the three per cent real increase in Defence funding beyond 2010-11 for a further five years is shown in Table 2.5.

Table 2.5: Allocation of Additional Funding Beyond 2010-11 (2007-08 Budget Prices, Outturned)

	2011-12	2012-13	2013-14	2014-15	2015-16	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Personnel Costs	150	341	537	740	910	2,678
Living-In Accommodation	49	102	160	221	288	819
Defence Capability Plan	256	379	546	498	677	2,356
Major Capital Facilities Program	17	35	54	74	94	275
Other Capital Purchases	4	8	13	17	23	65
Operating Costs including for New Equipment	50	194	398	853	1,150	2,646
Logistics Sustainment	62	127	193	264	336	982
Facilities Operating Costs/Estate Upkeep	76	180	204	217	226	904
Total Allocation	665	1,367	2,106	2,883	3,705	10,725

FUNDING FOR OPERATIONS

The ADF is involved in a number of deployments around the world, including United Nations peacekeeping and regional assistance missions, and border protection and domestic security operations. In the 2007-08 Budget, the Government has allocated an additional \$1,278.8m over five financial years for operations in Iraq (\$389.4m), Afghanistan (\$703.0m – including \$32.4m for costs that will be incurred in 2006-07), Timor-Leste (\$134.8m) and protecting Australia’s offshore maritime areas – Operation Resolute (\$51.6m). It has also reimbursed Defence \$31.7m for costs incurred on Operation Slipper and Operation Catalyst in 2006-07. Details are shown in Table 2.6.

Table 2.6: New Funding Provided for Current Operations in the 2007-08 Budget

Operation	2007-08	2008-09	2009-10	2010-11	Total
	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate	
	\$m	\$m	\$m	\$m	
Continuation of Operations in Iraq	301.7	59.7	28.1	-	389.4
Expansion of Operations in Afghanistan to 30 September 2008	480.3	191.8	30.9	-	703.0
Continuation of Operations in Timor-Leste to 30 June 2008	107.7	27.1	-	-	134.8
Coastal Surveillance (Operation RESOLUTE)	12.6	12.8	13.0	13.3	51.6
Sub-Total New Measures	902.3	291.3	71.9	13.3	1,278.8
Operation Slipper/Catalyst ⁽¹⁾	31.7	-	-	-	-
Total Funding	934.0	291.3	71.9	13.3	1,310.5

Note

1. This is to reimburse Defence for costs incurred on Operation Slipper (\$27.3m) and Operation Catalyst (\$4.4m) in 2006-07 relating to the current deployments, not the expansion and continuation of these operations.

Together with funds already approved in prior budgets, a total of \$1,556.6m is planned to be spent on all operations in the Budget and Forward Estimates, including \$1,131.1m in 2007-08 as shown in Table 2.7 below. This excludes the \$32.4m to be spent in 2006-07 on the expansion of Operation Slipper, but which is funded in 2007-08.

Table 2.7: Revised Expenditure Forecasts for Current Operations (2007-08 Budget and Forward Estimates)

Operation	2007-08	2008-09	2009-10	2010-11	Total
	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate	
	\$m	\$m	\$m	\$m	
Operations in Iraq to 30 June 2007	71.4	15.6			87.0
Continuation of Operations in Iraq	301.7	59.7	28.1		389.4
Sub-total Iraq	373.1	75.3	28.1	0.0	476.5
Operations in Afghanistan to 30 September 2008	127.4	33.2			160.6
Expansion of Operations in Afghanistan to 30 September 2008	447.9	191.8	30.9		670.6
Sub-total Afghanistan (Operation SLIPPER)	575.3	225.0	30.9	0.0	831.2
Operations in Timor-Leste (Operation ASTUTE) to 30 June 2007	45.1				45.1
Continuation of Operations in Timor-Leste to 30 June 2008	107.7	27.1			134.8
Sub-total Timor-Leste (Operation ASTUTE)	152.8	27.1	0.0	0.0	179.9

Operation	2007-08	2008-09	2009-10	2010-11	Total
	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate	
	\$m	\$m	\$m	\$m	\$m
Operation in Solomon Islands (Operation ANODE)	6.0				6.0
Coastal Surveillance (Operation RESOLUTE)	12.6	12.8	13.0	13.3	51.6
APEC 2007 (Operation DELUGE)	11.3				11.3
Total	1,131.1	340.2	72.0	13.3	1,556.6

Operation in Iraq (Operation Catalyst)

Operation Catalyst is the ADF's contribution to Multinational Force efforts to develop a secure and stable environment in Iraq and assist national recovery programs. With the continued support of the Government of Iraq, the Government has approved the continuation of Operation Catalyst that will involve approximately 1,575 deployed personnel, including the additional Army trainers deployed to the area of operation. The Government has allocated an additional \$389.4m over three financial years to fund the continuation of the operation, covering maritime patrol assets, a Major Fleet Unit in the North Arabian Gulf, a Security Detachment in Baghdad, an Embedded Support Group, Force Level Logistic Assets and a Headquarters element, including enabling support for these forces.

Included in the funding is provision for a Task Group, based at Tallil Air Base from which a security overwatch role is undertaken for the Southern Iraqi provinces of Al Muthanna and Dhi Qar as part of a larger Coalition Force.

All up, including funding approved in prior years, Defence plans to spend \$373.1m on Operation Catalyst in 2007-08.

Operations in Afghanistan (Operation Slipper)

Operation Slipper is the ADF's contribution to the international coalition against terrorism. The Government has allocated an additional \$703.0m (including \$32.4m for 2006-07) over four financial years, including \$480.3m in 2007-08 to fund Operation Slipper. The additional allocation is for the expansion of Operation Slipper until September 2008. The expansion includes the redeployment of Special Forces and other enabling support elements including two Chinook helicopters (from early 2008). A mobile control and reporting unit will also be deployed for one year.

Ongoing funding has previously been approved for the Reconstruction Task Force (RTF) which is Australia's contribution to the Netherlands-led Provincial Reconstruction Team (PRT) in Afghanistan's Oruzgan Province. The RTF has a clearly defined role to work on reconstruction and improvement of provincial infrastructure (schools, hospitals, bridges, culverts etc) and community based projects to assist the Afghan Government to achieve a stable and secure future

for its people. The RTF will also provide trade training to the local population and military engineering training to the Afghan National Army to ensure the benefits of the deployment remain after our personnel have returned home.

Excluding the \$32.4m which Defence will spend in 2006-07 but will be reimbursed in 2007-08, a total of \$575.3m is to be spent on Operation Slipper in 2007-08.

Operations in Timor-Leste (Operation Astute)

Operation Astute is the Australian Government's response to a request from the Government of Timor-Leste to assist in the restoration of stability, security and confidence to their country. The Government has extended the ADF deployment to June 2008 and has allocated an additional \$134.8m over two financial years for this operation. All together, including funding approved in prior years, Defence will spend \$152.8m on Operation Astute in 2007-08.

Operations in the Solomon Islands (Operation Anode)

Operation Anode is the ADF's contribution to the Regional Assistance Mission to the Solomon Islands. The Government has previously allocated \$6.0m in 2007-08 for the continuation of an ADF presence until March 2008. The ADF presence includes infantry soldiers who are providing support to the police patrolling program and headquarters and support staff coordinating the military support effort.

Coastal Surveillance Operations (Operation Resolute)

Operation Resolute is the ADF's on-going contribution to Australian whole-of-government efforts to protect Australia's offshore maritime areas. It consolidates previous ADF operations including Operation Relex II (focusing on unauthorised arrivals) and Operation Cranberry (illegal fishing and smuggling). The Government has allocated an additional \$51.6m over four financial years including \$12.6m in 2007-08 to continue Operation Resolute.

Operations for APEC Forum (Operation Deluge)

Operation Deluge is the ADF's contribution to the whole-of-government support for hosting the Asia Pacific Economic Cooperation forum in Australia in 2007. The ADF contribution deals primarily with the provision of counter-terrorism security and ceremonial capabilities. The Government has previously allocated \$19.7m over two financial years for Operation Deluge with \$11.3m allocated in 2007-08.

Minor Operations

The ADF also participates in a number of minor United Nations peacekeeping operations, the costs of which are absorbed by Defence within its annual funding allocation. These include operations based in Sudan, Sinai and the Middle East.

Status of Expenditure on all Operations since 1999-2000

Table 2.8 provides a summary of the actual and planned expenditure on the net additional cost of all operations since 1999-2000 when the ADF originally deployed to Timor-Leste. The figures reflect actual and planned expenditure over the period 1999-2000 to 2010-11. Overall, Defence has or is planning to spend \$7,644.8m on the net additional costs of operations for which the Government has provided supplementary funding of \$7,635.0m. Defence has absorbed \$0.7m of this amount from within its budget, and the Department of Foreign Affairs and Trade has reimbursed Defence \$9.1m through the aid budget for Operation Pakistan Assist.

Table 2.8: Actual and Planned Expenditure on Operations from 1999-00 to 2010-11

Operation	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
	Actual Result	Actual Result	Actual Result	Actual Result	Actual Result	Actual Result	Actual Result	Revised Estimate ^g	Budget Estimate	Forward Estimate	Forward Estimate	Forward Estimate	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$M	\$m
Operations in Timor-Leste ⁽¹⁾	598.1	798.5	632.9	579.3	554.0	27.4	23.9	120.8	152.8	27.1	-	-	3,514.8
Operation Bel Isi	-	20.0	10.1	14.6	3.0	-	-	-	-	-	-	-	47.7
Operation Slipper ⁽²⁾	-	-	320.0	176.0	-5.0	-	91.0	243.2	575.3	225.0	30.9	-	1,656.4
Operation Resolute ⁽³⁾	-	-	22.2	27.8	15.9	11.9	9.8	12.1	12.6	12.8	13.0	13.3	151.5
Operations in Iraq	-	-	-	285.3	240.6	284.9	351.4	402.2	373.1	75.3	28.1	-	2,040.9
Operation Anode	-	-	-	-	90.4	27.6	12.9	11.1	6.0	-	-	-	148.0
Operation Sumatra Assist	-	-	-	-	-	37.0	7.5	-	-	-	-	-	44.5
Operation Acolyte	-	-	-	-	-	0.1	10.4	1.0	-	-	-	-	11.5
Operation Deluge	-	-	-	-	-	-	-	8.4	11.3	-	-	-	19.7
Operation Pakistan Assist ⁽⁴⁾	-	-	-	-	-	-	9.8	-	-	-	-	-	9.8
Total Net Additional Costs	598.1	818.5	985.2	1,083.0	898.9	388.9	516.7	798.8	1,131.1	340.2	72.0	13.3	7,644.8
Sources of Funding for Operations													
Government Supplementation	598.1	818.5	985.2	1,083.0	898.9	388.9	506.9	798.8	1,131.1	340.2	72.0	13.3	7,635.0
Department of Foreign Affairs and Trade							9.1						9.1
Department of Defence (Absorbed)							0.7						0.7
Total Cost	598.1	818.5	985.2	1,083.0	898.9	388.9	516.7	798.8	1,131.1	340.2	72.0	13.3	7,644.8

Notes

1. Includes force generation funding from 1999-00 to 2003-04, with an ongoing amount of \$448.9m included in Defence's funding base from 2004-05.
2. The amount in 2007-08 excludes the \$32.4m in costs incurred in 2006-07 but which will be reimbursed in 2007-08 (this figure is included in the 2006-07 revised estimates).
3. Previously Operations Relex and Relex II.
4. Defence was reimbursed \$9.1m for the net additional cost of the operation by the Department of Foreign Affairs and Trade through the existing aid budget.
5. The Revised Estimates for 2006-07 represents the \$766.4m set out in the *Portfolio Additional Estimates Statements 2006-07* (Table 2.4.), with an additional \$32.4m for the expansion of Operation Slipper.

2007-08 FINANCIAL STATEMENTS

Income Statement

Defence is budgeting to receive \$20,087.1m in income in 2007-08 and plans to have expenses of the same amount resulting in a balanced operating result in 2007-08 which is consistent with the planned operating result at the time of the *Portfolio Additional Estimates Statements 2006-07*. Since then, total income and expenses have increased by \$1,346.0m and the reasons for the variation are explained below. Details are shown in Table 2.9 below.

Table 2.9: Variation in Planned Income Statement 2007-08

	2007-08	2007-08	Variation	
	Previous Estimate	Budget Estimate	\$'000	%
	\$'000	\$'000	\$'000	%
INCOME				
Revenue				
Revenue from Government for outcomes ⁽¹⁾	17,885,333	19,170,126	1,284,793	7.2
Goods and services ⁽²⁾	583,234	643,206	59,972	10.3
Other revenue ⁽²⁾	66,308	66,020	-288	-0.4
Total revenue	18,534,875	19,879,352	1,344,477	7.3
Gains				
Assets now recognised	200,000	200,000	-	-
Other gains	6,200	7,700	1,500	24.2
Total gains	206,200	207,700	1,500	0.7
Total income	18,741,075	20,087,052	1,345,977	7.2
EXPENSES				
Employees				
<i>Military</i>	5,705,528	6,021,320	315,792	5.5
<i>Civilian</i>	1,265,919	1,283,308	17,389	1.4
Sub-total Employees	6,971,447	7,304,628	333,181	4.8
Suppliers	8,103,798	9,111,987	1,008,189	12.4
Grants	3,904	4,395	491	12.6
Depreciation and amortisation	3,409,595	3,409,595	-	-
Finance costs	20,799	25,574	4,775	23.0
Write-down of assets and impairment of assets	230,000	230,000	-	-
Other expenses	1,532	873	-659	-43.0
Total expenses	18,741,075	20,087,052	1,345,977	7.2
Operating result	-	-	-	-

Notes

1. Cross-reference to Serial 1 in Table 2.1.
2. These two amounts total \$709.2m and cross-reference to Serial 4 in Table 2.1.

INCOME (+\$1,346.0 M)

Income is forecast to increase by \$1,346.0m due to:

- increased Revenue from Government of \$1,284.8m due to:
 - additional funding provided by Government for the following budget measures (\$1,077.9m - this amount excludes the capital element of the new budget measures which is provided as part of the equity injection which is not recognised in the Income Statement):
 - Australian Defence Force Retention and Recruitment - further initiatives (\$46.5m),
 - Afghanistan - Australian Defence Force deployments (\$403.0m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$283.6m);
 - East Timor - continued funding to help restore peace and stability (\$107.7m),
 - Coastal surveillance - continuation (Operation Resolute) (\$8.8m),
 - Strengthening National Security - improved Defence intelligence capability (\$9.6m),
 - Strengthening National Security - reducing national e-security risk (\$3.6m),
 - Air combat capability - acquisition of Super Hornets (\$48.4m);
 - Logistics - additional funding (\$25.7m),
 - Strengthening National Security - enhanced protective security (Operation Safebase) (\$33.1m),
 - Defence Housing - supplementation for competitive neutrality policy (\$87.4m), and
 - Jezzine Barracks - gift to the Townsville City Council (\$20.5m);
 - other budget adjustments (\$206.9m) including:
 - a revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$254.5m),
 - the transfer of funding from the Department of Foreign Affairs and Trade for the relocation of overseas missions for security purposes (\$0.025m),
 - the transfer of funding to the Department of Veterans' Affairs for the health care of former ADF members associated with the F-111 Deseal/Reseal (-\$0.8m),
 - the transfer of funding to the Defence Materiel Organisation to enable it to implement the Skilling Australia's Defence Industry initiative (-\$20.5m),

- the transfer of funding to the Defence Materiel Organisation to enable it to implement the Government-agreed recommendations of the Defence Industry Policy Review (-\$26.3m), and
- Special Account Interest (\$0.028m);
- an increase in Revenue from Sale of Goods and Services of \$60.0m due to:
 - an increase in revenues due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$10.9m), and
 - an increase in the revenues from fuel sales and other revenue items (\$49.1m);
- a decrease in Other Revenues of \$0.3m due to:
 - reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards (-\$1.5m), and
 - an increase in revenues due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$1.2m); and
- an increase in Other Gains of \$1.5m due to reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards (\$1.5m).

EXPENSES (+1,346.0M)

Expenses are forecast to increase by \$1,346.0m due to:

- an increase in Employee Expenses of \$333.2m (explanations are provided in Chapter Four – People);
- an increase in Supplier Expenses of \$1,008.2m due to:
 - implementation of the following Budget measures:
 - Australian Defence Force Retention and Recruitment - further initiatives (\$45.4m),
 - Afghanistan - Australian Defence Force deployments (\$337.8m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$173.9m),
 - East Timor - continued funding to help restore peace and stability (\$68.7m),
 - Coastal surveillance - continuation (Operation Resolute) (\$8.8m),
 - Strengthening National Security - improved Defence intelligence capability (\$6.4m),
 - Strengthening National Security - reducing national e-security risk (\$2.4m),
 - Air combat capability - acquisition of Super Hornets (\$48.4m),

- Logistics - additional funding (\$25.7m),
- Strengthening National Security - enhanced protective security (Operation Safebase) (\$33.1m), and
- Jezzine Barracks - gift to the Townsville City Council (\$20.5m);
- an increase due to price increases flowing from the revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$134.6m),
- the relocation of overseas missions in conjunction with the Department of Foreign Affairs and Trade for security purposes (\$0.025m),
- the transfer of funding to the Department of Veterans' Affairs for the health care of former ADF members associated with F-111 Deseal/Reseal (-\$0.8m),
- the transfer of funding to the DMO's direct appropriation to enable it to implement the Skilling Australia's Defence Industry initiative (-\$20.5m),
- the transfer of funding to the DMO's direct appropriation to enable it to implement the Government-agreed recommendations of the Defence Industry Policy Review (-\$26.3m),
- purchases of fuel and other stores provided to other organisations (offset by an increase in revenue) (\$49.1m),
- increase in sustainment service fee payment to the DMO (\$30.0m),
- increase for Information, Communication, Technology (ICT) upgrades (\$40.0m),
- implementation of the Logistics Assurance Framework (\$4.5m),
- recovery of Australian Submarine Rescue Vehicle Remora (\$20.0m), and
- other net variations (\$6.6m);
- an increase in Grants of \$0.5m due to:
 - a grant to the Submarine Institute of Australia for the search and archaeological assessment of the HMAS AE1 submarine wreck (\$0.3m), and
 - other minor variations (\$0.2m);
- a net increase in Finance Charges of \$4.8m;
- a decrease in Other Expenses of \$0.7m due to:
 - Special Account Interest (\$0.030m), and
 - other minor variations (-\$0.7m).

Balance Sheet

Compared with the previous estimates for 2007-08 published in the *Portfolio Additional Estimates Statements 2006-07*, Defence's net asset value is estimated to decrease by \$135.1m or 0.2 per cent. Details are shown in Table 2.10 below and the reasons for the variation are detailed below.

Table 2.10: Variation in Planned Balance Sheet 2007-08

	2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	Variation	
			\$'000	%
ASSETS				
Financial assets				
Cash	36,221	36,221	-	-
Appropriation receivable	213,802	213,802	-	-
Other receivables	163,479	163,479	-	-
Other financial assets	49,270	49,270	-	-
Total financial assets	462,772	462,772	-	-
Non-financial assets				
Land and buildings	11,446,975	11,579,831	132,856	1.2
Infrastructure, plant and equipment	41,420,555	41,349,798	-70,757	-0.2
Intangibles	284,328	284,509	181	0.1
Heritage and cultural	723,572	723,572	-	-
Inventories	4,483,821	4,286,486	-197,335	-4.4
Other	216,363	216,363	-	-
Assets held for sale	325,061	325,061	-	-
Total non-financial assets	58,900,675	58,765,620	-135,055	-0.2
Total assets	59,363,447	59,228,392	-135,055	-0.2
LIABILITIES				
Debt				
Leases	291,729	291,729	-	-
Other interest bearing liabilities	2,404	2,404	-	-
Total debt	294,133	294,133	-	-
Provisions and payables				
Employees	1,596,780	1,596,780	-	-
Suppliers	743,275	743,275	-	-
Other	695,855	695,855	-	-
Total provisions and payables	3,035,910	3,035,910	-	-
Total liabilities	3,330,043	3,330,043	-	-
NET ASSETS	56,033,404	55,898,349	-135,055	-0.2
EQUITY				
Contributed equity	9,021,025	8,885,969	-135,056	-1.5
Reserves	11,157,841	11,157,842	1	-
Retained surpluses or accumulated deficits	35,854,538	35,854,538	-	-
Total equity	56,033,404	55,898,349	-135,055	-0.2

ASSETS (-\$135.1M)

Total assets are estimated to be \$59.2 billion at 30 June 2008. This is \$135.1m or 0.2 per cent less than the estimate published in the *Portfolio Additional Estimates Statements 2006-07*.

The budgeted value of Land and Building assets will increase by \$132.9m due to:

- recategorisation of planned purchases from Other Infrastructure, Plant and Equipment (\$92.8m);
- transfer of projects from the Defence Capability Plan to the Major Capital Facilities Program (\$50.6m);
- higher than planned expenditure on capital facilities in 2006-07 (\$17.5m); and
- reprogramming of the Major Capital Facilities funds from 2007-08 to later years (-\$28.0m).

The budgeted value of Infrastructure, Plant and Equipment assets will decrease by \$70.8m due to:

- a decrease in Other Plant and Equipment of \$31.7m due to:
 - planned purchases associated with the following budget measures:
 - Strengthening National Security - improved Defence intelligence capability (\$8.3m), and
 - Strengthening National Security - reducing national e-security risk (\$3.4m);
 - an increase in the value of planned purchases due to price rises reflecting the revision to the price parameters used in the 2007-08 Budget following a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$17.4m),
 - capital expenditure associated with the relocation of overseas missions in conjunction with the Department of Foreign Affairs and Trade (\$0.2m),
 - recategorisation of planned purchases to Land and Buildings (-\$92.8m),
 - a reduction in the estimate of the value of planned purchases for 2006-07 (-\$45.8m), and
 - a reduction in planned disposals as part of the Property Disposals Program (\$77.4m);
- a decrease in the estimate for Specialist Military Equipment assets of \$39.1m due to:
 - planned purchases associated with the following budget measures:
 - Afghanistan - Australian Defence Force deployments (\$45.1m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$18.1m),
 - Coastal surveillance - continuation (Operation Resolute) (\$3.8m),

- Air combat capability - acquisition of Super Hornets (\$572.6m); and
- Logistics - additional funding (\$11.4m).
- reprogramming of the Approved Major Capital Investment Program due to industry capacity issues and slippage of approved projects (-\$615.0m),
- reprogramming of the Approved Major Capital Investment Program following a review of the estimates in the 2007-08 Budget to reflect industry capacity issues and reprogramming of project schedules (-\$350.0m),
- a decrease in the value of planned purchases due to movements in currency foreign exchange rates favourable to the Australian dollar (-\$78.6m),
- transfer of projects from the Defence Capability Plan to the Major Capital Facilities Program (-\$50.6m),
- an increase in the value of planned purchases due to price rises reflecting the revision to the price parameters used in the 2007-08 Budget following a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$98.9m),
- recategorisation of planned purchases from Inventory to reflect correct accounting treatment (\$227.8m), and
- an increase in the estimate of the value of planned purchases in 2006-07 including the recategorisation of planned purchases from Other Plant and Equipment to Specialist Military Equipment (\$77.6m).

The budgeted value of Intangible assets will increase by \$0.2m due to an increase in the value of planned purchases in 2006-07 and 2007-08.

The budgeted value of Inventory assets will decrease by \$197.3m due to:

- additional purchases associated with the logistics sustainment budget measure and other variations (\$21.4m);
- an increase in the value of planned purchases due to price rises reflecting the revision to the price parameters used in the 2007-08 Budget following a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$9.1m); and
- recategorisation of planned purchases to Specialist Military Equipment (-\$227.8m) to reflect the correct accounting treatment for these items.

EQUITY

Contributed equity is the amount that the Government as owner has invested in Defence. Restructuring activities, equity appropriations and returns made by Defence to the Official Public Account are included in the calculation of contributed equity.

Reserves represent the Asset Revaluation Reserves of Defence and are affected by asset revaluation activities undertaken during the year.

Retained surpluses or accumulated deficits represent the cumulative surpluses or deficits of Defence. Defence is not forecasting an operating surplus or deficit in 2007-08.

Equity is estimated to be \$55.9 billion at 30 June 2008. This represents a decrease of \$135.1m or 0.2 per cent from the estimate published in the *Portfolio Additional Estimates 2006-07* due to:

- a net reduction in the planned Equity Injection appropriation of \$212.7m due to:
 - reprogramming of the Approved Major Capital Investment Program due to industry capacity issues and slippage of approved projects (-\$615.0m),
 - reprogramming of the Approved Major Capital Investment Program following a review of the estimates in the 2007-08 Budget to reflect industry capacity issues and reprogramming of project schedules (-\$350.0m),
 - reprogramming of the Major Capital Facilities funds from 2007-08 to later years (-\$28.0m),
 - a decrease in the value of planned specialist military equipment purchases due to movements in currency foreign exchange rates favourable to the Australian dollar (-\$78.6m),
 - increased equity injection for the following budget measures:
 - Air combat capability - acquisition of Super Hornets (\$572.6m),
 - Logistics - additional funding (\$82.1m),
 - Strengthening National Security - improved Defence intelligence capability (\$8.3m),
 - Strengthening National Security - reducing national e-security risk (\$3.4m),
 - Iraq - continued funding for stabilisation and reconstruction activities (\$18.1m),
 - Coastal surveillance - continuation (Operation Resolute) (\$3.8m), and
 - Afghanistan - Australian Defence Force deployments (\$45.1m);

- a revision to the price parameters used in the 2007-08 Budget reflecting a net increase in the forecast non-farm gross domestic product deflator in 2006-07 and 2007-08 (\$125.4m), and
- a transfer of Contributed Equity from the Department of Foreign Affairs and Trade for the relocation of overseas missions (\$0.2m); and
- a reduction in the planned return of Contributed Equity to Government due to lower than planned disposals through the Property Disposals Program (\$77.4m).

Cash Flows

Defence is budgeting to receive \$22,494.3m in cash from all sources in 2007-08 and to spend that amount including returns to the Official Public Account. This represents an increase of \$1,120.1m or 5.2 per cent compared with the previous estimate. Defence is forecasting no movement in its opening cash balance of \$36.2m. Table 2.11 shows details of planned cash receipts and payments.

Table 2.11: Variation in Planned Cash Flows 2007-08

	2007-08	2007-08	Variation	
	Previous Estimate	Budget Estimate	\$000	%
	\$000	\$000	\$000	%
CASH RECEIPTS				
Appropriations from Government	17,885,333	19,170,126	1,284,793	7.2
Sales of goods and services	583,234	643,206	59,972	10.3
GST refund	422,724	422,723	-1	0
Other revenue	64,808	66,020	1,212	1.2
Draw-down from Appropriation Receivable	50,000	50,243	243	0.5
Proceeds from sales of property, plant and equipment	156,619	79,194	-77,425	-49.4
Equity appropriation	2,211,529	2,062,804	-148,725	-6.7
Total cash receipts	21,374,247	22,494,316	1,120,069	5.2
CASH PAYMENTS				
Employees	6,856,910	7,190,091	333,181	4.9
Suppliers	7,408,978	8,417,167	1,008,189	13.6
Grants	3,904	4,395	491	12.6
Finance costs	20,799	25,574	4,775	23.0
Other	1,532	873	-659	-43.0
Cash transfer to the Official Public Account	-	64,174 ⁽¹⁾	64,174	-
Purchase of specialist military equipment	4,731,076	4,614,166	-116,910	-2.5
Purchase of inventory	1,334,270	1,186,354	-147,916	-11.1
Purchase of property, plant and equipment	900,717	952,887	52,170	5.8
Repayments of debt	16,360	16,360	-	-
Capital withdrawal	99,700	22,275	-77,425	-77.7
Total cash payments	21,374,247	22,494,316	1,120,069	5.2
Net increase/(decrease) in cash held	-	-	-	-
Cash at 1 July 2007	36,221	36,221	-	-
Cash at 30 June 2008	36,221	36,221	-	-

Note

1. Reimbursement of the Appropriation Receivable for operations expenditure in 2006-07, which will be appropriated in 2007-08.

USE OF CASH RESERVES

Defence has progressively reduced the level of funds held in the Appropriation Receivable in recent years as shown in Table 2.12.

Table 2.12: Rundown in Appropriation Receivable 2007-08

	2002-03 Actual \$'000	2003-04 Actual \$'000	2004-05 Actual \$'000	2005-06 Actual \$'000	2006-07 Planned \$'000	2007-08 Planned \$'000
End of year Appropriation Receivable	870,201	537,660	538,609	348,614	199,628	213,802

The planned movements in the Appropriation Receivable are shown in Table 2.13 below.

Table 2.13: Movements in Defence's Appropriation Receivable

2006-07 Planned result \$'000		2007-08 Previous Estimate \$'000	2007-08 Budget Estimate \$'000	2008-09 Forward Estimate \$'000	2009-10 Forward Estimate \$'000	2010-11 Forward Estimate \$'000
348,614	Opening balance of Appropriation Receivable	263,802	199,628	213,802	158,802	98,802
-43,643	Cash used to reduce employee liabilities	-50,000	-50,000	-55,000	-60,000	-65,000
-17,200	Operation Slipper 2005-06 rephasing					
-38,916	Carry forward of Operation Catalyst funds to 2006-07					
-3,653	Carry forward of Operation Slipper funds to 2006-07					
18,600	Reimbursement for expenditure in 2005-06 for Operation Astute					
-10,294	Operation Slipper 2006-07 expenditure for International Campaign Allowance		10,294			
-17,044	Operation Slipper 2006-07 expenditure for increased deployed ADF numbers		17,044			
-4,388	Operation Catalyst 2006-07 expenditure for increased deployed ADF numbers		4,388			
-32,448	Operation Slipper 2006-07 expenditure for expansion of ADF deployment		32,448			
	Relocation of overseas missions: <i>transfer from DFAT</i>		243			
	<i>drawdown</i>		-243			
199,628	Closing balance of Appropriation Receivable	213,802	213,802	158,802	98,802	33,802

In 2007-08, Defence will drawdown \$50.0m from the Appropriation Receivable to contribute to employee liabilities. It will also be reimbursed \$64.2m of operations expenditure incurred in 2006-07 on Operations Slipper and Catalyst including \$32.4m on the expansion of Operation Slipper.

APPROPRIATIONS

Including \$2,802m in administered appropriations (refer serial 8 in Table 2.1), Defence's total appropriations are estimated to be \$24,801.6m in 2007-08. Departmental appropriations will be \$21,232.9m (refer serial 3 in Table 2.1) comprising \$19,170.1m for departmental outcomes and \$2,062.8m for the equity injection. Explanations for variations to the estimates for appropriation for outcomes are contained in Chapter Five - Planned Outcome Performance.

Defence's administered appropriations for Outcome Seven are standing appropriations enabled by Part XII, s.125 (3) of the *Defence Force Retirements and Death Benefits Act, 1973*, Part V, s.17 of the *Military Superannuation and Benefits Act, 1991* and Part IV, s.38 of the *Defence Force (Home Loan Assistance) Act, 1990*. Explanations for the variations in planned appropriations and other revenue for administered items are in Chapter Five - Planned Outcome Performance under Outcome Seven - Superannuation and Housing Support Services for Current and Retired Defence Personnel.

Table 2.14: Appropriations and Other Resources to Defence in 2007-08

	Departmental				Administered				Total	
	Appropriation Bill No.1	Appropriation Bill No.2	Special Appropriation	Receipts	Appropriation Bill No.1	Appropriation Bill No.2		Special Appropriation		Receipts
	\$000	\$000	\$000	\$000	\$000	SPP \$000	Other \$000	\$000		\$000
Outcome 1: Command of operations	1,576,590			43,496						1,620,086
Outcome 2: Navy capability	5,012,665			210,827						5,223,492
Outcome 3: Army capability	6,393,005			282,579						6,675,584
Outcome 4: Air Force capability	5,325,120			201,201						5,526,321
Outcome 5: Strategic policy	303,430			13,169						316,599
Outcome 6: Intelligence	559,316			14,873						574,189
Outcome 7: Superannuation and housing support services for current and retired Defence personnel								2,802,468		2,802,468
Equity injection		1,998,630								1,998,630
Loans										
Previous years' outputs		64,174								64,174
Administered assets and liabilities										
Special capital appropriation										
Total	19,170,126	2,062,804	0	766,145				2,802,468		24,801,543

PAYMENTS TO THE DEFENCE MATERIEL ORGANISATION

The Defence Materiel Organisation (DMO) was established as a prescribed agency on 1 July 2005. It is responsible for equipping and sustaining the ADF through the acquisition of capital equipment assets and the sustainment of these assets to meet directed levels of preparedness.

Defence has budgeted to pay the DMO \$9.442 billion in 2007-08 for the procurement of capital equipment (\$4.820 billion) and the sustainment of equipment (\$4.622 billion). Funding for procurement of capital equipment is provided under a suite of Materiel Acquisition Agreements (one agreement for each project) together with a service fee which covers the DMO project staffing including Professional Service Providers and associated overheads. Payments for sustainment of existing assets is provided under a suite of Materiel Sustainment Agreements (one agreement with each Capability Manager covering approximately 100 individual products), together with an associated service fee which covers systems program office staffing costs and associated overheads.

Figure 2.1 provides a summary of the planned payments to the DMO over the Forward Estimates period showing a breakdown between approved activities and activities awaiting approval. In summary, Defence plans to pay the DMO \$9.442 billion in 2007-08 as detailed in Table 2.15.

Figure 2.1: Total Planned Payments to the DMO for 2007-08 and the Forward Estimates

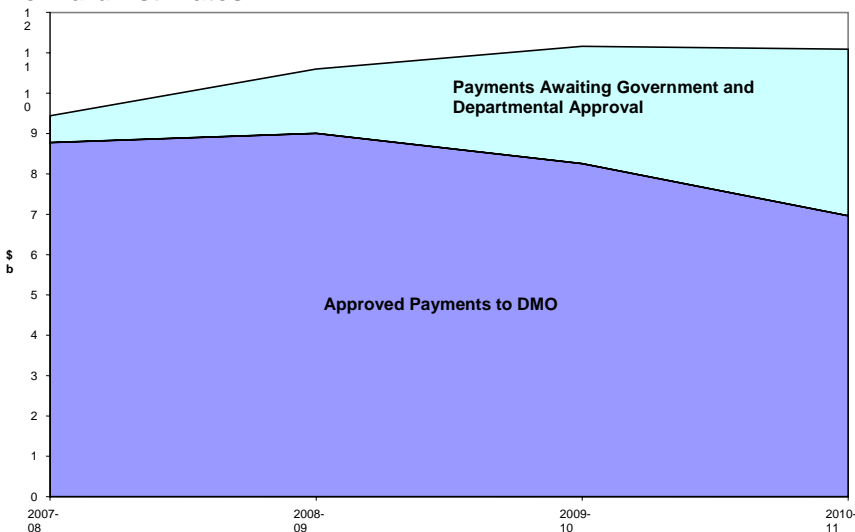


Table 2.15 Total Payments to the DMO in 2007-08 and the Forward Estimates

Group/Item Description	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
a. Major Capital Projects	4,295.6	5,566.9	6,135.2	5,973.2
b. Acquisition Service Fee	348.0	375.3	397.1	405.9
1. Sub Total Major Capital Investment Projects	4,643.6	5,942.2	6,532.3	6,379.1
c. Navy Minor Projects	33.5	31.0	31.8	31.5
d. Army Minor Projects	62.2	68.2	70.4	71.4
e. Air Force Minor Projects	47.1	43.0	43.0	43.0
f. Chief Information Officer Minor Projects	12.9	13.0	13.6	13.9
g. Joint Logistics Minor Projects	20.8	20.9	21.2	21.7
2. Sub Total Minor Projects (c+d+e+f+g) ⁽¹⁾	176.5	176.1	180.0	181.5
3. Total Acquisition (DMO Output 1) (1+2)	4,820.1	6,118.3	6,712.3	6,560.6
h. Enhanced Land Force Sustainment Element	100.8	33.8	19.3	44.3
i. Navy Sustainment	1,330.3	1,222.1	1,191.7	1,217.4
j. Army Sustainment	1,273.2	1,059.4	902.1	875.8
k. Air Force Sustainment	1,099.4	1,010.2	988.2	931.6
l. Chief Information Officer Sustainment	43.1	40.7	44.2	46.1
m. Operating costs for DCP (NPOC)	175.4	274.6	445.5	496.9
n. Super Hornets (Operating Costs)	42.5	59.4	120.7	159.2
o. Operating Costs for the C-17s	54.7	92.5	101.2	107.3
p. Additional funding for Lead In Fighter	29.0	23.6	25.1	28.0
q. Logistics Supplementation (new Budget Measure)	109.1	294.1	238.0	245.0
4. Sub Total Sustainment Products (h+i+j+k+l+m+n+o+p+q)	4,257.5	4,110.4	4,076.0	4,151.6
5. Sustainment Service Fee	364.0	370.2	374.3	382.6
6. Total Sustainment (DMO Output 2) (4+5)	4,621.5	4,480.6	4,450.3	4,534.2
7. Total Planned Payments to DMO (3+6)⁽²⁾	9,441.6	10,598.9	11,162.6	11,094.8

Notes

1. Cross reference to Table 3.10
2. Cross reference to Section Two, Defence Material Organisation, and Table 6.3.

Of the total planned payment to the DMO in 2007-08 of \$9.442 billion, an initial payment of \$8.775 billion is planned for approved projects and activities as set out in Table 2.16 below. A further \$667m is expected to be paid to the DMO during the course of the year as new projects are approved by Government or departmental delegates and for the personnel and operating costs of new and enhanced equipment as they enter service. Details are provided in Table 2.17.

Table 2.16: Planned Payments to the DMO for Approved Projects and Activities in 2007-08 and the Forward Estimates

Group/Item Description	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
a. Major Capital Projects	3,858.3	4,340.6	3,799.0	2,500.4
b. Acquisition Service Fee ⁽¹⁾	348.0	375.3	397.1	405.9
1. Sub Total Major Capital Equipment Projects (a + b) ⁽²⁾	4,206.3	4,715.9	4,196.1	2,906.3
c. Navy Minor Projects	25.0	16.9	9.2	0.8
d. Army Minor Projects	30.0	27.1	11.5	4.9
e. Air Force Minor Projects	46.2	25.7	20.2	10.7
f. Chief Information Officer Minor Projects	2.4	1.4	0.0	0.0
g. Joint Logistics Minor Projects	18.9	10.4	13.9	1.9
2. Sub Total Approved Minor Projects (c + d + e + f + g) ⁽³⁾	122.5	81.5	54.8	18.3
3. Sub Total Acquisition (DMO Output 1)	4,328.8	4,797.4	4,250.9	2,924.6
h. Enhanced Land Force Sustainment Element	100.8	33.8	19.3	44.3
i. Navy Sustainment	1,330.3	1,222.1	1,191.7	1,217.4
j. Army Sustainment	1,273.2	1,059.4	902.1	875.8
k. Air Force Sustainment	1,099.4	1,010.2	988.2	931.6
l. Chief Information Officer Sustainment	43.1	40.7	44.2	46.1
m. Super Hornets (Operating Costs)	42.5	59.4	120.7	159.2
n. Operating Costs for the C-17s	54.7	92.5	101.2	107.3
o. Additional funding for Lead In Fighter	29.0	23.6	25.1	28.0
p. Logistics Supplementation (new Budget Measure)	109.1	294.1	238.0	245.0
4. Sub Total Sustainment Payments (h+i+j+k+l+m+n+o+p)	4,082.1	3,835.8	3,630.5	3,654.7
5. Sustainment Service Fee	364.0	370.2	374.3	382.6
6. Sub Total Sustainment (DMO Output 2) (4+5)	4,446.1	4,206.0	4,004.8	4,037.3
7. Total Approved Projects and Activities (3+6)	8,774.9	9,003.4	8,255.7	6,961.9

Notes

1. The DMO Service Fee is funded on the basis that the projects awaiting Government approval, the values of which are set out in Table 2.17, will be approved and transferred to the DMO. This ensures that DMO can plan its workforce requirements for future years, so that it is in a position to form project teams to manage projects as they are approved by Government.
2. Cross reference to Table 3.6.
3. Cross reference to Table 3.10.

Table 2.17: Payments Awaiting Government Approval for Projects and Activities in 2007-08 and the Forward Estimate

Group/Item Description	2007-08 Budget Estimate \$m	2008-09 Forward Estimate \$m	2009-10 Forward Estimate \$m	2010-11 Forward Estimate \$m
1. Major Capital Equipment Projects awaiting Government approval ⁽¹⁾	437.3	1,226.3	2,336.2	3,472.8
a. Navy Minor Projects	8.5	14.1	22.6	30.7
b. Army Minor Projects	32.2	41.1	58.9	66.5
c. Air Force Minor Projects	0.9	17.3	22.8	32.3
d. Chief Information Officer Minor Projects	10.5	11.6	13.6	13.9
e. Joint Logistics Minor Projects	1.9	10.5	7.3	19.8
2. Sub Total Unapproved Minor Projects (a + b + c + d + e)	54.0	94.6	125.2	163.2
3. Sub Total Acquisition (DMO Output 1) (1+2)	491.3	1,320.9	2,461.4	3,636.0
4. NPOC costs for New and Enhanced Equipment	175.4	274.6	445.5	496.9
5. Total for Unapproved Projects and Activities (3+4)	666.7	1,595.5	2,906.9	4,132.9

Note

1. Cross reference to Table 3.3.

DISCRETIONARY GRANTS

Discretionary grants are payments made to organisations or individuals at the discretion of the Minister for Defence. All Defence grants are paid from departmental rather than administered funds. Grant recipients must satisfy eligibility and reporting requirements, and may be subject to certain conditions in return for the grant. Discretionary grants can be:

- payments made to an organisation or individual and include ad hoc grants that are made on a one-off basis, as well as grants renewed under continuing programs;
- grants in kind or services-in-kind provided in lieu of grant payments; and
- payments that organisations or individuals receive after satisfying eligibility and/or reporting requirements, and include awards, gifts, departmental (non-legislated) rebate schemes and non-reciprocal scholarships.

The Government requires Defence to report on all discretionary grant approvals. In 2007-08 Defence plans to spend \$4.395m on grants which have been approved by the Minister for Defence. Table 2.18 provides details.

Table 2.18: Discretionary Grants

2006-07		2007-08
Estimated		Budget
Actual		Estimate
\$'000		\$'000
75	Army Military History Research Grants Scheme	75
1,146	Defence Family Support Funding Program	1,346
83	Grant to the Royal United Services Institute of Australia	86
100	Submarine Institute of Australia for HMA Submarine AE2	288
1,650	Grant to the Livingstone Shire Council	2,600
	Grant to Sherwood-Indooroopilly RSL Sub Branch for Airforce	
31	Cadets Training Room	-
38	Operation Aussies Home	-
3,123	Total	4,395

Army Military History Research Grants Scheme

The scheme supports and encourages research into the role and involvement of the Army in the development of the nation.

Defence Family Support Funding Program

The program provides funds for ADF families to undertake family support projects at the local level to assist in reducing the effects of mobility on Defence families.

Grant to the Royal United Services Institute of Australia

The grant provides assistance to the Royal United Services Institute of Australia in promoting the discussion of national security and defence matters, and improving public awareness and understanding of such matters through:

- the Institute's program of international seminars;
- lecture programs in all states and territories; and
- publication of a national journal, addressing strategic, defence and national security issues.

The grant also provides continuing support for the Institute's national secretariat to position the Institute to become more financially independent.

Submarine Institute of Australia for HMA Submarine AE2

The grant provides funds to the Submarine Institute of Australia including mission rehearsal training dives as well as the Maritime Archaeological assessment on the World War 1 HMA Submarine AE2 located in the sea off Turkey. This grant was approved after the publication of the *Portfolio Additional Estimates Statements 2006-07* and is included here for completeness.

Grant to the Livingstone Shire Council

The grant provides funds to the Livingstone Shire Council for works on the access roads to the Shoalwater Bay Training Area to enable Defence to have unfettered access for heavy vehicle movement to and from the training area.

Grant to Sherwood-Indooroopilly RSL Sub Branch for Air Force Cadets Training Room

The grant provided funds to the Sherwood-Indooroopilly RSL Sub Branch to assist with the fit out of classrooms for use by 218 Squadron Australian Air Force Cadets. This grant was approved after the publication of the *Portfolio Additional Estimates Statements 2006-07* and is included here for completeness.

Operation Aussies Home

The grant provided funds to assist with the search for likely burial sites for two Australian soldiers killed in action during the Vietnam War.

INDIGENOUS PROGRAMS

ABORIGINAL AND TORRES STRAIT ISLANDER PROGRAM

The primary focus of the Aboriginal and Torres Strait Islander Program (ATSIP) is the recruitment, career development, support and retention of Indigenous Australians through various Australian Public Service (APS) and Defence-specific programmes. It includes strategic initiatives such as centralised funding for cross-cultural awareness training.

ARMY ABORIGINAL COMMUNITY ASSISTANCE PROGRAM

The Army Aboriginal Community Assistance Program (AACAP) initiative's purpose is to form a partnership to assist in the delivery of housing, infrastructure, health services and training to remote Aboriginal communities throughout Australia.

AUSTRALIAN DEFENCE FORCE CADETS – INDIGENOUS PARTICIPATION PROGRAM

The Indigenous Participation Program (IPP) funds two Indigenous Liaison Officers, one in Darwin and one in Townsville, as well as a range of initiatives designed to address the under-representation of Indigenous youth in the ADF Cadets. The primary focus of the IPP is to identify and remove the barriers to Indigenous participation within the ADF Cadets by developing culturally appropriate strategies applicable to each community/region and cadet organisation.

INDIGENOUS RECRUITMENT AND RETENTION STRATEGY

Fairness and Resolution Branch and Defence Force Recruitment are developing an Indigenous Recruitment and Retention Strategy to increase the participation rates of Indigenous Australians in both the ADF and APS. The strategy is aligned with the *ADF Recruiting Strategic Plan 2005-2010* and the *Defence Strategic Workforce Plan 2007-2017* and is due to be completed by the end of 2007.

SAVINGS AND EFFICIENCY MEASURES

Program of Administrative Savings

In the 2003-04 Budget, the Government agreed that Defence would absorb a range of cost pressures through a program of administrative savings. The five year program will reach maturity in 2007-08, and deliver ongoing savings of \$205.8m per annum. Over the course of the five years (including 2007-08) Defence has exceeded the target in each year to a total of \$38.8m. This has allowed additional funds to be redirected within Defence to allow additional unavoidable costs pressures to be met without requiring cuts to capability. Details are shown in Table 2.19 below.

Table 2.19: Program of Administrative Savings Targets

	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m	Ongoing \$m
Savings target	50.0	100.0	150.0	175.0	200.0	200.0
Savings achieved/ planned to date	60.6	125.5	169.1	153.2	205.8	205.8

Administrative savings to date have been achieved by:

- reductions in the number of civilian staff working in administrative areas;
- reductions in non-capability-related supplier expenses, including Professional Service Providers;
- a reduction in non-operations related overseas travel;
- a reduction in non-operations related domestic travel;
- renegotiations of the Australian Defence Force Academy agreement, resulting in cost savings;
- a reduction in non-operational overseas positions (where savings have not yet been received, administration budgets have been reduced to compensate);
- removal from service of three P-3 Orion derivative training aircraft, following the introduction of the advanced flight simulator, resulting in operational savings which have been redirected to P-3 Orion aircraft logistics;
- the rationalisation of the civilian personnel administration centres from three to two locations;
- rationalisation of the former Public Affairs and Corporate Communication Division;
- introduction of PMKeyS Self Service, resulting in printing savings from the electronic distribution of civilian and military pay summaries;
- introduction of the Defence Travel Card for domestic and overseas business-related travel, including the Diners Club rebate, as part of the Defence Travel Reform;
- introduction of the Invoice Scanning and Imaging System, resulting in processing savings;
- closing Defence cash offices and centralising receipting, resulting in implementation of automated processes (Bill Pay and Phone Pay) and recovery of debt through salary;
- renegotiations of the Defence Comcover insurance premium;
- lease cost savings for commercial vehicles;
- business process improvements for the Regional Information, Communication and Technology Market Testing function;
- civilianisation of Navy and Army military positions;
- savings in goods and services tax associated with the implementation of the Defence Travel Card;
- implementation of a national Defence contract for courier services for mail and freight;

- implementation of a new standing offer for office requisites and janitorial products, savings predominantly in toner cartridges;
- rationalisation of resource/paper management;
- rationalisation of military personnel administration centres;
- further rationalisation of civilian personnel administration centres; and
- conversion of Professional Service Providers to civilians.

Table 2.20 details the net savings achieved to date and those planned in 2007-08, including transition and upfront costs.

Table 2.20 Administrative Savings Achieved/Planned to Date

Initiative	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Reductions in civilian workforce	9.5	28.4	46.5	46.5	46.5
Reductions in non-capability related suppliers, including Professional Service Providers (PSP)	22.0	41.7	41.7	41.7	41.7
Reductions in overseas travel	7.4	7.4	7.4	7.4	7.4
Reductions in domestic travel	11.5	11.5	11.5	11.5	11.5
Renegotiation of the Australian Defence Force Academy agreement	0.9	1.9	1.9	1.9	1.9
Reductions in non-operational overseas positions	4.8	13.4	19.2	20.4	20.3
Removal from Service of three P-3 derivative training aircraft	-	-	5.5	5.5	4.0
Rationalisation of civilian personnel administration centres	1.3	1.3	1.3	1.3	1.3
Rationalisation of the former Public Affairs and Corporate Communication Division	2.7	3.2	3.2	3.2	3.2
PMKeyS Self Service	-	0.1	0.1	0.1	0.1
Diners club rebate	0.5	-0.2	0.4	0.7	-
Defence Travel Improvement Project (processing staff)	-	0.7	2.0	2.0	2.0
Invoice Scanning and Imaging System	-	0.2	2.4	2.4	2.4
Closure of Defence cash offices and centralising receipting	-	0.3	0.3	0.3	0.3
Reduction in COMCOVER insurance premium	-	22.5	20.8	19.1	17.3
Commercial Vehicles	-	-	0.5	1.4	1.4
Regional Information, Communication and Technology Market Testing	-	-	1.5	2.3	2.3
Civilianisation of Navy military positions	-	-	-	0.4	0.4
Civilianisation of Army military positions	-	-	-	1.4	1.4
Defence Travel Card. Business Improvement Projects	-	0.2	7.0	7.0	7.0

Initiative	2003-04 \$m	2004-05 \$m	2005-06 \$m	2006-07 \$m	2007-08 \$m
Travel Improvement Project (goods and services tax)	-	-	-	3.0	5.0
Mail and Freight	-	-	-	3.2	3.2
Strategic Supplier Arrangements (office requisites)	-	-	-	1.5	1.5
Rationalisation of business equipment	-	-	-	0.6	0.6
Rationalisation of resource/paper management	-	-	-	1.5	4.8
Rationalisation of military personnel administration centres	-	-	-	-	1.3
Further rationalisation of civilian personnel administration centres	-	-	-	-	0.7
Substitution of more costly PSP positions with civilians	-	-	-	17.5	20.2
1. Sub Total Savings Programmed	60.6	132.6	173.2	203.8	209.7
Defence Support Group transition Staff	-	-2.5	-	-	-
Regional Information, Communication and Technology Market Testing transition costs	-	-2.3	-3.3	-	-
Business Improvement Project transition costs	-	-2.3	-0.8	-17.5	-
Business centre set up and lease costs (in the vicinity of RAAF Base Williamtown)	-	-	-	-2.5	-3.9
2. Sub Total Transition Costs	0.0	-7.1	-4.1	-20.0	-3.9
3. Net Savings	60.6	125.5	169.1	153.2	205.8

Other Savings and Efficiencies

In addition to the Program of Administrative Savings under which Defence is able to retain the savings, Defence has returned \$551.7m to the Budget over the period 2005-06 to 2010-11 in savings measures as detailed in Table 2.21.

Table 2.21 Savings Returned to the Budget 2005-06 to 2010-11

	2005-06 \$m	2006-07 \$m	2007-08 \$m	2008-07 \$m	2009-10 \$m	2010-11 \$m	Total \$m
Administrative Overheads	-	70.0	60.0	12.0	-	-	142.0
Efficiency Dividend (initial tranche)	3.4	11.9	25.0	39.0	55.5	71.1	205.9
Rationalisation of ADF Command and Control Structure	-	5.9	12.7	20.5	31.0	31.0	101.1
Broadening of the Efficiency Dividend	-	4.5	11.2	20.1	29.0	37.9	102.7
Total Savings Returned to the Budget	3.4	92.3	108.9	91.6	115.5	140.0	551.7

COST RECOVERY ARRANGEMENTS

Details of the Department of Defence's cost recovery activities are provided below in the summary of Defence's Cost Recovery Impact Statement.

COST RECOVERY IMPACT STATEMENTS - SUMMARY

DEFENCE COST RECOVERY POLICY

Chief Executive Instruction 7.1 - Charging and Cost Recovery

The Department of Defence has had a full cost recovery policy since at least 1991. Current Defence cost recovery policy is contained in *Chief Executive Instruction 7.1 - Charging and Cost Recovery*. This instruction contains the following charging principles:

- Defence charging principles are based on the Government's policy that the full cost of the provision of goods and services is recoverable, except under special circumstances.
- In accordance with this policy, Defence applies the 'user pays' principle which involves charging for goods or services provided to other agencies, or to members of the public. The principle also applies to Defence personnel (civilian, ADF and contractors) undertaking activities not related to Defence business.

Defence considers that these principles are consistent with the costing policy as set out in the Australian Government Cost Recovery Guidelines July 2005.

COSTING AND CHARGING PROCEDURES

The *Defence Costing Manual - Charging and Cost Recovery* contains costing tables for each Service rank and civilian classification. The tables show the full cost of personnel. The costing rates in these tables are used for identifying the full cost of activities and also for full cost recovery. These rates take account of all the direct and indirect costs of personnel.

This manual also contains a range of rates for ships, aircraft, vehicles, etc. Methodologies are also provided to enable the calculation of full cost rates for the hire of equipment and facilities, and charges for training courses.

COST RECOVERY WITHIN DEFENCE

Although Defence has a full cost recovery policy, only approximately 8 per cent of its cost recovery revenue is received from non-government sources and subject to reporting in this Cost Recovery Impact Statement (CRIS). The remaining 92 per cent is received from intra- and inter-government sources (including foreign governments) and other sources not subject to reporting. Where intra- and inter-governmental charging occurs cost recovery guidelines are followed to the greatest possible extent.

FORECAST REVENUE

As cost recovery from non-government sources is largely ad hoc in nature and a very small percentage of Defence revenue it is not possible to forecast expected revenue in a meaningful way.

Revenue within the Scope of the CRIS Review

DEFENCE ASSISTANCE TO THE CIVIL COMMUNITY

The Defence Assistance to the Civil Community (DACC) policy and procedures are set out in an instruction issued pursuant to the *Defence Act 1903* and entitled *Defence Instruction (General) – OPS 05-1*. Under this policy Defence provides a range of assistance to the Civil Community is broadly divided into emergency and non-emergency. The emergency assistance is sub-divided into immediate assistance where cost recovery is not obtained, and longer-term assistance where cost recovery is fully pursued. Non-emergency assistance is provided on a cost recovery basis, although cost waivers are sometimes given where there is a justifiable basis for the waiver. Where cost recovery is pursued the full cost of providing the service is recovered.

Non-emergency DACC tasks are costed on a full cost basis using rates and methods contained in the *Defence Costing Manual – Charging and Cost Recovery*. Non emergency assistance of a minor nature is provided to community and charity groups without cost recovery.

The charge for each DACC activity for which cost recovery is obtained is built up from the standard personnel and other rates contained in the *Defence Costing Manual – Charging and Cost Recovery*, which have been calculated in accordance with the Defence policy of full cost recovery and the Government's cost recovery policy.

SALE OF CHARTS AND MAPS

Revenue received in 2005-06 was \$3.454m. The bulk of this amount (\$3.192m) came from the sale of products produced by the Royal Australian Navy (RAN) Australian Hydrographic Office. The sales total for the AHO in 2005-06 comprised:

- Australian Manuscript and Digital Products: \$2.383m; and
- Royalties and Data Licensing and Non-Australian Products: \$0.809m.

At least 25 per cent of the Australian Hydrographic Office revenue is excluded from the scope of the CRIS because it is receipts from royalties (\$0.809m).

The Australian Hydrographic Office does not employ full cost recovery because of the Government's policy relating to the community service or 'public good'

nature of AHO products. A prime function of the Hydrographic Service is to discharge the Government's responsibility of providing for the 'public good' navigational aids to non-Defence entities.

CASUAL MEALS IN SERVICE MESSES

Service messes are provided principally for Service Personnel. In certain circumstances non-Defence civilians and overseas Defence personnel are permitted to have casual meals in service messes when visiting or working at a base. Approximately \$3m was received from casual meals purchased in Defence messes. The rates for casual meals are contained in the *Defence Costing Manual - Charging and Cost Recovery* and are based on the full costs of meals in representative messes updated for price movement using the consumer price index.

REVENUE FROM SALE OF FUEL TO NON-DEFENCE ENTITIES

Revenue received in 2005-06: \$2.349m

Fuel is primarily held for the ADF use, rather than for sale; and is only sold on occasion. This item is mainly for the sale of fuel from bulk tanks at ADF establishments. The costs recovered are in accordance with the Defence Costing Manual - Charging and Cost Recovery, using standard rates, and includes excise, GST and appropriate on-costs.

ONGOING MONITORING

Defence Costing Manual - Charging and Cost Recovery: The policy and manual were reviewed in 2006. Costing data will be updated on an annual basis for such things as salary increases and price increases. The next major review will be conducted in five years time, unless required earlier by any changes in government or departmental policy. Where appropriate, stakeholders will be consulted.

PURCHASER-PROVIDER ARRANGEMENTS

Defence Materiel Organisation

See Section Two - Defence Materiel Organisation (Chapter Two - Resourcing) for further details on the purchaser-provider arrangement between Defence and the DMO.

Defence Housing Australia

OVERVIEW

Defence and Defence Housing Australia (DHA) have two formal agreements: the Services Agreement for Housing and Related Requirements (the Services Agreement); and the Relocation Services Agreement. The agreements formalise the relationship between Defence as purchaser and DHA as provider of housing and related services. The Services Agreement has been reviewed with the new agreement signed on 30 June 2006 and implemented on 1 July 2006. Under this agreement, DHA is to provide suitable housing for Defence members to meet the operational needs of Defence. Defence expects DHA to provide appropriate numbers of houses in suitable locations in accordance with Defence policy. The Relocation Services Agreement was reviewed in 2006 with an amended agreement signed on 1 October 2006. Under this agreement, DHA coordinates and administers domestic relocations.

CONTROL ARRANGEMENTS

DHA is a statutory authority responsible, through its board, to the Minister for Defence and the Minister for Finance and Administration. It was established in 1987, commenced operations on 1 January 1988, and provides a range of customer services formerly delivered by Defence.

The *Defence Housing Authority Amendment Act 2006* enables DHA to expand the scope of its operations to provide services that are ancillary to housing and housing-related services to both Defence and other Australian Government agencies as defined in the *Financial Management and Accountability Act 1997*.

The *Defence Housing Authority Amendment Act 2006* took effect on 23 November 2006. From that date the name of the organisation changed to Defence Housing Australia and a smaller, streamlined, more commercially focused board with a greater freedom to act commenced operation.

The DHA Board members are:

Chairman	The Hon P V Jones AM
Managing Director	Mr Michael Del Gigante
Commercial Director	The Hon. WL Lange
Commercial Director	Mr WD Bowness
Commercial Director	Ms S A Chaplain
Commercial Director	Mr W L Stokes
Finance Nominee	Mr G Potts
Nominee Secretary of Defence	Mr Peter Sharp
Nominee Chief of Defence Force	AVM Gary Beck (rtd)

DHA has established an Advisory Committee comprising of:

Chairman	AVM Gary Beck (rtd)
DHA Nominee	Mr Michael Del Gigante
DCN	RADM RH Crane
DCA	MAJGEN J Cantwell
DCAF	AVM JN Blackburn
Convenor of Defence Families Australia	Mrs Nicole Quinn

RESOURCING

The 2007-08 estimate for the purchase of services from DHA is \$398.9m, compared with the estimate of \$399.8m in the *Portfolio Additional Estimates Statements 2006-07*, a decrease of around \$1m. DHA provides housing and relocation services and manages the Defence Home Owner Scheme for ADF members. The variations in the cost of services are due to: a reduction in the estimated expenditure in the Defence Home Owner Scheme; heritage upgrade project; and the completion of the members without dependents choice accommodation trial. These decreases are offset in part by increases in housing and relocations services.

Department of Foreign Affairs and Trade

Defence maintains a service-level agreement with the DFAT for management services and a separate memorandum of understanding with DFAT for the provision of information and communication technology services. The service-level agreement with DFAT is for the provision of management services at DFAT-managed overseas posts. The agreement is intended to promote efficient and effective Australian Government business overseas by avoiding unnecessary duplication of common services at overseas posts. An agreed fee is charged for these services.

The services provided to Defence under the agreement include financial management and office services, human resource management and property management services for Australian-based and program support staff engaged at overseas posts. In 2007-08, the expected cost to Defence will be in the order of \$4.1m.

Comcare

OVERVIEW

Defence pays to Comcare an annual workers compensation premium to meet the cost of workers compensation claims for civilian personnel who suffer a work-related injury or illness during the year and the cost of managing those claims. The premium payable for 2007-08 is estimated at \$18.4m.

The increase in the premium estimate reflects an estimated 10.8 per cent increase in the civilian payroll, together with an anticipated negative development of civilian compensation claims for the years 2003, 2004 and 2005.

Defence pays Comcare an annual regulatory contribution to fund costs incurred by Comcare and the Safety, Rehabilitation and Compensation Commission to conduct regulatory functions under the *Safety, Rehabilitation and Compensation Act 1988* and the *Occupational Health and Safety (Commonwealth Employment) Act 1991*. The regulatory contribution for 2007-08 for civilian and ADF personnel is estimated at \$5.1m.

CONTROL ARRANGEMENTS

Incidence and severity of compensation claims, including time off work, are the primary drivers of the premium. Reducing work-related injury and illness and associated time off work will, over time, have the most influence in reducing the premium payable to Comcare.

Defence is well advanced in the implementation of the Defence Civilian Injury/Illness Prevention and Management System which commenced in 2004 as an initiative under the *Defence Occupational Health and Safety Strategic Plan 2004-2006*. This strategic management systems approach, being progressively rolled out to Defence Groups, is aimed at reducing the incidence and severity of work-related injury and illness. In 2007-08, the focus will be on the review and evaluation of the system which will be in its fourth year of implementation.

ComSuper

OVERVIEW

Defence is required to pay superannuation administration fees to Commonwealth Superannuation Administration (ComSuper). Defence pays ComSuper a fee for each current or separated Defence member or employee who is a contributing, deferred benefit, or pensioner member of any of the following: the Military Superannuation and Benefits Scheme; the Defence Force Retirement and Death Benefits Scheme; the Commonwealth Superannuation Scheme; the Public Sector Superannuation Scheme; and the Public Sector Superannuation Accumulation Plan.

CONTROL ARRANGEMENTS

A service-level agreement with ComSuper, the Military Superannuation and Benefits (MSB) Board Executive and the Defence Force Retirement and Death Benefits (DFRDB) Authority commenced on 1 July 2005 and expires on 30 June 2007. The agreement identifies the military superannuation administration services to be provided by ComSuper and the fee Defence will pay. Defence is in the process of negotiating another service level agreement and is planning to have the new agreement in place by 1 July 2007. ComSuper's performance under the terms of the agreement is reviewed regularly by the MSB Board, the DFRDB Authority and Defence.

The Department of Finance and Administration is responsible for negotiating the Commonwealth wide superannuation administration services provided by ComSuper for civilians.

REVIEW OF GOVERNANCE ARRANGEMENTS

Under the Government agreed principles of the Review of Corporate Governance of Statutory Authorities and Office Holders conducted by Mr John Uhrig AC (Uhrig Review), Defence has reviewed the governance arrangements of the MSB Board and the DFRDB Authority.

The review has recommended to the Minister for Defence some changes to legislative and governance arrangements. Changes to the governance arrangements of the MSB Board of Trustees No 1 have been implemented.

RESOURCING

The estimated cost to Defence in 2007-08 for the purchase of services from ComSuper is \$22.929m. This includes an amount of \$0.990m that, under the service level agreement negotiated price, is transferred to the MSB Board Executive for non-investment related administrative costs.