

DEFENCE
CHAPTER FIVE
PLANNED OUTCOME
PERFORMANCE

DEFENCE OUTCOME AND OUTPUT STRUCTURE

OUTCOME ONE – COMMAND OF OPERATIONS

OUTCOME TWO – NAVY CAPABILITY

OUTCOME THREE – ARMY CAPABILITY

OUTCOME FOUR – AIR FORCE CAPABILITY

OUTCOME FIVE – STRATEGIC POLICY

OUTCOME SIX – INTELLIGENCE

**OUTCOME SEVEN – SUPERANNUATION AND HOUSING
SUPPORT SERVICES**

TABLE OF EXPLANATIONS OF SIGNIFICANT VARIATIONS

DEFENCE OUTCOME AND OUTPUT STRUCTURE

All Government agencies that receive appropriations from Parliament are required to report on the basis of the Outcomes and Outputs framework that was introduced along with accrual budgeting in 1999-2000. The framework recognises that the Government delivers benefits to the Australian community (Outcomes) primarily through administered items and agencies' goods and services (Outputs), which are delivered against specific performance benchmarks or targets. Planned Outcomes are defined as the results or impacts on the community or the environment that the Government intends to achieve. Appropriations by Parliament are made according to the purposes specified by government outcomes. In turn, all agency Outputs must contribute directly or indirectly to the realisation of a specified Outcome.

The Government has seven Outcomes for Defence. Of these, there are six Departmental Outcomes, which focus on the delivery of military capabilities, and one Administered Outcome as set out in Table 5.a.

As well as providing details on each of Defence's seven Outcomes, particularly in relation to planned performance in 2007-08, Chapter Five provides the following additional detail:

- Table 5.a shows the Defence Outcome and Output Structure;
- Figure 5.a shows the structure and the net cost to the Government of each of Defence's Outcomes;
- Table 5.b shows the net cost to the Government of Defence's 2007-08 Outputs, grouped by Outcome;
- Table 5.c shows the list of Defence outcomes by income and expense item;
- Table 5.d shows the Movement in the Net Cost of Defence Outcomes since 2003-04;
- Table 5.e shows the Group Contributions to Defence Outcomes; and
- Table 5.f provides an Explanation of the Significant Variations across Defence Outcomes.

Table 5.a: Defence Outcome and Output Structure

**OUTCOME ONE – Command of Operations in Defence of Australia and its Interests
(Commander Joint Operations)**

OUTPUTS

- 1.1 Command of Operations
- 1.2 Defence Force Military Operations and Exercises
- 1.3 Contribution to National Support Tasks

**OUTCOME TWO – Navy Capability for the Defence of Australia and its Interests
(Chief of Navy)**

OUTPUTS

- 2.1 Capability for Major Surface Combatant Operations
- 2.2 Capability for Naval Aviation Operations
- 2.3 Capability for Patrol Boat Operations
- 2.4 Capability for Submarine Operations
- 2.5 Capability for Afloat Support
- 2.6 Capability for Mine Warfare
- 2.7 Capability for Amphibious Lift
- 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations

**OUTCOME THREE – Army Capability for the Defence of Australia and its Interests
(Chief of Army)**

OUTPUTS

- 3.1 Capability for Special Operations
- 3.2 Capability for Medium Combined Arms Operations
- 3.3 Capability for Light Combined Arms Operations
- 3.4 Capability for Army Aviation Operations
- 3.5 Capability for Ground-Based Air Defence
- 3.6 Capability for Combat Support Operations
- 3.7 Capability for Regional Surveillance
- 3.8 Capability for Operational Logistic Support to Land Forces
- 3.9 Capability for Motorised Combined Arms Operations
- 3.10 Capability for Protective Operations

**OUTCOME FOUR – Air Force Capability for the Defence of Australia and its Interests
(Chief of Air Force)**

OUTPUTS

- 4.1 Capability for Air Combat Operations
- 4.2 Capability for Combat Support of Air Operations
- 4.3 Capability for Surveillance and Response Operations
- 4.4 Capability for Airlift Operations

**OUTCOME FIVE – Strategic Policy for the Defence of Australia and its Interests
(Deputy Secretary Strategy)**

OUTPUTS

- 5.1 International Policy, Activities and Engagement
- 5.2 Strategic Policy and Military Strategy

**OUTCOME SIX – Intelligence for the Defence of Australia and its Interests
(Deputy Secretary Intelligence and Security)**

OUTPUT

- 6.1 Intelligence

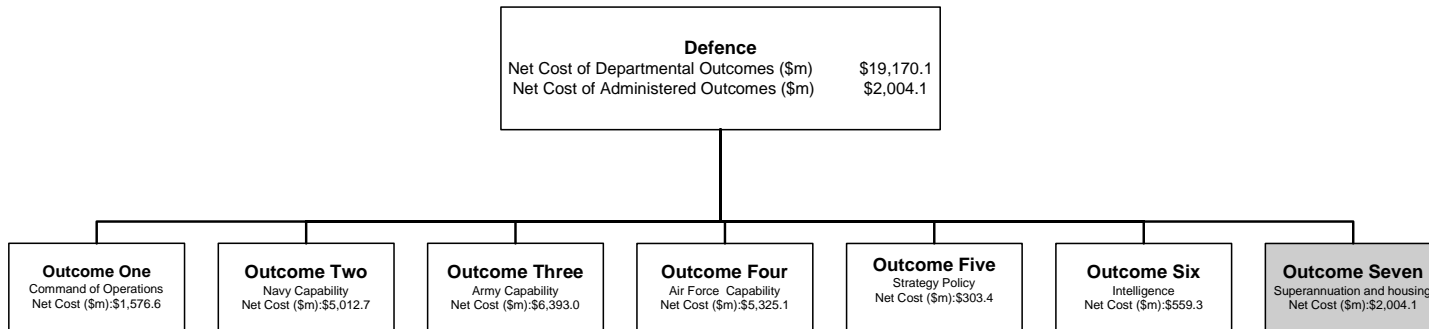
**OUTCOME SEVEN – Superannuation and Housing Support Services for Current and Retired
Defence Personnel (Head Personnel Executive)**

OUTPUTS

- 7.1 Superannuation Support Services for Current and Retired Defence Personnel
- 7.2 Housing Assistance for Current Defence Personnel
- 7.3 Other Administered Revenues and Expenses

COST OF DEFENCE OUTCOMES

Figure 5.a: Defence Outcomes – 2007-08 Budget Estimates



Notes

1. The net cost of Defence's six departmental outcomes to the Government excludes the equity injection from Government and the figure of \$19,170.1m is cross-referenced to Serial 1 of Table 2.1.
2. The net cost of outcome seven equals total administered income less total administered expenses.

COST SUMMARY OF DEFENCE OUTCOMES AND OUTPUTS

Table 5.b: Net Cost to Government of Defence's 2007-08 Outputs by Outcome

Outcome/Output	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
OUTCOME 1. COMMAND OF OPERATIONS IN DEFENCE OF AUSTRALIA AND ITS INTERESTS						
1.1 Command of Operations	420,361	426,503	6,142	462,395	492,214	428,453
1.2 Defence Force Military Operations and Exercises	322,412	1,130,212	807,800	498,355	268,157	205,964
1.3 Contribution to National Support Tasks	19,590	19,876	286	21,905	21,892	17,195
Total for Outcome 1	762,362	1,576,590	814,228	982,656	782,264	651,612
OUTCOME 2. NAVY CAPABILITY FOR THE DEFENCE OF AUSTRALIA AND ITS INTERESTS						
2.1 Capability for Major Surface Combatant Operations	1,868,273	1,902,220	33,947	1,919,918	1,943,673	2,138,124
2.2 Capability for Naval Aviation Operations	625,414	641,202	15,787	654,145	672,546	683,415
2.3 Capability for Patrol Boat Operations	266,838	277,386	10,548	297,770	317,063	357,363
2.4 Capability for Submarine Operations	797,455	815,756	18,301	798,068	788,972	766,479
2.5 Capability for Afloat Support	253,643	263,997	10,355	283,394	309,952	393,559
2.6 Capability for Mine Warfare	375,379	387,512	12,134	406,097	424,423	515,061
2.7 Capability for Amphibious Lift	412,081	424,751	12,670	444,680	482,339	422,934
2.8 Capability Hydrographic - Meteorological and Oceanographic Operations	288,970	299,841	10,871	335,569	346,004	317,063
Total for Outcome 2	4,888,053	5,012,665	124,613	5,139,641	5,284,970	5,593,999
OUTCOME 3. ARMY CAPABILITY FOR THE DEFENCE OF AUSTRALIA AND ITS INTERESTS						
3.1 Capability for Special Operations	567,484	581,018	13,534	588,359	598,442	642,444
3.2 Capability for Medium Combined Arms Operations	1,094,477	1,115,711	21,234	1,088,022	1,094,462	1,058,020
3.3 Capability for Light Combined Arms Operations	1,028,258	1,048,525	20,267	1,059,283	1,083,995	1,010,024
3.4 Capability for Army Aviation Operations	573,100	586,716	13,616	593,551	601,137	581,666

Outcome/Output	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
3.5 Capability for Ground Based Air Defence	119,123	126,106	6,983	135,812	138,699	123,572
3.6 Capability for Combat Support Operations	445,254	457,002	11,748	468,086	478,729	460,039
3.7 Capability for Regional Surveillance	156,512	164,041	7,529	173,827	176,485	202,995
3.8 Capability for Operational Logistic Support to Land Forces	590,618	604,490	13,872	615,759	630,060	580,354
3.9 Capability for Motorised Combined Arms Operations	605,920	620,015	14,096	628,674	641,568	681,945
3.10 Capability for Protective Operations	1,068,526	1,089,381	20,855	1,090,817	1,099,070	1,258,241
Total for Outcome 3	6,249,270	6,393,005	143,735	6,442,191	6,542,647	6,599,300
OUTCOME 4. AIR FORCE CAPABILITY FOR THE DEFENCE OF AUSTRALIA ITS INTERESTS						
4.1 Capability for Air Combat Operations	1,755,268	1,842,613	87,345	1,875,248	1,979,293	2,118,097
4.2 Capability for Combat Support of Air Operations	994,746	1,022,579	27,832	1,067,122	1,070,482	1,043,328
4.3 Capability for Surveillance and Response Operations	1,263,431	1,295,189	31,758	1,334,368	1,340,164	1,406,143
4.4 Capability for Air Lift Operations	1,134,859	1,164,739	29,880	1,323,979	1,269,330	1,174,265
Total for Outcome 4	5,148,305	5,325,120	176,815	5,600,717	5,659,270	5,741,833
OUTCOME 5. STRATEGIC POLICY FOR THE DEFENCE OF AUSTRALIA ITS INTERESTS						
5.1 International Policy, Activities and Engagement	220,168	223,410	3,242	234,904	258,647	298,239
5.2 Strategic Policy and Military Strategy	78,868	80,020	1,152	83,390	99,025	70,867
Total for Outcome 5	299,036	303,430	4,394	318,293	357,672	369,106
OUTCOME 6. INTELLIGENCE FOR THE DEFENCE OF AUSTRALIA AND ITS INTERESTS						
6.1 Intelligence	538,307	559,316	21,009	582,168	659,774	751,424
Total for Outcome 6	538,307	559,316	21,009	582,168	659,774	751,424
NET COST FOR DEFENCE DEPARTMENTAL OUTCOMES						
	17,885,333	19,170,126	1,284,794	19,065,666	19,286,597	19,707,273
Approved Allocated Profit/(Loss)						
DEPARTMENTAL APPROPRIATIONS FROM GOVERNMENT (see also Serial 1 in Table 2.1)						
	17,885,333	19,170,126	1,284,794	19,065,666	19,286,597	19,707,273

Outcome/Output	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
OUTCOME 7. SUPERANNUATION AND HOUSING SUPPORT SERVICES FOR CURRENT AND RETIRED DEFENCE PERSONNEL						
7.1 Superannuation support Services for Current and Retired Defence Personnel	2,059,000	2,069,468	10,468	2,113,216	2,171,251	2,268,269
7.2 Housing Assistance for Current Defence Personnel	-64,500	-64,500	-	-2,173	9,389	21,243
7.3 Other Administered Revenues and Expenses	-4,170	-868	3,302	-179	-179	-179
NET COST OF ADMINISTERED OUTCOMES⁽³⁾	1,990,330	2,004,100	13,770	2,110,864	2,180,461	2,289,333
TOTAL COST FOR DEFENCE OUTCOMES	19,875,663	21,174,226	1,298,564	21,176,529	21,467,058	21,996,606

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (pp. 78-80).
2. Variation figures are the difference between Previous Estimate and Budget Estimate.
3. This line is comprised of administered expenses, less administered revenue. Using 2007-08 as an example, the \$2,004.1m is comprised of administered expenses, which is \$2,802.5m (see Serial 8, Table 2.1), less the administered revenue of \$798.4m (see Table 5.c).

Table 5.c: Overall Cost to Government of Defence Outcomes (Departmental and Administered)

	Outcome 1- Command of Operations	Outcome 2- Navy Capabilities	Outcome 3- Army Capabilities	Outcome 4- Air Force Capabilities	Outcome 5- Strategic Policy	Outcome 6- Intelligence	Total Defence Departmental Outcome	Outcome 7- Superannuation and Housing Support Services for Current and Retired Defence Personnel	Grand Total
	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000
DEPARTMENTAL INCOME									
Revenues									
Goods and services	37,158	176,522	233,257	171,548	11,748	12,973	643,206		643,206
Other revenue	3,890	18,767	29,458	13,260	453	192	66,020		66,020
Total Revenue	41,048	195,289	262,715	184,808	12,200	13,165	709,226	-	709,226
Gains									
Reversals of previous asset write-downs	10,319	18,974	29,963	137,407	1,509	1,828	200,000		200,000
Net gains from sale of assets	-	-	-	-	-	-	-		0
Other gains	1,223	1,761	2,715	1,561	192	248	7,700		7,700
Total Gains	11,542	20,735	32,678	138,968	1,701	2,076	207,700	-	207,700
Total Income	52,589	216,025	295,393	323,776	13,902	15,241	916,926	-	916,926
Expenses									
Employees	713,511	1,736,555	2,840,746	1,631,054	109,774	272,987	7,304,628		7,304,628
Suppliers	883,473	2,283,441	2,884,746	2,639,336	200,253	220,737	9,111,987		9,111,987
Grants	202	1,048	2,112	883	38	112	4,395		4,395
Depreciation and amortisation	28,999	1,170,356	883,115	1,241,319	6,752	79,054	3,409,595		3,409,595
Finance cost	719	7,144	11,294	5,918	61	438	25,574		25,574
Write-down of assets and impairment of assets	2,213	30,178	66,279	129,657	449	1,224	230,000		230,000

	Outcome 1- Command of Operations	Outcome 2- Navy Capabilities	Outcome 3- Army Capabilities	Outcome 4- Air Force Capabilities	Outcome 5- Strategic Policy	Outcome 6- Intelligence	Total Defence Departmental Outcome	Outcome 7- Superannuation and Housing Support Services for Current and Retired Defence Personnel	Grand Total
	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000	2007-08 \$000
Net losses from sale of assets	-	-	-	-	-	-	-	-	-
Other expenses	62	-33	106	728	5	4	873	-	873
Total Expenses	1,629,180	5,228,690	6,688,399	5,648,896	317,332	574,556	20,087,052	-	20,087,052
Net Cost to Defence Departmental Outcomes⁽¹⁾	1,576,590	5,012,665	6,393,005	5,325,120	303,430	559,316	19,170,126	-	19,170,126
ADMINISTERED									
Revenues								798,368	798,368
Expenses								2,802,468	2,802,468
Net Cost to Defence Administered Outcomes								2,004,100	2,004,100

Note

1. The net cost of Departmental outcomes represents the total expenses as per the Income Statement of Table 2.9 less own source revenue and net gains (also from Table 2.9). The net cost of outcomes excludes the Equity Injection and Net Capital Receipts, which form part of the Capital Budget Statement (see Table 7.5).

Net Cost of Defence Outcomes

Table 5.d: Movement in Defence's Outcome Costs Since 2003-04

Outcomes	Actual Result ⁽¹⁾ 2003-04 \$'000	Actual Result ⁽²⁾ 2004-05 \$'000	Actual Result ⁽³⁾ 2005-06 \$'000	Revised Estimate ⁽⁴⁾ 2006-07 \$,000	Budget Estimate 2007-08 \$'000
DEPARTMENTAL OUTCOMES					
Outcome One					
Command of Operations	740,181	1,052,493	975,885	1,133,755	1,576,590
Outcome Two					
Navy Capability	4,177,449	4,633,845	4,711,044	4,686,361	5,012,665
Outcome Three					
Army Capability	5,086,424	5,415,716	5,177,177	6,034,963	6,393,005
Outcome Four					
Air Force Capability	4,500,663	4,812,925	4,600,266	4,553,025	5,325,120
Outcome Five					
Strategic Policy	205,784	245,568	236,248	233,487	303,430
Outcome Six					
Intelligence	457,460	458,982	508,255	516,073	559,316
Total Cost for Defence Departmental Outcomes	15,167,962	16,619,529	16,208,876	17,157,664	19,170,126
Outcome Seven					
Superannuation and Housing support Services for Current and Retired Defence Personnel	1,457,196	2,047,515	2,024,646	1,981,197	2,004,100
Total Outcomes	16,625,158	18,667,044	18,233,522	19,138,861	21,174,226

Notes

1. Actual Result 2003-04 reflects amounts disclosed in the *Defence Annual Report 2003-04* (p.81).
2. Actual Result 2004-05 reflects amounts disclosed in the *Defence Annual Report 2004-05* (p.146).
3. Actual Result 2005-06 reflects amounts disclosed in the *Defence Annual Report 2005-06* (p.84).
4. Revised Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.78-80).

Group Contributions to Defence Outcomes

Table 5.e: Group Contribution to Defence Outcomes

	Outcome 1: Command of Operations	Outcome 2: Navy Capability	Outcome 3: Army Capability	Outcome 4: Air Force Capability	Outcome 5: Strategic Policy	Outcome 6: Intelligence	Total Defence Outcomes
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Navy	-	2,656,103	-	-	-	-	2,656,103
Army	-	-	3,749,717	-	-	-	3,749,717
Air Force	-	-	-	2,988,413	-	-	2,988,413
Defence Executives	243,162	177,547	343,576	186,236	222,959	37,805	1,211,286
Intelligence and Security Defence Science and Technology Organisation	-	-	-	-	-	430,805	430,805
Chief Information Officer	44,715	95,236	64,650	123,743	25,909	27,204	381,456
Chief Information Officer	10,714	137,198	284,654	181,438	7,889	10,208	632,101
Defence Support Group	164,758	831,713	919,737	840,870	21,260	40,644	2,818,982
Joint Logistics Group	3,193	32,266	183,952	38,553	-	-	257,964
Provisional Allocation/Payments to DMO ⁽¹⁾	1,110,048	1,082,602	846,719	965,867	25,415	12,649	4,043,299
Net Cost by Outcome	1,576,590	5,012,665	6,393,005	5,325,120	303,430	559,316	19,170,126

Note

1. Provisional allocations and payments to the DMO (the operating element) are held at the portfolio level and then allocated to Defence Groups and the DMO when implementation milestones are reached. Funds are also held centrally for the proposals that have yet to be approved and for pay increases that can be expected in the future. Funds are allocated to Groups when the proposals are approved and from the date of implementation of the pay increases.

OUTCOME ONE – COMMAND OF OPERATIONS

Outcome One – Command of Operations in the Defence of Australia and its Interests

Output 1.1 Command of Operations

Output 1.2 Defence Force Military Operations and Exercises

Output 1.3 Contribution to National Support Tasks

Defence conducts a range of activities to satisfy the Government's strategic interests and objectives. These activities include the conduct of military campaigns and operations, the provision of emergency and non-emergency support to the Government and Australian community, overseas deployments and representations, and various joint and combined exercises involving the three Services and allied or regional military forces. Collectively, these activities are referred to as Defence operations.

Successful Defence operations are underpinned by effective command capability and appropriate joint force preparedness. Defence maintains its command capability through joint headquarters with forces assigned under Joint Operations Command. The maritime force, land forces and air force capabilities maintained by the three Services are combined to provide joint forces. Joint force preparedness is developed in accordance with ADF preparedness requirements. These requirements are evaluated through an exercise program and have been validated through outcomes from many joint operations.

The Vice Chief of the Defence Force is appointed as the Chief of Joint Operations. Joint Operations Command consists of a headquarters, two specialist components (Special Operations and Border Protection) and direct command units which provide functional support in the areas of joint training and northern operations. The form and function of Joint Operations Command was reviewed in late 2005. The current structure represents the first phase of adjustments to command and control arrangements stemming from this review. The revised form and function changes commenced in January 2007 and will be implemented progressively until the occupation of the new joint operational headquarters at Bungendore in late 2008.

PLANNED PERFORMANCE

The ADF's operations and activities that will contribute to the security of our immediate neighbourhood during 2007-08 include:

- activities in Timor-Leste, where Operations Astute and Tower provide support to the Timor-Leste Government, the UN police-led operation and the United Nations Integrated Mission in Timor-Leste (UNMIT);
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway);
- the conduct of maritime surveillance patrols in the South-West Pacific (Operation Solania); and
- ongoing ADF contribution to the Australian Government's strengthened assistance framework program in support of the Solomon Islands Government (Operation Anode).

The ADF's operations that will support Australia's wider interests during 2007-08 include:

- an ADF contribution, under Operation Catalyst, to an Australian whole-of-government effort to assist with the rehabilitation of Iraq;
- a continued ADF commitment, through Operation Slipper, to the United States-led operation against international terrorism;
- an ADF contribution to a Provincial Reconstruction Team in Afghanistan, through Operation Slipper, as an element of the International Security Assistance Force with North Atlantic Treaty Organisation countries; and
- the ADF's contributions to United Nations and other peacekeeping and humanitarian operations, including Operations Azure in the Sudan, Paladin in the Lebanon and Syria, and Mazurka in the Sinai, Egypt.

The ADF's peacetime national tasks that are expected to continue as regular or occasional tasks in 2007-08 include:

- operations to provide surveillance and law enforcement support in northern Australia and deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia (Operation Resolute);
- cyclical maritime surveillance operations in Australia's region, currently being provided through Operation Solania. This operation is a lesser priority than Operation Resolute and will be conducted when surveillance capabilities are available;
- the ADFs' support to the Asia-Pacific Economic Conference in 2007 (Operation Deluge); and

- planning for the ADF's support, as part of the whole-of-government approach, to the Catholic youth festival and Papal visit to Sydney in July 2008 (Operation Testament).

The ADF's joint and combined exercises are conducted to train forces and to evaluate joint force capability. Combined exercises with allies and regional partners enhance and maintain close relationships and develop essential force interoperability. Combined exercises also contribute to the strategic goals of the Defence International Engagement Plan (see also Outcome Five – Strategic Policy). The ADF exercise program is inherently flexible and is likely to be adjusted to allow for strategic circumstances and participant availability during 2007-08. The ADF exercise program for 2007-08, detailing planning dates and exercise objectives, is included in later tables.

Extant ADF policy and internal instructions for Defence Assistance to the Civil Community tasks include counter-disaster and emergency assistance. Small-scale tasks undertaken within local ADF resources are numerous and generally have minimal impact on ADF resources. Larger tasks involving coordinated activity with state or territory authorities or with Emergency Management Australia (in the Attorney-General's Department) may arise at short notice.

Non-emergency assistance and non-emergency law enforcement, excluding the use of force, is also likely to conform to historic levels of small tasks conducted within local ADF resources, where available.

Existing contingency plans for assistance to Commonwealth or state and territory governments and their civil authorities in law enforcement tasks where there is the possibility that force may be required are also likely to remain appropriate in 2007-08.

The ADF's support to national search and rescue authorities, when and as required, will continue under current arrangements and within available resources.

KEY RISKS AND LIMITATIONS

Concurrent Operations

The Government's highest priorities will continue to be met, including commitment to the Middle East Area of Operations. The overall operational tempo for 2007-08 is uncertain, but domestic commitments are likely to decrease with the conclusion of Operation Deluge (support to APEC) in late 2007.

Operational Preparedness and Exercise Participation

The ongoing operational commitment in 2006-07 and expectations for 2007-08 have been considered in a review of the ADF exercise program. The requirement for flexibility and consideration of the requirements of allies and regional partners will continue to influence exercise outcomes and require ongoing assessment of critical preparedness issues.

The ongoing high operational tempo, commitments by allies and regional partners, and restricted availability of assets for scheduled joint and combined exercises continue to be a risk to high-end joint and combined training. The risk will be carefully managed to ensure that an adequate reservoir of high end skill is maintained should strategic circumstances change.

Logistic Support to Operations

The continued availability of national inventory and the post-operational remediation of mission essential equipment during a period of increased operational tempo are the key risks for logistic support to operations. Joint Logistics Group, in concert with the Defence Materiel Organisation, is managing this process, analysing risk areas and implementing mitigation strategies to manage the risk, especially where the available commercial capacity to repair and remediate equipment is finite.

STRATEGIC INITIATIVES

Concurrent Operations

Risk mitigation against the above concurrency issues is subject to ongoing strategic-level review and management of major operational commitments. The ADF contribution to operations will be carefully managed and continue in accordance with the Government's direction. Reconstitution of capabilities will be prioritised to reinstate those capabilities eroded through concurrent demands.

Preparedness Reporting

The ADF preparedness reporting system is now well defined and provides monthly assessment of capability options for the ADF to meet the Government's

operational objectives. The reporting system identifies deficiencies and indicates remediation priorities. The reporting system allows the Chief of the Defence Force and his senior commanders to apply appropriate risk management principles to command of the ADF during times of high operational tempo.

Cost Summary of Outcome One

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.1.1: Outcome One - Command of Operations in Defence of Australia and its Interests

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
INCOME						
Revenues						
Goods and services	34,601	37,158	2,556	36,465	35,005	49,841
Other revenue	3,902	3,890	-12	3,620	8,010	4,155
Total Revenue	38,504	41,048	2,544	40,085	43,015	53,996
Gains						
Reversals of previous asset write-downs	10,319	10,319	-	-8,371	-8,371	81
Net gains from sale of assets	-	-	-	-	-	-
Other Gains	1,159	1,223	64	1,223	1,223	878
Total Gains	11,478	11,542	64	-7,148	-7,148	959
Total Income	49,981	52,589	2,608	32,937	35,867	54,955
Expenses						
Employees	498,456	713,511	215,055	564,109	543,200	369,870
Suppliers	281,889	883,473	601,584	421,788	245,635	300,094
Grants	181	202	21	75	75	64
Depreciation and amortisation	28,999	28,999	-	28,788	28,364	33,117
Finance cost	516	719	204	818	844	2,414
Write-down of assets and impairment of assets	2,213	2,213	-	-47	-47	97
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	90	62	-28	61	60	912
Total Expenses	812,343	1,629,180	816,836	1,015,592	818,130	706,567
Net Cost of Outcome						
1: Command Of Operations						
	762,362	1,576,590	814,228	982,656	782,264	651,612

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.85).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

Table 5.1.2: Breakdown of Outcome One by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Output 1.1 - Command of Operations	420,361	426,503	6,142	462,395	492,214	428,453
Output 1.2 - Defence Force Military Operations and Exercises	322,412	1,130,212	807,800	498,355	268,157	205,964
Output 1.3 - Contribution to National Support Tasks	19,590	19,876	286	21,905	21,892	17,195
Net Cost of Outcome One	762,362	1,576,590	814,228	982,656	782,264	651,612

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 86).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

OUTPUT 1.1 – COMMAND OF OPERATIONS

The Chief of Joint Operations is responsible to the Chief of the Defence Force for the delivery of Outcome One – Command of Operations in defence of Australia and its interests. Through Headquarters Joint Operations Command, the Chief of Joint Operations plans and conducts campaigns, operations, joint exercises and other activities as directed by the Chief of the Defence Force.

Planning includes maintenance of situational awareness, preparation of operational concepts and assessment of ADF joint preparedness against the military response options that may be made available to the Government.

Effective command relies on clear arrangements supported by timely and reliable communications and information systems.

Effective conduct of operations is also reliant on the contribution of logistic and supporting agencies.

Performance Targets

- Australian operational concepts are further developed to support ADF planning against credible contingencies.
- Joint Operations Command provides guidance for joint force preparedness in accordance with the Chief of the Defence Force's direction.
- Command of ADF forces is effective and the Government's strategic objectives for operations are achieved.
- The Joint Operations Command transitional structure implemented in early 2007 will be evaluated and refined.

OUTPUT 1.2 – DEFENCE FORCE MILITARY OPERATIONS AND EXERCISES

The ADF is required to undertake a range of military operations at the Government's direction to ensure the defence of Australia and its national interests. ADF military operations, exercises and other activities contribute to the achievement of the Government's strategic objectives, defined in the Defence White Paper as defending Australia, contributing to the security of the immediate neighbourhood and supporting wider interests. Peacetime national tasks are included under Output 1.3.

The ADF's joint and combined exercises are included in the Program of Major Service Activities. Exercise objectives include training in warfighting and related skills, confirmation of interoperability and joint capability and effective engagement with allies and regional partners.

Performance Targets
<ul style="list-style-type: none"> • ADF operations meet their stated objectives within the Government's guidance. • Forces identified for operational tasks maintain required preparedness levels. • ADF forces are effectively deployed and sustained. • The Program of Major Service Activities is reviewed and modified where required. • The major ADF exercise commitments for 2007-08 are met: <ul style="list-style-type: none"> – Exercise Suman Protector and Exercise Bersama Shield 08, exercises in conjunction with the Five Power Defence Arrangements; – Exercise Pitch Black 08, to test the ADF in the planning, tasking and execution of offensive air operations within a coalition environment; and – Exercise Talisman Sabre 07, to exercise joint and combined forces in a short warning and power projection scenario.

ADF Operations

Table 5.1.10: Peacetime National Tasks in Output 1.3 contains details of operations in support of peacetime national tasks.

Table 5.1.3: Contributing to the Security of the Immediate Neighbourhood

Operation	Objective
Gateway Commenced 1981	To conduct northern Indian Ocean and South China Sea maritime surveillance patrols.
Anode Commenced July 2003	To support the coalition police forces in maintaining the rule of law in Solomon Islands.
Astute Commenced 2006	To support the Timor-Leste government, the UN Integrated Mission, to restore order in Timor-Leste and facilitate the evacuation of Australian and other approved foreign nationals.
Tower (previously Chiron) Commenced 2006	To contribute to the United Nations Integrated Mission in Timor-Leste (UNMIT) Headquarters. Previously known as Operation Chiron, but renamed following new United Nations mandate of 25 October 2006.
Quickstep Commenced 2006	To be ready to take appropriate measures to ensure the safety of Australians, if required, in the South West Pacific.

Table 5.1.4: Supporting Wider Interests

Operation	Objective
Paladin Commenced 1956	To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervises, observes and reports on the various cease-fire arrangements, truces and peace treaties that have been negotiated between Israel and neighbouring Arab nations since 1948.
Mazurka Commenced 1982	To provide personnel to the Multinational Force and Observers to monitor the security arrangements in the Sinai.
Slipper Commenced 2001	To contribute to the United States-led operation against international terrorism and to the Multinational Maritime Interception Force in the Persian Gulf.
Catalyst Commenced 2003	ADF contribution in support of the rehabilitation of Iraq.
Azure Commenced 2005	ADF contribution to the UN Mission in Sudan.
Palate II Commenced 2005	To provide a Military Liaison Officer to the United Nations Assistance Mission in Afghanistan.

Australian Defence Force Exercise Program

Exercises are presented in these statements under the following headings:

- ADF Joint Exercises;
- Combined ADF and United States Exercises;
- Combined ADF and Five Power Defence Arrangements Exercises;
- Combined ADF and New Zealand Exercises; and
- Other Combined Exercises.

A number of exercises expected to be scheduled in the Program of Major Service Activities are yet to be confirmed. It is expected that further exercises will be

scheduled for 2007-08 and these will be reported in the *Portfolio Additional Estimates Statements 2007-08*.

Table 5.1.5: ADF Joint Exercises

Exercise	Australian Forces	Objective
Sea Lion 07 September 2007	ADF	To train and maintain basic joint amphibious skills as part of an Amphibious Task Group or when working with an Landing Platform Amphibious or Landing Ship Heavy.
ASWEX 07 November 2007	ADF	To practise collective ADF anti-submarine warfare concepts, tactics and procedures.
Sea Eagle 07 November 2007	ADF	To plan and conduct a basic amphibious assault in a non-hostile environment.

Table 5.1.6: Combined ADF/United States Exercises

Exercise	Australian Forces	Objective
Airlift Rodeo July 2007	Air Force	To conduct actions to deploy, shift, regroup, or move joint or multinational operational formations within combined forces area of operations
Comptuex 07-4 September 2007	Air Force	ADF will deploy two maritime patrol aircraft to Naval Air Station North Island in San Diego to participate in a US Battle Group work-up activity involving conventional maritime warfare.
UNC (REAR) Engagement 07-2 October 2007	Air Force, Navy	Combined maritime patrol aircraft anti-submarine warfare/anti-submarine surveillance exercise.
Tamex 07-2 October 2007	Navy, Air Force	Combined basic maritime patrol aircraft anti-submarine warfare/anti-submarine surveillance exercise.
Tamex 07-3 December 2007	Navy, Air Force	Combined basic maritime patrol aircraft anti-submarine warfare/anti-submarine surveillance exercise.
Night Eagle December 2007	Army	A patrol/troop exercise in Fort Bragg with Tier 1 Special Forces. Training will consist of counter terrorism and special recovery operations skill sets.

Table 5.1.7: Combined ADF/Five Power Defence Arrangement Exercises

Exercise	Australian Forces	Participating Countries	Objective
Rifle Company Butterworth Rotation 78 May- August 2007	Army	Malaysia	An Australian Army infantry company, Rifle Company Butterworth deployment on a three-monthly rotational basis from Australia, Conduct training and participate in exercises.
Mastex 07 August 2007	Navy	Malaysia	Maritime exercise with Malaysia focusing on interoperability at the fleet level.
Suman Protector 07 August-September 2007	ADF	Malaysia, New Zealand, Singapore, United Kingdom	A Five Power Defence Arrangements Command Post Exercise exercising a Combined and Joint Task Force Headquarters.
Southern Tiger 07 September 2007	Army	Malaysia	A Malaysian company attachment to an Australian Battalion.
Bersama Shield 08 April 2008	ADF	Malaysia, New Zealand, Singapore, United Kingdom	To exercise assigned Five Power Defence Arrangements forces in the conduct of joint and combines operations in a multi-threat scenario for the defence of Malaysia and Singapore, so as to enhance interoperability and strengthen the relationship between those forces.

Table 5.1.8: Combined ADF/New Zealand Exercises

Activity; Dates	Australian Forces	Objective
ASWEX 07 November 2007	Navy	A RAN fleet concentration period in which New Zealand maritime forces participate.
Night Kiwi 07 November 2007	Army	A bilateral military exercise with New Zealand Special Forces.
Joint Kiwi 07 March – May 2008	ADF	To conduct an exercise that tests the planning and execution of operational and tactical level training activities within a coalition joint force and interagency structure.

Table 5.1.9: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Empire Challenge 07 July 2007	ADF	Canada, United Kingdom, United States	Multi-national intelligence, surveillance and reconnaissance interoperability exercise.
Albatross Ausindo 07 July 2007	Air Force	Indonesia	The ADF will conduct a mutual surveillance activity with the Indonesian Air Force in an area between Australia and Indonesia.
Kakadu VIII/07 July 2007	Navy	Brunei, India, Indonesia, Malaysia, New Zealand, Philippines, Papua New Guinea, Singapore, Thailand	Command Post Exercise and Senior Officer Seminar.
Dawn Caracha Bilateral July- August 2007	Army	Philippines	To conduct Special Reconnaissance training in support of counter terrorism operations. Training will focus on command group, weapon handling and safety, ranges, surveillance and tracking.
Dawn Panther 07 July- August 2007	Army	Thailand	Special Forces Training Assistance Team will instruct in counter terrorism related skills.
Dawn Komodo July – August 2007	Army	Indonesia	Special Forces Troop to deploy to Indonesia for combined counter terrorism training which will focus on Command Group, close quarter battle training, weapon handling and safety, ranges, and culminate in three-day field training exercise.
Haringaroo 07 July and September 2007	Army	Malaysia	The aim is to enhance interoperability between the Australian Army and the Malaysian Armed Forces sub-units at the tactical level.
Night Leopard August 2007	Army	Brunei	Commando Platoon to conduct parachuting, weapons and offensive operations training, culminating in a direct action task.

Exercise	Australian Forces	Participating Countries	Objective
Pacific Air Rally August 2007	Air Force	Bangladesh, Brunei, Canada, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Philippines, Papua New Guinea, Republic of Korea, Singapore, Thailand, United States, Vietnam, Russia, Sri Lanka	A United States Pacific Airforce coordinated activity. It is an airlift exercise to engage Pacific rim nations to aid development of airlift support.
Wantok Warrior 07 October- November 2007	Army	Papua New Guinea	Annual Land Exercise with Papua New Guinea Defence Forces.
Longreach 07 October – November 2007	Army	Papua New Guinea, Tonga	Familiarise Deployable Joint Force Headquarters key personnel with selected regional locations. Conduct engagement with Tonga and Fiji at the individual and collective level. Impart Australian operational planning techniques to Tonga and Fiji. Practise contingency, operational and combined planning procedures in conducting humanitarian assistance/disaster relief missions.
Equateur 07 October 2007	Navy, Army	France, New Zealand, Tonga	A biennial French Armed Forces-New Caledonia combined and joint exercise to plan a non-combatant evacuation operation, and support the planning of Exercise Croix du Sud.
Bridge Lion 07 November – December 2007	Army	Singapore	Incident Response Regiment to practise chemical biological radiological defence / response with Singaporean Armed Forces.
Rajawali Ausindo 07 November 2007	Air Force	Indonesia	Indonesian Air Force/ RAAF bilateral airlift training exercise to promote friendship and cooperation and airlift interoperability.
Night Buraq 07 November 2007	Army	United Arab Emirates	Commando Platoon-size green roles and counter terrorism exercise with United Arab Emirates Special Operations Command.
Pacific Reach 07 November- December 2007	Navy	Japan, Republic of Korea, Singapore, United States	A multi-national exercise that aims to test and evaluate the effectiveness of participating nations' submarine escape and rescue vehicles, systems and organisations.

Exercise	Australian Forces	Participating Countries	Objective
Thai Boomerang 08 March – April 2008	Air Force	Thailand	Conduct bilateral training with the Royal Thai Air Force, prior to Exercise Bersama Shield 08.
Pitch Black 08 June 2008	Air Force	France, Singapore, Thailand, United Kingdom	Conduct a large-scale activity to exercise ADF and international participants in the tasking, planning and execution of offensive counter air operations in a coalition environment.

OUTPUT 1.3 – CONTRIBUTION TO NATIONAL SUPPORT TASKS

The ADF can be called upon to provide emergency and non-emergency assistance to the Government and the Australian community in non-combat related roles. The tasks the ADF may be requested to undertake could include emergency assistance, search and rescue, disaster recovery, surveillance, security or non-emergency law enforcement roles. Tasks may be directed by the Government or requested by other civil authorities or government departments. The Government may also require the ADF to support significant international events being conducted in Australia.

The ADF also contributes to the Coastwatch civil surveillance program and Border Protection Command tasking, providing maritime surveillance assets that are tasked routinely in accordance with the Government's direction. These arrangements are subject to review following changes in command and control arrangements and commencement of the phased introduction of the Armidale-class patrol boats.

Peacetime national tasks undertaken by the ADF may include the security of the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty, counter-terrorism responses, search and rescue and natural disaster relief.

Performance Targets

- The ADF contribution to peacetime national tasks meets the Government directives.
- Forces identified to provide Defence Assistance to the Civil Community, Defence Force Aid to Civilian Authorities and search and rescue maintain required preparedness levels.
- ADF forces are effectively deployed and sustained.
- The ADF response to requests for search and rescue and emergency assistance tasks are effectively managed and reported.
- The ADF and Customs effectively manage the civil maritime surveillance and response program through Border Protection Command⁽¹⁾

- The ADF continues to conduct minor emergency and non-emergency assistance tasks from local resources, where feasible.
- National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively managed and reported.
- National support tasks undertaken by the ADF as Defence Force Aid to Civilian Authorities are effectively managed and reported.

Note

1. The Customs component of the program is reported at Output Four of the Customs section of the Attorney-General's Portfolio Budget Statements.

ADF Operations

Table 5.1.3 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and operations supporting wider interests.

Table 5.1.10: Peacetime National Tasks

Operation	Objective
Solania Commenced 1988	To conduct South-West Pacific maritime surveillance patrols.
Resolute Commenced 17 July 2006	To contribute to the whole-of-government effort to protect Australia's Exclusive Economic Zone.
Deluge Commenced March 2007	To support the Asia-Pacific Economic Conference in 2007.
Testament Planning	To support, as part of the whole-of-government approach, the conduct of the Catholic youth festival and Papal visit to Sydney in July 2008.

OUTCOME TWO – NAVY CAPABILITY

Outcome Two – Navy Capability for the Defence of Australia and its Interests

Output 2.1 Capability for Major Surface Combatant Operations

Output 2.2 Capability for Naval Aviation Operation

Output 2.3 Capability for Patrol Boat Operations

Output 2.4 Capability for Submarine Operations

Output 2.5 Capability for Afloat Support

Output 2.6 Capability for Mine Warfare

Output 2.7 Capability for Amphibious Lift

Output 2.8 Capability for Hydrographic, Meteorological and Oceanographic Operations

The Navy provides maritime forces that contribute to the ADF's capacity to defend Australia, contribute to regional security, support global interests, shape the strategic environment and protect national interests. This is done by providing maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, maritime intelligence collection and evaluation, hydrographic and oceanographic operations, combat search and rescue, and escort duties. Peacetime activities include maritime surveillance and response within Australia's offshore maritime zones, hydrographic, oceanographic and meteorological support operations, humanitarian assistance, and maritime search and rescue.

PLANNED PERFORMANCE

In 2007-08, the Navy will continue to support the ADF's involvement in the global war against terrorism and national tasks. Sufficient maritime combatant forces will be maintained to deploy on operations as required in military preparedness directives. The Navy will also continue to devote effort to meeting international engagement and interoperability requirements with allied and regional maritime forces. Area air warfare, anti-ship missile defence and amphibious lift are the Navy's highest priorities for capability development, followed by undersea and littoral warfare capabilities. The reinvigoration of the patrol boat force will continue with all of the Armidale-class patrol boats being brought into service and full flexible crewing established by the end of June 2008.

KEY RISKS AND LIMITATIONS

Personnel

The Navy is embarked on a capability program that will require an expansion of the Navy's workforce by 2015. Affecting this change is an environment of increasing pressure to make efficient use of resources, rising personnel costs, increasing operational commitments, competition from commercial interests for the best talent, and a changing demographic and social climate that will challenge delivery and maintenance of the workforce.

The Navy's workforce is currently below its target strength by approximately 1,000 trained personnel. Shortages continue in several employment workgroups, particularly technical categories. This poses considerable risk to Navy capability. The national skill shortage will continue to affect the Navy's ability to attract suitable candidates for technical trade positions. Sustained strong retention and recruitment trends are the key elements to building the Navy's long-term workforce structure. Many retention measures were put in place during 2006-07, to be supported in time by longer-term measures being addressed through the 'Sea Change' program and other recruitment and retention measures.

Support to Operations

The Navy's ongoing commitment to domestic and overseas operations, combined with the major upgrade of a number of major fleet units, continues to challenge the Navy's ability to maintain high-end warfighting skills.

Air Warfare Capability

The ageing primary air warfare system of the surface combatant force remains suitable for a range of operations, but the ability to provide medium-range air warfare protection for ADF forces in higher level contingencies is limited. This risk will remain until the introduction of the Air Warfare Destroyer. The delivery of new short-range missiles for both frigate classes is an important early milestone in redressing the anti-ship missile defence deficiencies of the surface combatant force.

Submarine Capability

The capability of the Collins-class submarine systems continues to improve. Existing programs that will maintain the 'capability edge' in a region experiencing a proliferation of submarine and anti-submarine capabilities will remain a strong focus. Retention of submariners remains a significant challenge.

Undersea Warfare Capability

The ability of maritime surface and air forces to provide anti-submarine protection for ADF forces or maritime trade in higher level contingencies will be improved over time with capability enhancements to Seahawk helicopters, Adelaide-class frigates, the Collins-class submarines, and the introduction of new lightweight torpedoes.

Environmental Assessment

The Navy's ability to provide robust, high-fidelity environmental information and predictions at short notice in support of littoral operations, for joint, combined or coalition operations is limited.

Force Protection

The security environment in which maritime forces are required to operate has changed and represents a risk to the protection of maritime forces. The increased incidence of violent activity from non-state entities using unconventional and improvised methods of attack has increased the level of threat for maritime units when under way and when alongside in harbour.

Aviation

Lengthy delays and uncertainty in the level of operational capability that will be delivered by the Super Seasprite helicopter has affected aviation capability and the effectiveness of the Anzac-class frigate/helicopter combination. Seahawk helicopters are carrying an additional tasking burden until the government makes a final decision on the future of the Super Seasprite helicopters later this year.

RISK MITIGATION

Personnel

The Navy has in place systems to identify the workforce size and shape required to support future capability. The crucial factor in achieving a sustainable workforce is improving the balance between recruitment and separation rates, which has been one of the most difficult challenges of recent times. Short-term financial retention initiatives have been approved for engineering officers, technical sailors, seaman officers, warfare sailors, aviation officers and aircrewmembers. Work is also being undertaken to better identify potential capability delivery constraints caused by workforce shortfalls.

The Navy will benefit from the ADF Retention and Recruitment Implementation Plan, which expands the range of short-term retention and recruitment initiatives to be introduced across the three Services. These initiatives are intended to encourage more people to choose a career in the ADF and provide more incentives for existing members to remain in the services.

The Navy Workforce Planning and Renewal Project has been established to complement current and future long-term workforce sustainability initiatives, but deficiencies in some elements are projected to carry forward for many years. The Navy is also working closely with Defence Force Recruiting to meet the Navy's Five Year Recruiting Directive and lift the Navy's profile in the community.

Support to Operations

The Navy will continue to support ongoing operations and peacetime national tasks and to meet preparedness requirements for other contingencies.

The Navy will exploit opportunities to provide concentrated training to maintain high-end warfighting skills to meet preparedness requirements for current and future operations.

Air Warfare Capability

The Navy is introducing more capable sensor and weapon systems for both the Anzac-class and Adelaide-class frigates. The upgrade programs will enhance the air warfare effectiveness of these units leading up to the planned introduction of the Air Warfare Destroyer. The delivery of the SM-2 area air defence missile in the Adelaide-class frigates is planned for 2009.

Submarine Capability

Submarine capability enhancements will offer major improvements to warfighting capabilities, through continued development of the combat system, improved communications, sonar integration, and the introduction into service

of a new heavyweight torpedo. Personnel risks and limitations will be mitigated through workforce sustainment plans and initiatives within the Navy's 'Sea Change' program.

Undersea Warfare Capability

Undersea warfare capability will be maintained through a number of improvements. A partial Seahawk helicopter sensor upgrade, completed in 2006-07, will be followed by a further mid-life upgrade of sensors, communications, avionics, and airframe from 2010-2012 that will boost the Seahawk's effectiveness in undersea warfare. The delivery of upgraded Adelaide-class frigates with torpedo defence systems and the continued planned phasing into service of new lightweight torpedos will increase the effectiveness of surface and air anti-submarine assets. The ongoing combat system, sonar, communications, and weapon improvements to the Collins-class submarines will increase their anti-submarine capability.

Force Protection

Acquisition of additional close range weapons systems has mitigated risks specifically identified for Operation Catalyst in force protection and ship self-defence capabilities against asymmetric threats in littoral waters. Additional risk mitigation measures include better intelligence as well as acquisition of advanced sensors and protective systems.

Aviation

In lieu of Super Seasprite helicopters, Seahawk helicopters will be deployed to Anzac-class frigates to maintain capability in units on high-priority operational tasking. A government decision on the future of the Super Seasprite will be made later this year.

Cost Summary of Outcome Two

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.2.1: Outcome Two - Navy Capability for the Defence of Australia and its Interests

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
INCOME						
Revenues						
Goods and services	160,132	176,522	16,390	181,224	183,098	147,424
Other revenue	18,846	18,767	-79	18,808	20,086	12,448
Total Revenue	178,978	195,289	16,312	200,032	203,184	159,872
Gains						
Reversals of previous asset write-downs	18,974	18,974	-	-2,816	-2,816	4,900
Net gains from sale of assets	-	-	-	-	-	-
Other Gains	1,351	1,761	410	1,761	1,761	1,541
Total Gains	20,325	20,735	410	-1,055	-1,055	6,441
Total Income	199,303	216,025	16,722	198,977	202,129	166,313
Expenses						
Employees	1,699,862	1,736,555	36,693	1,907,097	2,053,928	2,061,149
Suppliers	2,180,059	2,283,441	103,382	2,249,005	2,243,995	2,515,325
Grants	914	1,048	134	300	300	335
Depreciation and amortisation	1,170,356	1,170,356	-	1,157,691	1,160,641	1,158,214
Finance cost	5,839	7,144	1,305	11,961	15,667	11,754
Write-down of assets and impairment of assets	30,178	30,178	-	12,598	12,598	13,534
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	147	-33	-180	-33	-30	-
Total Expenses	5,087,355	5,228,690	141,334	5,338,618	5,487,099	5,760,312
Net Cost of Outcome 2: Navy Capability	4,888,053	5,012,665	124,613	5,139,641	5,284,970	5,593,999

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.91).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Table 5.2.2: Breakdown of Outcome Two by Output

	Previous Estimate ¹⁾	Budget Estimate	Variation ²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Output 2.1 Capability for Major Surface Combatant Operations	1,868,273	1,902,220	33,947	1,919,918	1,943,673	2,138,124
Output 2.2 – Capability for Naval Aviation Operations	625,414	641,202	15,787	654,145	672,546	683,415
Output 2.3 Capability for Patrol Boat Operations	266,838	277,386	10,548	297,770	317,063	357,363
Output 2.4 Capability for Submarine Operations	797,455	815,756	18,301	798,068	788,972	766,479
Output 2.5 Capability for Afloat Support	253,643	263,997	10,355	283,394	309,952	393,559
Output 2.6 Capability for Mine Warfare	375,379	387,512	12,134	406,097	424,423	515,061
Output 2.7 – Capability for Amphibious Lift	412,081	424,751	12,670	444,680	482,339	422,934
Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations	288,970	299,841	10,871	335,569	346,004	317,063
Net Cost of Outcome Two	4,888,053	5,012,665	124,613	5,139,641	5,284,970	5,593,999

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 92).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Output Structure for Outcome Two

OUTPUT 2.1 – CAPABILITY FOR MAJOR SURFACE COMBATANT OPERATIONS

The major surface combatant force comprises five Adelaide-class guided missile frigates and eight Anzac-class frigates. The surface combatants possess combat capabilities in all three primary warfare areas (air, surface and undersea) and can also provide limited combined and joint ADF command and control facilities for ADF operations. They are fully aviation capable and are able to sustain independent operations in remote areas for prolonged periods of time. They are essential force elements in any task group where the ADF deploys for maritime operations activity at all levels. Their flexibility and versatility,

particularly with an aviation flight embarked, make them a first resort in contingencies throughout the broad spectrum of maritime operations.

The Government decided, after the 2003 Defence Capability Review, to withdraw two Adelaide-class frigates from service. HMAS *Canberra* was decommissioned on 12 November 2005. HMAS *Adelaide* will remain in service until the end of 2007 to provide the Navy with the continuity and flexibility to meet operational commitments, regional engagement obligations through the conduct of port visits and exercises with regional nations, and training for surface combatant fleet skills.

The FFG Upgrade Implementation project for four Adelaide-class guided missile frigates is continuing and will ensure Adelaide-class frigate survivability in the increasingly sophisticated maritime warfare environment. This rolling program commenced in late 2003 and is due for completion in 2009.

The Anzac-class frigates are progressively undergoing capability enhancements including Harpoon missile, mine and obstacle avoidance sonar upgrades, as well as crew accommodation improvements.

Work will continue on the provision of an Air Warfare Destroyer capability from 2013 to be delivered by Project SEA 4000.

The Anzac ship fleet will benefit from the allocation of additional logistics sustainment funding.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Adelaide-class frigates	5 ⁽¹⁾	1,028 URD ⁽²⁾
Anzac-class frigates	8	2,344 URD ⁽³⁾

Notes

1. Five Adelaide-class frigates decreasing to four when HMAS Adelaide is withdrawn from operational service at the end of 2007.
2. Unit Ready Days (URD) are the number of days that a force element is available for tasking by the Fleet Commander outside of major maintenance and within planned readiness requirements or in accordance with contracted availability (see Glossary for further explanations).
3. Based on a revised average of 293 URD per ship over the 10-year *Defence Management and Financial Plan*.

OUTPUT 2.2 – CAPABILITY FOR NAVAL AVIATION OPERATIONS

The naval aviation force comprises 16 Seahawk helicopters, six Sea King helicopters and 13 Squirrel helicopters. The introduction of the 11 Super Seasprite helicopters to operational service has been delayed by the need to resolve a flight control system problem identified during the flight test program.

Organic frigate-based naval aviation assets are part of, and extend substantially, the sensor and weapons systems of the parent ship. Embarked helicopters contribute to the Navy's capability for maritime surface warfare (ship strike), undersea warfare, reconnaissance, surveillance, maritime support, search and rescue, medical evacuation, electronic warfare and aircrew training. The provision of maritime aviation utility support is the primary role of the Sea King helicopters, although all naval aviation assets can contribute.

Naval aviation relies on the Air Force for the initial training of aviation technicians and general flying training for officer aircrew. Initial helicopter aircrew training is conducted by the Navy using the Squirrel helicopters. The Squirrel has already served past its originally planned withdrawal date. A proposal to replace the Squirrel with a training system that satisfies the Navy's and the Army's helicopter aircrew training needs is being progressed as part of Project AIR 9000. Naval aviation also manages the operation of the Kalkara aerial target system, which supports fleet and Air Force training. The Kalkara support contract is due to expire early in 2008 coinciding with the withdrawal from service of the system. Joint Project 66, Replacement for Air Defence Targets, under the Air Force's management, will provide the future unmanned aerial target systems.

The naval aviation capability will benefit from the allocation of additional logistics sustainment funding.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Seahawks	16	2,800 ⁽¹⁾
Sea Kings	6	1,600
Squirrels	13 ⁽²⁾	4,000
Super Seasprites	11 ⁽³⁾	200 ⁽⁴⁾
Kalkaras	5 ⁽⁵⁾	Up to 39 presentations ⁽⁶⁾

Notes

1. During 2007-08, on average, a quarter of the Seahawk fleet will be undergoing major modifications at any one time. The planned flying hours have been reduced while the aircraft are not available. Directed operations will be maintained during the period of reduced flying.
2. Twelve aircraft are operated, the thirteenth aircraft is held for attrition purposes.
3. The eleventh Super Seasprite remains in the United States for proving and testing.
4. Super Seasprites are restricted from flying at the time of reporting, however it is estimated 200 hours would be needed for the resumption of test flying.
5. Four Kalkaras were expended in missile firings during 2006-07.
6. Kalkara is an unmanned aerial target system used for Fleet and Air Force support. Presentations refer to the number of instances during which the system is used in training or system testing exercises.

OUTPUT 2.3 – CAPABILITY FOR PATROL BOAT OPERATIONS

By July 2007, all Fremantle-class patrol boats will have been decommissioned and 12 out of 14 newly constructed Armidale-class patrol boats will have been delivered. All new boats will be commissioned before the end of the first quarter of 2008 and multi-crewing, using 21 crews, will also have been established following completion of work-up training. The multi-crewing system will result in an overall increase in operational availability for the force while reducing operational tempo for patrol boat personnel.

Construction of a new crew support facility in Darwin at HMAS Coonawarra is expected to be completed in late 2007. This facility will provide an administrative and logistic base for five of the 15 Darwin-based crews not allocated at any given time to the 10 boats home-ported in Darwin. Similar facilities are being provided as part of the HMAS Cairns base redevelopment project to support the six crews and four boats to be home-ported in Cairns. Construction of a logistic support office at Taylor Barracks in Karratha was completed in April 2007 and cargo wharf modifications at Dampier are expected to be completed during 2007-08. These will enable Darwin-based Armidale-class patrol boats to commence forward-deployed North West Shelf security patrols.

The patrol boat force continues to make a large and effective contribution to the Civil Surveillance Program (managed by Coastwatch), to Border Protection Command tasking, and to the protection of Australia's sovereignty through the provision of a patrol and response capability in Australia's maritime approaches. Patrol boats also contribute to regional engagement and national security through the conduct of operations, port visits and exercises with regional nations.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Armidale-class patrol boats	9 ⁽¹⁾	3,227 URD ^{(2) (3)}

Notes

1. The number of commissioned Armidale-class patrol boats will increase from nine to 14 by the end of 2007-08 with the corresponding number of mission-ready crews increasing from 13 to 21.
2. The target in the mature multi-crewed force structure beyond late 2007-08 is 3,500 days of annual contracted availability.
3. The current Armidale-class patrol boat contract with Defence Maritime Services allows the Government to purchase up to an additional 600 days of availability annually to meet emerging requirements.

OUTPUT 2.4 – CAPABILITY FOR SUBMARINE OPERATIONS

The Navy has six Collins-class submarines. HMAS *Waller* will complete its full cycle docking in June 2007 with the first replacement combat system and the new advanced capability torpedo. Other projects are in place to progressively enhance the combat capability of all six submarines including weapons, sensors, Special Forces improvements and communication system upgrades. The submarine force is capable of fulfilling the roles of maritime strike and interdiction, maritime surveillance, reconnaissance and intelligence collection, undersea warfare, and special forces operations. Submarines contribute to regional engagement and security through the conduct of port visits and exercises with regional nations. Submarines may be employed to operate independently either as an element of the ongoing national intelligence collection effort or as a forward reconnaissance unit in an area of heightened tension. They may also be employed as one of a number of key elements in task group operations that deny opponents the use of Australia's maritime approaches.

The submarine fleet will benefit from the allocation of additional logistics sustainment funding.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Submarines	6	1,004 URD ^{(1)(2) (3)}

Notes

1. HMAS *Sheean* entered full cycle docking nine months early and will remain in full cycle docking for all of 2007-08.
2. HMAS *Dechaineux* will remain in full cycle docking for all of 2007 with expected completion in late 2008.
3. HMAS *Farncomb* will be in mid-cycle docking at the commencement of 2007-08 with expected completion in mid-2008.

OUTPUT 2.5 – CAPABILITY FOR AFLOAT SUPPORT

This output provides a capability for afloat support consisting of an oil tanker and a replenishment ship. This capability has a major role in the provision of afloat tactical logistics, particularly under way replenishment. It also has the capacity for logistic support to land forces and utility in a range of peacetime national tasks. The afloat support capability, through the provision of logistic support, contributes significantly to the performance of Output 2.1 Capability for Major Surface Combatant Operations and Output 2.7 Capability for

Amphibious Lift. It also provides important logistics support to operations and exercises, contributing to Defence international engagements through these activities.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Oil Tanker	1	366 URD
Replenishment Ship	1	227 URD ⁽¹⁾

Note

1. HMAS *Success* is scheduled for refit in the second half of 2007.

OUTPUT 2.6 – CAPABILITY FOR MINE WARFARE

The mine warfare force comprises six Huon-class coastal mine hunters, two auxiliary minesweepers and two clearance diving teams.

The Huon-class mine hunters provide an advanced mine hunting and clearance diving capability and a limited maritime patrol and surveillance capability. The mine hunters contribute to regional engagement and security through the conduct of port visits and exercises with regional nations, and surveillance and patrolling of Australia’s maritime approaches. Two auxiliary minesweepers provide route survey support and mine warfare training. Clearance diving teams support the full spectrum of mine warfare missions and also provide capability for explosive ordnance disposal.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Coastal mine hunters	6	2,085 URD
Auxiliary minesweepers	2	732 URD
Clearance diving teams	2	732 URD

OUTPUT 2.7 – CAPABILITY FOR AMPHIBIOUS LIFT

This output provides capability for amphibious lift consisting of two amphibious landing ships, a heavy landing ship, and six heavy landing craft. The major fleet units provide amphibious lift and support to landing forces. They also have utility in a broad range of peacetime national tasks including evacuation operations, disaster relief, humanitarian assistance and peace support operations. The ships' inherent capability for command and control, communications, helicopter operations and medical support facilities make them extremely versatile. This capability is a key contributor to the ADF joint amphibious capability.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. • Achieve mission capability for assigned tasks. 		
Vessel Type	Number	Budget Estimate
Heavy landing ship	1	366 URD
Amphibious landing ships	2	605 URD ⁽¹⁾
Heavy landing craft	6	2,066 URD ⁽²⁾

Notes

1. HMAS *Manoora* will be docked between August and November 2007. HMAS *Kanimbla* will commence a docking in late 2007-08 that runs into 2008-09.
2. HMA Ships *Betano*, *Labuan* and *Tarakan* all have scheduled dockings in 2007-08.

OUTPUT 2.8 – CAPABILITY FOR HYDROGRAPHIC, METEOROLOGICAL AND OCEANOGRAPHIC OPERATIONS

This output provides the Navy's capability for hydrographic operations, nautical charting and provision of meteorological and oceanographic support to the ADF. The Output's nautical products enable the maritime trade industry and border protection of Australia's Exclusive Economic Zone while contributing to maritime safety and environmental protection. Additionally, the group meets Australia's national obligations for provision of hydrographic services under the terms of the *United Nations Safety of Life at Sea (SOLAS) Convention 1974* (as amended) and the *Navigation Act 1912*.

The hydrographic survey force comprises two Leeuwin-class hydrographic ships and their embarked survey motor boats, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and the deployable geospatial support team, all supported by the Australian Hydrographic Office at Wollongong, New South Wales.

Oceanographic support is conducted by the Operational Meteorological and Oceanographic Centre, the Defence Oceanographic Data Centre, and the Naval Air Station Weather and Oceanographic Centre at Nowra, New South Wales.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards to conduct survey tasking, produce navigational information and provision of oceanographic and meteorological support. • Achieve mission capability for assigned tasks. • Achieve HydrOcscheme 2006-2009 data and surveying tasking requirements to meet national hydrographic surveying and charting obligations. 		
Type	Number	Budget Estimate
Hydrographic ships	2	732 URD
Survey motor launches	4	1,184 URD ⁽¹⁾
Laser airborne depth sounder aircraft	1	664 hours ⁽²⁾
Deployable geospatial support team	1	366 URD ⁽³⁾
Chart Production Office ⁽⁴⁾	1	249 URD ⁽³⁾
Naval Air Station Weather and Oceanographic Centre	1	240 URD ⁽³⁾
Mobile Meteorological and Oceanographic Teams	1	732 URD ⁽³⁾
Navigational Chart Production: <ul style="list-style-type: none"> • New charts/editions • Electronic navigational chart cells 		50 200
Defence Support: <ul style="list-style-type: none"> • New Military Geographic Information (MGI) products/editions • MGI Foundation Datasets 		12 6
Oceanographic database production: <ul style="list-style-type: none"> • Web Enabled Datasets 		4

Notes

1. HMA Ships *Paluma* and *Mermaid* undergo mandatory post-refit operational testing during July and August 2007, and *Shepparton* and *Benalla* undergo an extended maintenance period from August to November 2007.
2. Laser Airborne Depth Sounder will undergo survey system upgrade in the second-half of 2007.
3. Previously reported as availability days. Now reported as URD to align with other Navy force elements.
4. Previously referred to as the Australian Hydrographic Office.

OUTCOME THREE – ARMY CAPABILITY

Outcome Three – Army Capability for the Defence of Australia and its Interests

- Output 3.1 Capability for Special Operations
- Output 3.2 Capability for Medium Combined Arms Operations
- Output 3.3 Capability for Light Combined Arms Operations
- Output 3.4 Capability for Army Aviation Operations
- Output 3.5 Capability for Ground-Based Air Defence
- Output 3.6 Capability for Combat Support Operations
- Output 3.7 Capability for Regional Surveillance
- Output 3.8 Capability for Operational Logistic Support to Land Forces
- Output 3.9 Capability for Motorised Combined Arms Operations
- Output 3.10 Capability for Protective Operations

The Army contributes to the achievement of the Government's defence objectives through the provision of capabilities for land and special operations. The Army also provides forces for peacetime national tasks, including forces with a capability to enhance the national domestic security response to terrorist, chemical, biological, radiological or explosive incidents.

The Army provides capabilities that centre around special forces; light, medium and motorised combined arms operations; army aviation; ground-based air defence; combat and logistic support; and units for regional surveillance and protective operations.

The Army's capabilities provide the capacity to conduct:

- shaping and influencing operations, including operations to prevent the effective operational command and control of adversary forces by influencing, degrading, or destroying their operational systems;
- land-focused offensive operations through pre-emptive or reactive operations to destroy enemy forces or power projection assets, including command, control and communications nodes;
- ground-based air defence;
- peace support operations with the intention of establishing a stable security environment through the presence of military forces, either armed or unarmed;
- operational logistic support to sustain forces through the maintenance of lines of communications to a forward operating base and by providing

distribution, materiel support, support engineering, health services support, personnel services and civil affairs;

- counter-terrorism operations to defeat terrorism throughout the entire threat spectrum, including protection from terrorist acts, offensive measures taken to prevent, deter and respond to terrorism, and providing support to incidents involving the use of chemical, biological or radiological materials;
- consequence management operations to provide detection, identification, marking, warning, reporting and decontamination of chemical, biological or radioactive material;
- non-combatant evacuation operations to protect Australian nationals and approved foreign nationals where host nations are unwilling or unable to provide security; and
- humanitarian assistance operations in support of the civil populace in times of significant need and disaster.

PLANNED PERFORMANCE

The Army intends to achieve its performance milestones in 2007-08 by balancing the requirements to support operations with the need to meet extant preparedness requirements and to develop the Army's core capabilities.

Support to Operations

In 2007-08, the Army's first priority will be to continue to support forces and individuals deployed on operations. These include forces and individuals deployed to the Middle East Area of Operations, Israel, Sudan, Syria, Lebanon, Egypt, Timor-Leste and Solomon Islands.

Meeting Preparedness Requirements

The Army will continue to provide ready forces as directed by the Government, including nine combined arms battlegroups to provide depth, sustainability, utility and flexibility with supporting combat support and combat service support elements. The Army has developed six company-sized Reserve Response Forces to enhance the Army's domestic security response capability. The Army is also developing a High Readiness Reserve capability that will provide specified individual and collective capabilities to support, sustain and reinforce the Army's operational forces. Meeting preparedness requirements will be the Army's primary performance measure.

Developing the Army's Core Capabilities

The Army will continue to increase its ability to sustain a brigade group offshore for extended periods and a battalion group for short-notice contingency operations. In particular, the development of the Army's core capabilities in 2007-08 will focus on adoption of the Hardened and Networked Army and the Enhanced Land Force initiatives, to improve its ability to generate adequate combat weight, support deployed forces, and contribute to domestic security.

The Army, in consultation with Chief of Capability Development Executive and the DMO, will continue to develop its combat weight through improvements in the mobility, firepower and protection of existing force elements by:

- continuing to raise a second mechanised Battle Group based on 7th Battalion RAR;
- continuing to develop 1st Armoured Regiment capability with the introduction into service of the Abrams tank;
- continued delivery of the Bushmaster infantry mobility vehicle into service;
- introduction into service of additional Javelin direct-fire guided weapons;
- continuing procurement activities for the MRH-90 helicopter to provide additional troop lift;
- implementing the operational capability of the Army's armed reconnaissance helicopters;
- continuing the upgrade of the M-113 armoured personnel carrier fleet;
- commencing procurement activities to support a detailed second pass proposal to the Government for the acquisition of protected self-propelled and lightweight towed 155mm artillery systems;
- developing a detailed second pass proposal to the Government supporting a further phase of the soldier modernisation project (concentrating on C4I, lethality and survivability) for submission in 2007;
- submitting a first pass proposal to the Government for the acquisition of an enhanced direct fire support system for the close combat force;
- submitting a first pass proposal to the Government for the acquisition of an improved counter landmine capability;
- providing a boosted Explosive Ordnance and Improvised Explosive Device disposal capability.

The Army will continue to develop its Network Centric Warfare capability through:

- commencing the first phase of a multiphase project aimed at enhancing land force communications through the introduction of a fleet of digital combat net radios;
- supporting Capability Development Executive (CDE) in developing a detailed second pass proposal to the Government for the adoption of a vehicle-based Battle Management System;
- supporting CDE in developing (as part of the soldier modernisation project) a detailed second pass proposal to the Government supporting the introduction of a Dismounted Battle Management System for close combatants for submission in June 2008;
- developing an Army sustainment model designed to ensure that a brigade and battalion groups can be deployed continually; and

- developing a detailed second pass proposal to the Government to replace the field vehicle and trailer capability for submission in mid-2007.

The Army will continue to develop its contribution to domestic security operations, primarily through its ongoing development of the Tactical Assault Group (East) and the Incident Response Regiment.

The Army continues to develop and better its capability to maintain situational awareness through:

- the development of a tactical unmanned aerial vehicle capability;
- the introduction into service of an improved ground surveillance radar in 2007;
- the development of unmanned ground sensors;
- the introduction into service of an improved thermal imagery capability in 2007; and
- the delivery of a life-of-type extension to weapon locating radars.

KEY RISKS AND LIMITATIONS

The Army will seek to achieve its planned performance through the mitigation of key risks identified in the Defence Management and Finance Plan, including the remediation of personnel and logistic deficiencies within the Army.

Personnel

To support the introduction of new capabilities while maintaining preparedness requirements, the Army's average paid strength for the year is forecast to be 25,926 for 2007-08, and is projected to grow to 29,958 by 2016-17. Although total recruiting figures have been good in 2006-07, these figures are not balanced across all trades. For example, while recruiting has been successful for some trades such as infantry, other trades such as health services, engineers, technicians and linguists remain problematic. The separation rate of officers is at an historic low of eight per cent although the soldier separation rates sit at 12 per cent.

Logistic Support

The Army has experienced logistic challenges over the past year with some ammunition shortages and difficulties in maintaining the general service vehicle fleet. Remediation plans, including increases in ammunition holdings, better maintenance programs for key Army fleets, and the replacement of a range of ageing equipment, will continue. These are being addressed through the allocation of additional logistics sustainment funds.

Infrastructure

Strong growth in the construction industry over the past few years continues to result in real cost increases. This, coupled with increases in Defence's external statutory compliance requirements, has created challenges to the delivery of the Army's infrastructure requirements.

Introducing New Capabilities

New Army capabilities are delivered through a combination of major and minor capital procurement projects that either replace or improve existing capabilities or introduce new capabilities. ANAO *Audit Report No. 25 2004-05* highlighted the need for the Army to maintain a strong focus on the successful integration of capabilities due for delivery through the Defence Capability Plan. The Army is developing a process for capability acceptance and operational release, which will operate in accordance with the Joint 'Acceptance into Service' process once it has been confirmed by CDE in 2007.

RISK MITIGATION

The Army is developing an Army Force Structure Plan 2009-2016 to ensure it can concurrently meet ongoing operational responsibilities while increasing in size to 30,515 as well as effectively incorporating new and replacement capabilities.

Personnel

The Army has recently implemented a series of new retention initiatives to address the shortfalls in Corporals, Sergeants, Captains and Majors. Further initiatives have also been adopted to improve internal trade transfers and retention. It will be at least 12 months before the success of the retention initiatives can be measured. Recruiting targets have been increased to 3,500 for the Australian Regular Army for 2007-08. This target will be in place for five years and if the target is achieved each year, it will remediate the asset liability gap, place the Army on the growth path for the implementation of the Hardened and Networked Army and the Enhanced Land Force and allow it to reduce its intake to 3,000 after five years to sustain the force. Other recruitment and retention initiatives announced in the budget will also reduce personnel risks.

Logistic Support

The Army continues to develop its equipment establishment plan to inform its planning process and set the priorities for equipping the Army. It is also benefiting in the short-term from additional funding in support of logistic shortfalls for the general service B-vehicles, explosive ordnance, Black Hawk helicopters, Army surveillance and battlefield command support systems.

Infrastructure

The Army is working with other Defence Groups to develop strategies to relieve the pressures on capability delivery associated with infrastructure. The development of strategic planning guidance for the Army's future use of the Defence estate and other estate planning initiatives is producing cost effective outcomes. The Army's strategic review of training areas within Australia in order to identify its capability needs and advance development is ongoing, with reviews of ranges in three regions being completed.

Cost Summary for Outcome Three

TOTAL BUDGETED COST TO THE GOVERNMENT

Table 5.3.1: Outcome Three - Army Capability for the Defence of Australia and its Interests

	Previous Estimate ¹⁾ 2007-08 \$,000	Budget Estimate 2007-08 \$,000	Variation ²⁾ \$,000	Forward Estimate 2008-09 \$,000	Forward Estimate 2009-10 \$,000	Forward Estimate 2010-11 \$,000
INCOME						
Revenues						
Goods and services	212,303	233,257	20,955	240,718	240,933	279,532
Other revenue	29,559	29,458	-101	29,289	37,277	37,993
Total Revenue	241,861	262,715	20,854	270,008	278,210	317,525
Gains						
Reversals of previous asset write-downs	29,963	29,963	-	-5,377	-5,377	7,346
Net gains from sale of assets	-	-	-	-	-	0
Other Gains	2,191	2,715	524	2,715	2,715	1,578
Total Gains	32,154	32,678	524	-2,662	-2,662	8,924
Total Income	274,015	295,393	21,378	267,346	275,548	326,450
Expenses						
Employees	2,802,049	2,840,746	38,697	2,991,045	3,156,462	3,763,614
Suppliers	2,759,940	2,884,746	124,806	2,807,378	2,785,324	2,332,814
Grants	1,941	2,112	172	832	832	734
Depreciation and amortisation	883,115	883,115	-	873,392	834,826	789,485
Finance cost	9,626	11,294	1,668	16,755	20,611	18,491
Write-down of assets and impairment of assets	66,279	66,279	-	20,029	20,029	20,612
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	336	106	-230	106	110	-
Total Expenses	6,523,286	6,688,399	165,113	6,709,537	6,818,195	6,925,750
Net Cost of Outcome 3:						
Army Capability	6,249,270	6,393,005	143,735	6,442,191	6,542,647	6,599,300

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.95).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Table 5.3.2: Breakdown of Outcome Three by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Output 3.1 Capability for Special Operations	567,484	581,018	13,534	588,359	598,442	642,444
Output 3.2 – Capability for Medium Combined Arms Operations	1,094,477	1,115,711	21,234	1,088,022	1,094,462	1,058,020
Output 3.3 Capability for Light Combined Arms Operations	1,028,258	1,048,525	20,267	1,059,283	1,083,995	1,010,024
Output 3.4 Capability for Army Aviation Operations	573,100	586,716	13,616	593,551	601,137	581,666
Output 3.5 Capability for Ground Based Air Defence	119,123	126,106	6,983	135,812	138,699	123,572
Output 3.6 Capability for Combat Support Operations	445,254	457,002	11,748	468,086	478,729	460,039
Output 3.7 – Capability for Regional Surveillance	156,512	164,041	7,529	173,827	176,485	202,995
Output 3.8 – Capability for Operational Logistic Support to Land Forces	590,618	604,490	13,872	615,759	630,060	580,354
Output 3.9 – Capability for Motorised Combined Arms Operations	605,920	620,015	14,096	628,674	641,568	681,945
Output 3.10 – Capability for Protective Operations	1,068,526	1,089,381	20,855	1,090,817	1,099,070	1,258,241
Net Cost of Outcome Three	6,249,270	6,393,005	143,735	6,442,191	6,542,647	6,599,300

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 96).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Output Structure for Outcome Three

OUTPUT 3.1 – CAPABILITY FOR SPECIAL OPERATIONS

Output 3.1 provides Special Operations Task Groups, task organised to provide high readiness forces capable of conducting special reconnaissance, offensive strike, domestic counter terrorism and offshore recovery operations. Force elements include the Defence Chemical, Biological, Radiological, Nuclear and

Explosive capability and possess integral strategic secure communications and logistics capability.

Output 3.1 also provides a deployable component HQ, a Special Forces Training Centre, and specialist capabilities that reside in the Special Air Service Regiment, the Commando Units and the Incident Response Regiment.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.• Achieve a level of training that maintains core skills and professional standards across all warfare (and counter-terrorist) areas.

OUTPUT 3.2 – CAPABILITY FOR MEDIUM COMBINED ARMS OPERATIONS

Output 3.2 provides combined arms teams based on armoured, mechanised and cavalry forces with integral command and control, communications, offensive support, combat engineer support, and combat service support. The medium combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required.

Output 3.2 is based on 1st Brigade which provides a deployable formation headquarters and a Medium Battle Group.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness notice.• Achieve a level of training that maintains core skills and professional standards across all warfare areas.

OUTPUT 3.3 – CAPABILITY FOR LIGHT COMBINED ARMS OPERATIONS

Output 3.3 provides combined arms teams based on light infantry forces with integral command and control, communications, offensive support, combat engineer support, and combat service support. The light combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required. The light combined arms teams are rapidly deployable by ground, air and sea tactical and strategic lift.

Output 3.3 is based on 3rd Brigade which provides a deployable formation headquarters, an Airborne Battle Group and a Light Battle Group.

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months including the provision of three battalion-sized groups within 90 days readiness notice. • Achieve a level of training that maintains core skills and professional standards across all warfare areas.

OUTPUT 3.4 – CAPABILITY FOR ARMY AVIATION OPERATIONS

Output 3.4 contributes primarily to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. The capability provides aircraft, which are maintained at high readiness, for mobility through tactical troop lift, command and liaison, and reconnaissance operations.

Output 3.4 is based on 16th Brigade (Aviation) and consists of:

- two aviation regiments;
- one independent (Black Hawk) aviation squadron; and
- one independent fixed wing squadron.

The forecast flying hours for 2007-08 are shown in Table 5.3.3.

The Army aviation capability will benefit from the increase in logistic support funding for the Black Hawk helicopters.

Table 5.3.3: Army Aviation Aircraft

Aircraft	Number	Flying Hours 2007–08
CH-47D Chinook	6	1,270
S-70A9 Black Hawk	34	7,500
B-206 Kiowa	41	10,000
UH-1H Iroquois	25	500
Armed Reconnaissance Helicopter Tiger	14	5,500
MRH-90 Multi-role Helicopter	2	200
B300 King Air 350	3	2,000

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas.

OUTPUT 3.5 – CAPABILITY FOR GROUND-BASED AIR DEFENCE

Output 3.5 provides ground-based air defence support to light and medium combined arms teams and joint operations requiring point air defence.

Output 3.5 is based on 16th Air Defence Regiment based in Adelaide.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.• Achieve a level of training that maintains core skills and professional standards across all warfare areas.

OUTPUT 3.6 – CAPABILITY FOR COMBAT SUPPORT OPERATIONS

Output 3.6 provides force-level surveillance and target acquisition, electronic warfare, military police, intelligence, force level construction engineer support, and support to other Army outputs.

Output 3.6 is based on 20th Surveillance Target Acquisition Regiment, 7th Signal Regiment, 1st Intelligence Battalion, 1st Military Police Battalion and 6th Engineer Support Regiment.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.• Achieve a level of training that maintains core skills and professional standards across all warfare areas.

OUTPUT 3.7 – CAPABILITY FOR REGIONAL SURVEILLANCE

Output 3.7 provides mobile surveillance and reconnaissance forces developed and based in specific regions of northern Australia supporting the national surveillance effort.

The capability is maintained using predominantly Army Reserve personnel drawn from local communities and the indigenous population throughout northern Australia. The capability consists of three regionally-based battalion sized units based in Karratha, Darwin and Cairns.

Output 3.7 is based upon Norforce, 51st Far North Queensland Regiment and the Pilbara Regiment.

Performance Targets

- | |
|--|
| <ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. |
|--|

OUTPUT 3.8 – CAPABILITY FOR OPERATIONAL LOGISTIC SUPPORT TO LAND FORCES

Output 3.8 provides operational-level combat service support forces with integral command and control, communications, supply chain management and distribution capabilities. The output includes water and beach operations capabilities, air dispatch and parachute rigging capabilities, health and psychological support capabilities, deployed personnel support and force preparation capabilities.

Output 3.8 is based upon the Logistic Support Force and provides a deployable formation headquarters, a Force Support Group, a Contingency Force Support Battalion, and a number of tailored force support entities for smaller operations.

Performance Targets

- | |
|--|
| <ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve a level of training that maintains core skills and professional standards across all warfare areas. |
|--|

OUTPUT 3.9 – CAPABILITY FOR MOTORISED COMBINED ARMS OPERATIONS

Output 3.9 provides combined arms teams based on light infantry forces with integral wheeled mobility, command and control, communications, offensive support, combat engineer support, and combat service support. The motorised combined arms teams incorporate additional manoeuvre force elements from other outputs to tailor force packages as required.

Output 3.9 is based on 7th Brigade which provides a deployable Land Component Headquarters, a formation command and control capability for domestic security tasks, and a Motorised Battle Group.

Performance Targets

- | |
|---|
| <ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness notice.• Achieve a level of training that maintains core skills and professional standards across all warfare areas. |
|---|

OUTPUT 3.10 – CAPABILITY FOR PROTECTIVE OPERATIONS

Output 3.10 provides Army Reserve combined arms teams based on light infantry forces with integral command and control, communications, and combat service support. These combined arms teams form the basis of High Readiness Reserve Combat Teams on a reduced readiness notice. The output also provides Reserve Response Forces on a reduced readiness notice for domestic security and support tasks, reinforcements for deployed regular units, and a mobilisation base for subsequent rotations in the event of a protracted operation.

Output 3.10 is based on predominantly Reserve brigades located throughout Australia.

Performance Targets

- | |
|---|
| <ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.• Achieve a level of training that maintains core skills and professional standards across all warfare areas. |
|---|

OUTCOME FOUR – AIR FORCE CAPABILITY

Outcome Four – Air Force Capability for the Defence of Australia and its Interests

Output 4.1 Capability for Air Combat Operations

Output 4.2 Capability for Combat Support of Air Operations

Output 4.3 Capability for Surveillance and Response Operations

Output 4.4 Capability for Airlift Operations

The Air Force applies capabilities to protect Australia and its national interests by providing a unique combination of flexibility, reach, precision and speed of response. The Air Force's vision is to be a balanced, networked, expeditionary force that conducts air and surface operations focusing on air combat, combat support of air operations, surveillance and response, and airlift. The Air Force's capabilities can be deployed globally and rapidly to achieve the ADF's key tasks of defending Australia, contributing to the security of our region and supporting Australia's wider interests through participation in coalition operations and disaster responses. In particular, the Air Force's air combat capability is essential for securing control of the air, a prerequisite for most other ADF operations.

The Air Force's fundamental capabilities enable the conduct of offensive and defensive counter air operations, land and maritime strike operations and offensive air support. Airlift enables quick deployment of forces over large distances and follow-on sustainment. Information operations provide better situational awareness which increases the effectiveness of our command and control systems. Australian and regional communities also benefit directly from the Air Force's contribution to search and rescue operations, disaster relief, humanitarian assistance and other protective functions.

The Air Force is undergoing the largest upgrade of capabilities since WWII which when combined with the ongoing high operational tempo, is placing considerable pressure on our limited workforce. The Air Force is developing strategies to increase the workforce and manage the high level of transition effort that will occur over the next decade.

PLANNED PERFORMANCE

The Air Force will continue to provide support to the Government's border control initiatives including the ability to provide a surge capacity for surveillance and response capabilities. During 2007-08, the Air Force will continue to support the war against terrorism, conduct operational deployments as directed by the Government and provide rapid disaster response when necessary. In particular, the Air Force will support:

- Operations Catalyst and Slipper through P-3 Orion surveillance activities, C-130 transport support and expeditionary combat support elements; and other capabilities as directed by the Government;
- Operation Resolute with P-3 Orion surveillance of Australia's northern border approaches;
- humanitarian assistance operations;
- Operation Deluge during the 2007 Asia-Pacific Economic Cooperation Leaders' Meeting in Sydney;
- Operation Testament in preparation for the Catholic youth festival and Papal visit to Sydney in 2008; and
- the introduction of new capabilities including the Boeing C-17 Globemaster III aircraft.

As part of the Air Force's enduring goal of achieving and maintaining a modern, networked force, the F-111 capability will be withdrawn from service in 2010 with the strike role transitioning to a fleet of 24 F/A-18F Block II Super Hornet multi-role aircraft and the upgraded F/A-18A/B Hornet. The introduction of the KC-30B multi-role tanker transport aircraft, and the Wedgetail airborne early warning and control aircraft in early 2009, the acquisition of the AGM-158 Joint Air-to-Surface Stand-off Missile for the F/A-18A/B fleet, and improved short-range, day and night, all-weather precision guided weapons will ensure that the Air Force maintains its capability edge.

The demanding pace of operations and disaster relief in recent times has demonstrated a need for a rapid global airlift capability that is capable of deploying troops, all combat vehicles, heavy equipment and all helicopters including the CH-47 Chinook. This is being addressed through the continued introduction of four new Boeing C-17 Globemaster III aircraft and associated equipment in 2007-08 to provide the ADF with a heavy oversized airlift capability.

Air Force recruitment and retention continues to be strong but recruitment in a few key specialised areas is problematic due to strong competition in the labour market. The Air Force will continue to be proactive during 2007-08 in identifying opportunities and developing strategies to attract and retain personnel and increase our workforce to operate and support future capability requirements. The Air Force is developing innovative personnel structures to better meet the future war fighting environment and match the aspirations of the workforce in the 2015-2020 period and beyond.

KEY RISKS AND LIMITATIONS

Personnel

Overall retention and recruitment remain sound when compared to long-term rates. The tight external labour market is creating further competition for talented young people in the Air Force target demographic. While retention overall is satisfactory, substantial remuneration packages are being offered by industry thereby increasing pressure on qualified specialists in the health, technology and engineering employment areas. A continuing trend is that the average length of service in the Air Force is reducing in some employment groups.

Transition to New Capabilities

The high number of new equipment deliveries and upgrades over the coming decade will require careful management to ensure that current capabilities are maintained during transition for the required levels of preparedness. This will require continuing modest growth in the Air Force workforce.

RISK MITIGATION

Personnel

The Air Force is identifying the priority areas for personnel resources to meet future capability requirements. In particular, the Air Force is identifying competencies required in the workforce that will promote future capabilities. Significant changes are being made to employment groups to move away from traditional groupings towards broader multi-skilled categories. The flexibilities inherent in the new groups will provide attractive careers that lead to senior warfighting roles. The Air Force will work more closely with the Defence Force Recruiting organisation to gain greater market presence, particularly in schools and tertiary institutions. Opportunities to selectively recruit from overseas defence forces in the UK, USA, and Canada will continue to be pursued to laterally recruit experienced personnel. The Air Force is expanding opportunities for current personnel to gain skills and knowledge through education and re-training, leading to the new career paths needed for new capabilities within the service. The Air Force will continue to focus on more flexible applications of non-remuneration personnel policy initiatives to retain our professional and experienced staff. The Air Force Personnel Strategy maintains the principle of 'partnering with our people to balance their needs with those of the Air Force'. The strategy includes initiatives to provide multiple entry points to career streams, recognition of both professional qualifications and experience in providing combat capability, a porous boundary between officers and other ranks in the same career stream and the recognition of broader competencies for promotion. The Air Force will continue to offer greater choice

in conditions of service and career structures. In responding to the Government's policy to expand the role of the Reserves to support combat force operations, the Air Force has established a High Readiness Reserve category and restructured the reserve workforce to facilitate far greater integration with the permanent workforce.

Transition to New Capabilities

Over the next decade, the Air Force will continue to evolve into a fully networked force balancing Australia's current and longer term strategic air power needs. The Air Force will capitalise on persistent surveillance and reconnaissance platforms, adaptive command and control systems and fully networked operational and support systems. The transition to future capabilities will be managed through a carefully orchestrated workforce plan to ensure we have the right people in the right jobs to operate the new technology capabilities. The acquisition of 24 F/A-18F Block II Super Hornet aircraft and fifth-generation stealth F-35 Joint Strike Fighters armed with modern precision weapons are examples of how the Air Force will increase effectiveness and efficiency through agile, responsive and flexible systems. These capabilities will be supported by other combat and surveillance capabilities, such as airborne early warning and control and air-to-air refuelling aircraft. This will ensure that the Air Force is well placed to maintain its regional capability edge during transition to the new combat capability, and contribute to a national effects-based approach to operations.

Logistics Sustainment

Risks to the logistics sustainment of the force-in-being are being addressed through improved logistic management practices and the allocation of additional logistics sustainment funds.

Cost Summary for Outcome Four

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.4.1: Outcome Four – Air Force Capability for the Defence of Australia and its Interests

	Previous Estimate ¹⁾	Budget Estimate	Variation ²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
INCOME						
Revenues						
Goods and services	154,285	171,548	17,263	176,611	177,502	201,325
Other revenue	13,343	13,260	-83	13,432	13,671	23,921
Total Revenue	167,628	184,808	17,180	190,043	191,173	225,246
Gains						
Reversals of previous asset write-downs	137,407	137,407	-	119,197	119,197	87,607
Net gains from sale of assets	-	-	-	-	-	-
Other Gains	1,129	1,561	432	1,561	1,561	1,862
Total Gains	138,536	138,968	432	120,758	120,758	89,469
Total Income	306,164	323,776	17,612	310,801	311,931	314,715
Expenses						
Employees	1,593,978	1,631,054	37,076	1,778,231	1,901,721	2,106,586
Suppliers	2,483,311	2,639,336	156,025	2,734,123	2,772,312	2,700,135
Grants	742	883	141	280	280	345
Depreciation and amortisation	1,241,319	1,241,319	-	1,289,820	1,184,149	1,141,550
Finance cost	4,543	5,918	1,374	10,688	14,359	12,230
Write-down of assets and impairment of assets	129,657	129,657	-	97,637	97,637	95,703
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	918	728	-190	739	743	-
Total Expenses	5,454,469	5,648,896	194,427	5,911,518	5,971,201	6,056,548
Net Cost of Outcome						
4: Air Force Capability	5,148,305	5,325,120	176,815	5,600,717	5,659,270	5,741,833

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.98).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

Table 5.4.2: Breakdown of Outcome Four by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Output 4.1 – Capability for Air Combat Operations	1,755,268	1,842,613	87,345	1,875,248	1,979,293	2,118,097
Output 4.2 – Capability for Combat Support of Air Operations	994,746	1,022,579	27,832	1,067,122	1,070,482	1,043,328
Output 4.3 - Capability for Surveillance and Response Operations	1,263,431	1,295,189	31,758	1,334,368	1,340,164	1,406,143
Output 4.4 – Capability for Airlift Operations	1,134,859	1,164,739	29,880	1,323,979	1,269,330	1,174,265
Net Cost of Outcome Four	5,148,305	5,325,120	176,815	5,600,717	5,659,270	5,741,833

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p. 99).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Output Structure for Outcome Four

OUTPUT 4.1 – CAPABILITY FOR AIR COMBAT OPERATIONS

The Air Combat Group provides the ADF's air combat capability and includes three squadrons of F/A-18 Hornets and two squadrons of F-111 aircraft, crews, weapon systems and support infrastructure to deliver the required capability to support air control, maritime and land strike, offensive air support for land and maritime operations and limited reconnaissance roles. The Hawk Lead-in fighter and PC-9 aircraft also contribute to this capability. The F-111 fleet will be withdrawn from service in 2010.

The ongoing upgrade of the F/A-18A/B Hornet fleet and acquisition of 24 F/A-18F Super Hornets, six airborne early warning and control and five multi-role tanker transport aircraft will ensure that Australia retains an effective air control capability until the introduction of the new air combat capability.

The air combat capability will benefit from the additional logistics sustainment funds for the F/A-18 and Lead-in-Fighter aircraft.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve levels of training that maintains core skill and professional standards across all assigned warfare areas.
- Maintain planning for the introduction of the Super Hornet in 2010-2012 and the withdrawal of the F-111.
- Maintain upgrade and refurbishment of the F/A-18A/B Hornet aircraft.

Aircraft	Number	Flying Hours 2007-08
F/A-18 Hornet	71 (55 F/A-18A and 16 F/A-18B)	12,500
F-111	21 (17 F-111C and 4 RF-111C) ⁽¹⁾	3,600
Hawk Lead-in Fighter	33	8,000
PC-9 Forward Air Control training aircraft	4	1,030

Note

1. An additional 12 F-111G aircraft are in storage awaiting disposal action and a further two F-111G have been broken down for spares.

OUTPUT 4.2 – CAPABILITY FOR COMBAT SUPPORT OF AIR OPERATIONS

Combat support of air operations is provided by the Combat Support Group and is concerned primarily with the provision and maintenance of air base infrastructure and services essential for the mounting of air operations both in Australia and overseas during contingencies.

The Air Force fixed bases will continue to be supported by a mixture of regular Air Force personnel working in conjunction with civilian provider groups. The three bare bases in the north of Australia will, if required, be activated and run by regular Air Force personnel drawn from the three Expeditionary Combat Support Squadrons. This is achieved once yearly as part of the exercise program.

Contingency air bases used for expeditionary operations will be activated and run by regular Air Force personnel as part of a joint or coalition force when required. These personnel will be drawn initially from the online Expeditionary Combat Support Squadron with personnel for long-term sustainment being drawn from all Combat Support Group personnel.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve a level of training that maintains core skills and professional standards in conjunction with Defence Support Group and the DMO across all operations.
- Provide the level of preparedness required based on a force structure of:
 - two expeditionary combat support wings, and
 - one expeditionary health services wing.

OUTPUT 4.3 – CAPABILITY FOR SURVEILLANCE AND RESPONSE OPERATIONS

The Air Force’s capability for surveillance and response operations is provided through the Surveillance and Response Group. The group maintains the P-3 aircraft, personnel, sensors and battlespace management elements to deliver a wide range of intelligence, surveillance and reconnaissance capabilities including the systems and infrastructure necessary to exploit the force multiplier effects of network-centric warfare operations. In addition, the group also undertakes maritime strike and anti-submarine warfare operations with the P-3 Orion.

The surveillance and response capability will benefit from the allocation of additional logistics sustainment funds for the P-3C aircraft.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas.
- Finalise plans for the introduction of the Wedgetail airborne early warning and control aircraft into operational service in 2009-10.

Aircraft	Number	Flying Hours 2007-08
P-3 Orion	19	8,200

OUTPUT 4.4 – CAPABILITY FOR AIRLIFT OPERATIONS

Air Lift Group provides airlift to enable rapid mobility of personnel and cargo to, from and within, a battlefield or area of operation. The group maintains aircraft, crews and weapons systems at a level of required capability to achieve air logistic support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance, special purpose flights, air-to-air refuelling and surveillance operations.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas.
- Continue to introduce the Boeing C-17 Globemaster III aircraft into service.
- Maintain planning for the transition of the air-to-air refuelling capability in 2008-09 to the KC30B, whilst withdrawing the B707 from service in 2008.

Aircraft	Number	Flying Hours 2007-08
C-130 Hercules	24 (12 C-130H and 12 C-130J)	9,200
C-17 Globemaster III	2 increasing to 4 in March 08	3,500
B707 ⁽¹⁾	2 decreasing to 1 in November 07	800
DHC-4 Caribou	14	4,100
B737 BBJ	2	1,414
CL604 Challenger	3	2,403

Note

1. The remaining B707 will be withdrawn from service on 30 June 2008.

The airlift operations capability will benefit from the allocation of additional logistics sustainment funds for the C-130 aircraft.

OUTCOME FIVE – STRATEGIC POLICY

Outcome Five – Strategic Policy for the Defence of Australia and its Interests

Output 5.1 International Policy, Activities and Engagement

Output 5.2 Strategic Policy and Military Strategy

Strategy Executive provides strategic guidance, policy advice and military strategy to enable the Government to make sound judgements on, and respond to, changes in Australia's strategic environment. This includes managing international defence relationships and expanding Australia's counter-proliferation efforts. The work of the Group also supports operations, exercises and the development of future Defence capability.

Strategy Executive advances Australia's relationships with overseas defence partners and allies through Defence Attaches and liaison officers overseas and by working with foreign defence representatives in Australia. The Executive manages the Defence Cooperation Program, which provides military assistance in our region.

PLANNED PERFORMANCE

Strategy Executive's principal objectives for 2007-08 are to:

- monitor the external environment and ensure the currency of strategic planning;
- contribute to the effective conduct of ADF operations;
- enhance the United States alliance and improve Australia – US capability and technology linkages;
- continue to enhance regional defence cooperation;
- strengthen defence export controls; and
- invest in and develop Defence's strategic policy workforce.

KEY RISKS AND LIMITATIONS

The key risks and limitations to the Executive achieving these objectives are:

- failure to detect changes in Australia's strategic environment, both generally and with respect to specific potential crises;
- failure to act in a timely manner to changes in Australia's strategic environment;

- an inadequate policy response to any changes in Australia’s strategic environment; and
- external factors affecting the achievement of Defence Cooperation Program objectives in regional countries.

RISK MITIGATION

To varying degrees, these risks and limitations will be mitigated by:

- continuously monitoring the strategic environment to enable the shaping of appropriate policies;
- continuing the development of Defence’s international relationships;
- developing staff skills and ensuring personnel management practices focus on balancing competing priorities; and
- ensuring alignment between Defence’s policy and its operational objectives.

Cost Summary for Outcome Five

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.5.1: Outcome Five - Strategic Policy for the Defence of Australia and its Interests

	Previous Estimate ⁽¹⁾	Budget Estimate	Var. ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
INCOME						
Revenues						
Goods and services	10,745	11,748	1,003	11,846	11,808	5,404
Other revenue	457	453	-5	440	1,067	-4,343
Total Revenue	11,202	12,200	998	12,287	12,875	-1,061
Gains						
Reversals of previous asset write-downs	1,509	1,509	-	-1,191	-1,191	30
Net gains from sale of assets	-	-	-	-	-	-
Other Gains	167	192	25	192	192	590
Total Gains	1,676	1,701	25	-999	-999	619
Total Income	12,879	13,902	1,023	11,288	11,876	1,680
Expenses						
Employees	109,334	109,774	440	121,195	134,232	66,169
Suppliers	195,353	200,253	4,900	201,751	229,229	292,831
Grants	29	38	8	0	0	9
Depreciation and amortisation	6,752	6,752	-	6,723	6,178	9,808
Finance cost	-18	61	80	-2	-4	1,950
Write-down of assets and impairment of assets	449	449	-	-91	-91	20
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	16	5	-11	5	5	-
Total Expenses	311,915	317,332	5,417	329,581	369,548	370,786
Net Cost of Outcome						
5: Strategic Policy	299,036	303,430	4,394	318,293	357,672	369,106

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.100).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate

Table 5.5.2: Breakdown of Outcome Five by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Output 5.1 - International Policy, Activities and Engagement	220,168	223,410	3,242	234,904	258,647	298,239
Output 5.2 - Strategic Policy and Military Strategy	78,868	80,020	1,152	83,390	99,025	70,867
Net Cost of Outcome Five	299,036	303,430	4,394	318,293	357,672	369,106

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.100).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Output Structure for Outcome Five

OUTPUT 5.1 – INTERNATIONAL POLICY, ACTIVITIES AND ENGAGEMENT

This output provides international policy advice to the Government to enable it to make sound judgements on, and develop appropriate responses to, changes in Australia's strategic circumstances, and on specific security issues as they arise. It also applies strategic policy guidance to assist the development of recommendations to the Government on international engagement activities and initiatives.

Performance Targets

- Provide the Government with comprehensive and timely policy advice on current and emerging international defence issues.
- Manage Defence's international engagement activities to support Australia's efforts to promote regional and global security.
- Ensure Defence's overseas representatives contribute to the effective management of Australia's defence interests in the context of overall bilateral relationships.
- Achieving Defence Cooperation Program objectives.

OUTPUT 5.2 – STRATEGIC POLICY AND MILITARY STRATEGY

This output develops the strategic framework for capability planners and warfighters, and manages input into the development of Defence strategic reviews and updates. It provides analysis of Australia's strategic environment to inform decision making, including on the development and use of Defence capability. It produces higher-level Defence guidance, deliberate planning and military strategic guidance on the employment of the ADF and its capabilities. It provides advice and management of export controls for defence and dual use

items, provides policy guidance on defence aspects of non-proliferation and arms control, and coordinates defence involvement in domestic counter terrorism.

Performance Targets
<ul style="list-style-type: none">• Provide the Government and Defence with comprehensive and timely strategic policy advice on current and emerging strategic issues in the international, national and domestic environment that affect Defence.• Provide comprehensive and timely advice to the Government and Defence on military strategy and future military concepts that reflect the changing strategic environment.• Provide comprehensive and timely advice to the Government and Defence on proliferation issues and administer counter-proliferation and export control activities as required by legislation.• Provide the Government and Defence with improved policy input to the whole-of-government domestic security and counter-terrorism programs.• Develop and enhance Defence’s strategic policy workforce.

Defence Cooperation

OVERVIEW

The Defence International Engagement Plan provides a robust policy for business planning and management of Defence’s international engagement and particularly for the Defence Cooperation Program over the next five years. The aims and objectives of the Defence Cooperation Program are to support the Government’s strategic objectives by:

- contributing to the maintenance of regional security;
- working with allies, regional partners and others to shape the global and regional environment in a way favourable to Australia and the ADF;
- consolidating acceptance of Australia as an obvious and legitimate participant in deliberations on issues that affect regional security; and
- encouraging and assisting with the development of defence self-reliance of regional countries.

These objectives are enhanced through assistance to regional security forces in the areas of defence reform, strategic planning, command and control, counter terrorism, maritime security, peacekeeping, disaster relief, communications, logistic support and education and training. A key element of the Defence Cooperation Program is the Pacific patrol boat program, through which ongoing support is provided to the participating 12 nations, to whom Australia has provided 22 vessels. The program, which engages Pacific navies and police maritime wings, is designed to help Pacific island countries improve their ability to independently police their maritime zones.

Through assisting the development of professional and sustainable defence forces and Pacific police forces in the region, the Defence Cooperation Program is improving the ability of regional countries to contribute to national and regional security objectives. Two important areas of focus are the development of the East Timor Defence Force and the Papua New Guinea Defence Reform Program. Australian assistance includes ADF advisers, a range of training initiatives and bilateral exercises, capacity building initiatives, and equipment and infrastructure projects.

A breakdown of the \$70.989m allocated to the program in 2007-08 is shown in Table 5.5.3.

Table 5.5.3: Defence Cooperation Funding

	Estimated Actual 2006-07 \$m	Budget Estimate 2007-08 \$m
Papua New Guinea⁽¹⁾	14.401	11.063
South Pacific		
Timor-Leste	6.150	6.551
Vanuatu	1.803	1.558
Solomon Islands	3.998	1.740
Tonga	1.587	2.321
Western Samoa	0.741	0.478
Cook Islands	0.335	0.388
Fiji	3.777	0.444
Marshall Islands	0.804	0.791
Federated States of Micronesia	0.895	1.038
Tuvalu	0.771	0.861
Kiribati	0.680	0.677
Palau	1.020	1.070
Multilateral General Assistance ⁽²⁾	11.379	12.230
Subtotal	33.940	30.147
South-East Asia		
Singapore	0.273	0.203
Philippines	4.101	6.788
Thailand	4.430	2.571
Malaysia	5.028	3.424
Indonesia	6.211	5.825
Vietnam	2.579	1.936
Cambodia and Laos	0.978	1.008
Brunei	0.040	0.019
Subtotal	23.640	21.774
Other regional activities	7.220	8.005
Total	79.201	70.989

Notes

1. Includes funding for the second tranche of the Papua New Guinea Defence Force Reform Program of \$1.274m in 2006-07.
2. Predominantly relates to support of the Pacific Patrol Boat Program, including the Life Extension Program.

OUTCOME SIX – INTELLIGENCE

Outcome Six – Intelligence for the Defence of Australia and its Interests

Output 6.1 Intelligence

The Defence intelligence agencies collect and produce intelligence, undertake analysis and develop assessments to support the planning and conduct of ADF operations, Defence policy making and planning, capability development, and wider government decision-making.

Defence's intelligence functions include:

- maintenance of regional leadership in intelligence capabilities, including skilled and experienced personnel, databases and collection, and production and dissemination systems to meet national and Defence priority requirements;
- production of signals intelligence reports and electronic warfare databases, imagery and geospatial intelligence reporting and databases, and all-source intelligence assessments, reports and databases;
- provision of intelligence assessments to support Defence and government decision making, and contributing to the planning and conduct of ADF operations;
- provision of ADF weapons and platform geospatial standards advice and services to meet whole-of-government requirements;
- provision of a tangible and continuous contribution to alliances and to other important Defence relationships; and
- provision of specialist assistance to whole-of-government initiatives to combat transnational crime.

PLANNED PERFORMANCE

The collection and production of intelligence is critical to Australia's strategic position in a complex and rapidly changing international political and security environment. The Defence intelligence agencies are focused towards the following key performance areas:

- providing quality intelligence reporting and assessments;
- providing effective and sustainable intelligence support for the planning and conduct of ADF operations and for decision makers including the new ADF command and control structures;

- maintaining and developing first-rate Defence intelligence and geospatial information capabilities;
- maintaining the knowledge edge by exploiting new technology;
- strengthening of the intelligence contribution to other intelligence partners including providing new capabilities to access intelligence information from key allies and other Defence relationships;
- improving investment and capability planning, accountability and resource and security management;
- developing motivated, adaptable and skilled teams of highly competent professionals;
- providing, in conjunction with the wider Australian Intelligence Community, support to whole-of-government initiatives to address transnational crimes including terrorism, weapons of mass destruction proliferation, the illegal exploitation of our natural resources, and the illegal trafficking of people, arms and illicit drugs;
- strengthening the Defence Languages Other Than English capability, through linguist training and recruitment and retention strategies which will enhance Languages Other Than English management, training and capability; and
- exploiting Defence and allied Intelligence, Surveillance and Recognisance capability to enhance support to ADF operations.

KEY RISKS AND LIMITATIONS

The key risks to the Defence intelligence agencies are:

- Defence's ability to preserve its capability edge in intelligence collection, production and analysis is critically dependent on the availability of skilled and experienced ADF and civilian personnel to support ongoing operations, the acquisition and exploitation of new technology, and the maintenance of effective security; and
- the environment in which Defence operates is dynamic and demands that key intelligence priorities, requirements and capabilities be reviewed regularly.

RISK MITIGATION

To varying degrees, the risks will be mitigated by the following strategies:

- Given the reliance on experienced personnel, Defence has increased and broadened its recruitment strategies through programs such as Indigenous

Cadets, targeted university recruitment drives, participation in the Australian Intelligence Community careers road show and greater incentives for staff with specific language and technical talents. Detailed personnel development programs have also been implemented. Care is also being taken to ensure ADF staffing levels do not fall below pre-Flood Inquiry (2004) figures.

- A Defence priority is the ongoing investment in initiatives to support Defence acquisition processes and Defence scientific and technical developments.
- Defence is developing carefully targeted capital investment programs, strengthening agency partnerships, ensuring an increased customer focus, implementing a security renewal agenda and developing business continuity plans.

Performance Targets
<ul style="list-style-type: none">• Provide quality intelligence reporting and assessments.• Provide effective and sustainable intelligence support for the planning and conduct of ADF operations and for decision makers.• Maintain and develop first-rate Defence intelligence and geospatial information capabilities.• Maintain the knowledge edge by exploiting new technology.• Strengthen the intelligence contribution to other intelligence partners including providing new capabilities to access intelligence information from key allies and other Defence relationships.• Improve investment and capability planning, accountability and resource and security management.• Develop motivated, adaptable and skilled teams of highly competent professionals.• Provide, in conjunction with the wider Australian Intelligence Community, support to whole-of-government initiatives to address transnational crimes.• Strengthen the Defence Languages Other than English capability.• Exploit Defence and allied Intelligence, Surveillance and Reconnaissance capability to enhance support to ADF operations.

Cost Summary for Outcome Six

TOTAL BUDGETED PRICE TO THE GOVERNMENT

Table 5.6.1: Outcome Six - Intelligence for the Defence of Australia and its Interests

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
INCOME						
Revenues						
Goods and services	11,168	12,973	1,805	13,511	13,617	5,342
Other revenue	201	192	-9	185	907	955
Total Revenue	11,369	13,165	1,796	13,696	14,523	6,297
Gains						
Reversals of previous asset write-downs	1,828	1,828	-	-1,442	-1,442	36
Net gains from sale of assets	-	-	-	-	-	-
Other Gains	203	248	45	248	248	1,251
Total Gains	2,030	2,076	45	-1,194	-1,194	1,288
Total Income	13,399	15,241	1,841	12,502	13,329	7,585
Expenses						
Employees	267,768	272,987	5,219	293,476	321,168	298,602
Suppliers	203,245	220,737	17,492	222,817	251,517	369,373
Grants	97	112	15	20	20	21
Depreciation and amortisation	79,054	79,054	-	78,071	100,100	87,115
Finance cost	293	438	144	407	419	3,865
Write-down of assets and impairment of assets	1,224	1,224	-	-126	-126	33
Net losses from sale of assets	-	-	-	-	-	-
Other expenses	24	4	-20	4	5	-
Total Expenses	551,707	574,556	22,850	594,670	673,103	759,008
Net Cost of Outcome 6: Intelligence	538,307	559,316	21,009	582,168	659,774	751,424

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.101).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

Table 5.6.2: Breakdown of Outcome Six by Output

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Output 6.1 Intelligence	538,307	559,316	21,009	582,168	659,774	751,424
Net Cost of Outcome Six	538,307	559,316	21,009	582,168	659,774	751,424

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.101).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

OUTCOME SEVEN – SUPERANNUATION AND HOUSING SUPPORT SERVICES FOR CURRENT AND RETIRED DEFENCE PERSONNEL

Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

Output 7.1 Superannuation Support Services for Current and Retired Defence Personnel

Output 7.2 Housing Assistance for Current Defence Personnel

Output 7.3 Other Administered Revenues and Expenses

Administered Activities

Outcome Seven: Superannuation and Housing Support Services for Current and Retired Defence Personnel encompasses all the activities that Defence performs on the behalf of Government that are resourced by Defence's administered appropriations. The administered appropriations provide resources to Defence on a 'no-win; no-loss' basis for specific purposes. Outcome Seven also includes revenue items for which the receipts are to be returned to Government. Outcome Seven consists of three outputs.

Output 7.1: Superannuation Support Services for Current and Retired Defence Personnel reports contributions and the movement in liabilities associated with the two military superannuation schemes: the Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation and Benefits Scheme (MSBS). DFRDB was closed to new participants in 1991. Since then, MSBS has been available to all full-time members of the Australian Defence Force (ADF). Both schemes are managed on Defence's behalf by ComSuper. Output 7.1 shows the member contributions and employer contributions to both schemes, the liability to the Commonwealth for benefits under both schemes, and the payment of the MSBS Retention Benefit. Since 1991, Defence has paid the MSBS Retention Benefit to eligible MSBS members after 15 years of continuous eligible service. The purpose of the Retention Benefit is to encourage members to serve until they have completed 20 years of service. Due to legislative amendments passed in 2005, the Retention Benefit is not available to members who enlisted after 6 October 2005.

Output 7.2: Housing Assistance for Current and Retired Defence Personnel reports dividends received on behalf of the Government from Defence Housing Australia (DHA) and payments to DHA to manage the Defence Home-Owner Scheme (DHOS). DHA is classified as a Government Business Enterprise and is required to make a commercial rate of return for Government. Through Defence, DHA pays an annual dividend on its operating profit to

Government. The Commonwealth's Competitive Neutrality Guidelines requires DHA to make tax-equivalent payments to Government in lieu of paying state and territory taxes. Tax-equivalent payments form part of DHA's dividend return to Government. DHA manages the DHOS for Defence. The DHOS is established under the *Defence Force (Home Loans Assistance) Act, 1990*. The DHOS provides eligible members of the ADF with a subsidy on the interest payable on a home loan.

In the 2007-08 Budget, as part of the 'Australian Defence Force Retention and Recruitment - further initiatives' budget measure, Government has decided to introduce a new home ownership scheme for ADF personnel to replace the existing DHOS. The Defence Home Ownership Assistance Scheme will commence in July 2008 and will offer interest subsidies on home loans for eligible current and former ADF personnel. The key features of this measure are the revision of the interest subsidy entitlement to reflect current housing market conditions and the linking of entitlement to years of service with a decrease of entitlements on discharge. The new scheme will be funded through administered appropriations.

Output 7.3: Other Administered Revenues and Expenses encompasses all other administered revenues and expenses recorded by Defence. It includes interest received on official bank accounts, net foreign exchange losses and gains, and reimbursements from the United Nations (UN) for contributions to UN-led operations.

Cost Summary for Outcome Seven

The net cost of Outcome Seven in 2007-08 will be \$2,004m. This represents an increase of \$13.8m compared to the previous estimate published in the *Portfolio Additional Estimates Statements 2006-07*. Details are shown in Table 5.7.1 below and explanations of variations follow.

Table 5.7.1 Outcome Seven - Superannuation and Housing Support Services for Current and Retired Defence Personnel

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Revenue						
Interest	4,005	80	-3,925	14	14	14
Net foreign exchange gain	-	-	-	-	-	-
Dividends	73,500	73,500	-	50,100	49,500	49,500
Licence fees				4,711	12,775	20,681
Military superannuation contributions	774,000	724,000	-50,000	770,000	800,000	800,000
Other	165	788	623	165	165	165
Total revenue	851,670	798,368	-53,302	824,990	862,454	870,360
Expenses						
Net foreign exchange losses	-	-	-	-	-	-
Housing subsidies ⁽³⁾	9,000	9,000	-	52,638	71,664	91,424
Retention benefits ⁽⁴⁾	42,000	42,000	-	40,000	38,000	36,000
Military superannuation benefits ^(4,5)	2,791,000	2,751,468	-39,532	2,843,216	2,933,251	3,032,269
Total expenses	2,842,000	2,802,468	-39,532	2,935,854	3,042,915	3,159,693
Net cost of Outcome Seven	1,990,330	2,004,100	13,770	2,110,864	2,180,461	2,289,333

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.103).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.
3. Part IV, s.38 of the *Defence Force (Home Loan Assistance) Act, 1990*
4. Part V, s.17 of the *Military Superannuation and Benefits Act, 1991*
5. Part XII, s.125 (3) of the *Defence Force Retirements and Death Benefits Act, 1973*

EXPLANATIONS OF VARIATIONS

Revenues administered on behalf of the Government will decrease by \$53.3m due to:

- a decrease in the estimate of interest revenue as a result of Defence's United States Federal Reserve bank account for FMS Advances being transferred to the Defence Materiel Organisation (-\$3.9m);
- a decrease in the estimate of military superannuation contributions due to a change to the estimating methodology (-\$50.0m); and
- an increase in the estimate of Other Non-Taxation due to United Nations payments that were planned to be recognised in 2006-07 now being recognised in 2007-08 (+\$0.6m).

Expenses administered on behalf of the Government will decrease by \$39.5m due to revised military superannuation expenses resulting from an actuarial review of the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme.

Table 5.7.2 shows the consolidation of Revenue and Expenses into one table to show the estimated net cost of Outcome 7 by its three outputs.

Table 5.7.2 Net cost of outputs

	Previous Estimate ⁽¹⁾	Budget Estimate	Variation ⁽²⁾	Forward Estimate	Forward Estimate	Forward Estimate
	2007-08	2007-08		2008-09	2009-10	2010-11
	\$,000	\$,000	\$,000	\$,000	\$,000	\$,000
Output 7.1						
Superannuation Support Services for Current and Retired Defence Personnel	2,059,000	2,069,468	10,468	2,113,216	2,171,251	2,268,269
Output 7.2						
Housing Assistance for Current and Retired Defence Personnel	-64,500	-64,500	-	-2,173	9,389	21,243
Output 7.3						
Other Administered Revenues and Expenses	-4,170	-868	3,302	-179	-179	-179
Net Cost of Outcome Seven	1,990,330	2,004,100	13,770	2,110,864	2,180,461	2,289,333

Notes

1. Previous Estimate reflects amounts disclosed in the *Portfolio Additional Estimates Statements 2006-07* (p.103).
2. Variation figures are the difference between the Previous Estimate and the Budget Estimate.

TABLE OF EXPLANATIONS OF SIGNIFICANT VARIATIONS ACROSS DEFENCE OUTCOMES

Table 5.f: Explanation of Significant Variations across Defence Outcomes ⁽¹⁾

Explanation of Variation	Outcome \$m						Total
	One	Two	Three	Four	Five	Six	
Goods and Services							
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	0.5	3.0	3.8	3.1	0.2	0.3	10.9
An increase in the revenue from fuel sales and other revenue items	2.1	13.4	17.2	14.1	0.8	1.5	49.1
Variation Goods and Services	2.6	16.4	21.0	17.3	1.0	1.8	60.0
Other Revenues							
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	0.1	0.3	0.4	0.3	0.0	0.0	1.2
Reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards	-0.1	-0.4	-0.5	-0.4	-0.0	-0.0	-1.5
Variation Other Revenues	0.0	-0.1	-0.1	-0.1	0.0	0.0	-0.3
Other Gains							
Reclassification of Resources Received Free of Charge from Revenue to Gains as a result of the move to AEIFRS accounting standards	0.1	0.4	0.5	0.4	0.0	0.0	1.5
Variation Other Gains	0.1	0.4	0.5	0.4	0.0	0.0	1.5

Explanation of Variation	Outcome \$m						Total
	One	Two	Three	Four	Five	Six	
Employees							
Australian Defence Force Retention and Recruitment - further initiatives	-	0.4	0.4	0.4	-	-	1.1
Afghanistan - Australian Defence Force deployments	65.2	-	-	-	-	-	65.2
Iraq - continued funding for stabilisation and reconstruction activities	109.7	-	-	-	-	-	109.7
East Timor - continued funding to help restore peace and stability	39.0	-	-	-	-	-	39.0
Strengthening National Security - reducing national e-security risk	-	-	-	-	-	1.2	1.2
Strengthening National Security - improved Defence intelligence capability	-	-	-	-	-	3.2	3.2
Defence Housing - supplementation for competitive neutrality policy	-	29.1	29.1	29.1	-	-	87.4
Other net variations, as outlined in Tables 4.6 and 4.7 in Chapter 4	1.1	7.2	9.2	7.6	0.4	0.8	26.3
Variation Employees	215.1	36.7	38.7	37.1	0.4	5.2	333.2
Suppliers							
Australian Defence Force Retention and Recruitment - further initiatives	-	15.1	15.1	15.1	-	-	45.4
Afghanistan - Australian Defence Force deployments	337.8	-	-	-	-	-	337.8
Iraq - continued funding for stabilisation and reconstruction activities	173.9	-	-	-	-	-	173.9
East Timor - continued funding to help restore peace and stability	68.7	-	-	-	-	-	68.7
Coastal surveillance - continuation (Operation Resolute)	8.8	-	-	-	-	-	8.8
Strengthening National Security - improved Defence intelligence capability	-	-	-	-	-	6.4	6.4
Strengthening National Security - reducing national e-security risk	-	-	-	-	-	2.4	2.4
Air combat capability - acquisition of Super Hornets	-	-	-	48.4	-	-	48.4
Logistics - additional funding measure	-	15.2	4.2	6.3	-	-	25.7

Explanation of Variation	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Strengthening National Security - enhanced protective security (Operation Safebase)	1.4	9.0	11.6	9.5	0.6	1.0	33.1
Jezzine Barracks - gift to the Townsville City Council	0.9	5.6	7.2	5.9	0.3	0.6	20.5
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	5.7	36.8	47.0	38.8	2.3	4.1	134.6
The relocation of overseas missions in conjunction with the Department of Foreign Affairs and Trade for security purposes	-	-	-	-	0.03	-	0.03
Transfer of funding to the Defence Materiel Organisation's direct appropriation to enable it to implement the Skilling Australia's Defence Industry initiative	-0.9	-5.6	-7.2	-5.9	-0.3	-0.6	-20.5
Transfer of funding to the Defence Materiel Organisation's direct appropriation to enable it to implement the Government-agreed recommendations of the Defence Industry Policy Review	-1.1	-7.2	-9.2	-7.6	-0.4	-0.8	-26.3
Purchases of fuel and other stores provided to other organisations (offset by an increase in revenue)	2.1	13.4	17.2	14.1	0.8	1.5	49.1
Increase in sustainment service fee payment to the DMO	-	10.0	10.0	10.0	-	-	30.0
Increase for Information, Communication, Technology (ICT) upgrades	2.4	10.1	14.0	10.9	0.9	1.7	40.0
Implementation of the Logistics Assurance framework	0.3	1.1	1.6	1.2	0.1	0.2	4.5
Recovery of Australian Submarine Rescue Vehicle: Remora	-	20.0	-	-	-	-	20.0
Transfer of funding to the Department of Veterans' Affairs for the health care of former ADF members associated with the F-111 Deseal/Reseal and other net variations	1.6	-20.2	13.4	9.2	0.6	1.1	5.8
Variation Suppliers	601.6	103.4	124.8	156.0	4.9	17.5	1,008.2
Grants							
Submarine Institute of Australia for HMA submarine AE2 Phase II - Dive Survey	-	0.3	-	-	-	-	0.3
Other net variations	-	-0.2	0.2	0.1	-	-	0.2

Explanation of Variation	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Variation Grants	0.0	0.1	0.2	0.1	0.0	0.0	0.5
Finance Charges							
Other net variations	0.2	1.3	1.7	1.4	0.1	0.1	4.8
Variation Finance Charges	0.2	1.3	1.7	1.4	0.1	0.1	4.8
Other Expenses							
Special Account interest and other net variations	-	-0.2	-0.2	-0.2	-	-	-0.7
Variation Finance Charges	0.0	-0.2	-0.2	-0.2	0.0	0.0	-0.7
Total Outcome Variation⁽²⁾	814.2	124.6	143.7	176.8	4.4	21.0	1,284.8

Notes

1. The variations to the six departmental outcomes should be cross-referenced to the variations that appear in Table 5.b.
2. The total variations to the cost of outcomes of \$1,284.8m cross-references to the variation shown in Serial 1 Table 2.1