

PORTFOLIO ADDITIONAL ESTIMATES STATEMENTS 2010-11

DEFENCE PORTFOLIO

EXPLANATIONS OF ADDITIONAL ESTIMATES 2010-11



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MINISTER FOR DEFENCE

PARLIAMENT HOUSE
CANBERRA 2600

President of the Senate
Australian Senate
Parliament House
CANBERRA ACT 2600

Speaker
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Mr President
Dear Mr Speaker

I hereby submit Portfolio Additional Estimates Statements in support of the 2010-11 Additional Estimates for the Defence Portfolio.

These statements have been developed, and are submitted to the Parliament, as a statement on the funding requirements being sought for the Portfolio.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stephen Smith', with a horizontal line underneath.

Stephen Smith MP
Minister for Defence

ABBREVIATIONS AND CONVENTIONS

(a) The following notations may be used:

NEC/nec not elsewhere classified

AEST Australian Eastern Standard Time

- nil

.. not zero, but rounded to zero

na not applicable (unless otherwise specified)

nfp not for publication

\$'000 dollars thousands

\$m dollars million

\$b dollars billion

(b) Figures in tables and in the text may be rounded. Figures in text are generally rounded to one decimal place, whereas figures in tables are generally rounded to the nearest thousand or million. Discrepancies in tables between totals and sums of components are due to rounding. Where variation percentages are nil, mathematically undefined or erroneous due to mis-alignment between Budgets and Actuals, this has been represented with a dash.

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A copy of this document can be located on the Australian Government Budget website at <http://www.budget.gov.au>.

USER GUIDE TO THE PORTFOLIO ADDITIONAL ESTIMATES STATEMENTS

The purpose of the Portfolio Additional Estimates Statements (PAES), like that of the Portfolio Budget Statements (PBS), is to inform Senators and Members of Parliament and the public of the proposed allocation of resources to Government outcomes by agencies within the portfolio. However, unlike the PBS, the PAES summarise only the changes in resourcing by outcome since the Budget, that is, they update the resourcing for the agency.

The PAES facilitate understanding of the proposed appropriations in Appropriation Bills (No. 3 and No. 4) 2010-11. In this sense the PAES is declared by the Additional Estimates Appropriation Bills to be a 'relevant document' to the interpretation of the Bills according to section 15AB of the *Acts Interpretation Act 1901*.

Whereas the *Mid-Year Economic and Fiscal Outlook 2010-11* is a mid-year budget report which provides updated information to allow the assessment of the Government's fiscal performance against its fiscal strategy, the PAES update the most recent budget appropriations for agencies within the portfolio.

Structure of the Portfolio Additional Estimates Statements

The Defence PAES are presented in five parts with subsections, outlined in the following table.

Portfolio Overview	
The portfolio overview outlines the responsibilities of the portfolio, lists the relevant agencies and Ministers and the resources available.	
Department of Defence – Agency Overview and Resources	
Section One: Defence overview and resources	<p>Section One provides the strategic direction for Defence, the functions and responsibilities of Defence, its organisational structure, as well as information about its contribution towards its outcomes for the budget year and the resources available.</p> <p>This section also provides information about Defence management reforms, its capital budget and workforce.</p>
Section Two: Outcomes and planned performance	Section Two provides a brief overview of Defence's outcomes and programs for 2010-11. Each outcome has an outcome resource statement which provides resourcing information by program. The deliverables and performance indicator information for each program follow the outcome resource statement.
Section Three: Explanatory tables and budgeted financial statements	<p>This section includes explanatory tables and budgeted financial statements.</p> <p>The explanatory tables include:</p> <ul style="list-style-type: none"> • an explanation of any differences between the information included in the Budget Papers and the PBS arising from the use of the Government Financial Statistics and Australian Accounting Standards accounting methodologies • supplementary information on the reconciliation between total available appropriation and outcome attribution, the re-phasing and use of appropriations, special account flows and Australian Government Indigenous Expenditure.
Defence Materiel Organisation	
Section One: DMO overview and resources	Section One provides an overview of the DMO's functions and responsibilities, including the strategic priorities for 2010-11 and organisational structure, as well as information about its contribution towards its outcome for the budget year and the resources available.
Section Two: DMO outcomes and planned performance	Section Two provides an overview of the DMO's outcome and programs, including the Top 30 Projects and Top 20 Sustainment Products. This section also provides summaries of the DMO's reform initiatives and governance activities, and the DMO workforce.
Section Three: DMO Explanatory tables and budgeted financial statements	<p>This section includes explanatory tables and budgeted financial statements.</p> <p>The explanatory tables include:</p> <ul style="list-style-type: none"> • an explanation of any differences between the information included in the Budget Papers and the PBS arising from the use of the Government Financial Statistics and Australian Accounting Standards accounting methodologies • supplementary information on the reconciliation between total available appropriation and outcome attribution, the re-phasing and use of appropriations, special account flows and Australian Government Indigenous Expenditure.
Defence Housing Australia	
	This section provides an overview of Defence Housing Australia (DHA), including performance forecasts for 2010-11, DHA's outcome and program, and its 2010-11 budgeted financial statements.
Appendices	A glossary and list of acronyms and abbreviations.

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PORTFOLIO OVERVIEW

The Defence portfolio consists of a number of component organisations that together are responsible for supporting the defence of Australia and its national interests. The three most significant bodies are:

- the Department of Defence – a department of state, headed by the Secretary of the Department of Defence
- the Australian Defence Force (ADF) – which consists of the three Services (including Reserves) commanded by the Chief of the Defence Force (CDF). Each Service Chief also administers their respective Cadet service, although the Cadet service is not a component of the parent Service
- the Defence Materiel Organisation (DMO) – a prescribed agency within Defence, headed by its Chief Executive Officer (CEO) DMO.

In practice, these bodies work together closely and are broadly regarded as one organisation known simply as Defence (or the Australian Defence Organisation).

The portfolio also contains some smaller entities, including a number of statutory offices created by the *Defence Force Discipline Act, 1982* which are independent but reside administratively within Defence and various trusts and companies such as Defence Housing Australia (DHA) and the Australian Strategic Policy Institute.

DHA's main function is to provide adequate and suitable housing for members of the ADF. DHA is an enterprise within the Defence portfolio and has two shareholder Ministers: the Minister for Defence, the Hon Stephen Smith MP; and the Minister for Finance and Deregulation, Senator the Hon Penny Wong.

DHA is required by legislation to perform its functions in accordance with the policies of the Australian Government and in accordance with sound commercial practice. This means that DHA has a targeted rate of return and a requirement to make annual dividends and income tax payments.

The Minister for Defence's portfolio also contains the Department of Veterans' Affairs and associated bodies, as it is designated as part of the Defence portfolio in the Administrative Arrangements Order. The Department of Veterans' Affairs is administered separately to Defence.

Ministers and their Portfolio Responsibilities

Changes Affecting the Portfolio

Since publication of the Defence *Portfolio Budget Statements 2010-11*, Defence ministerial responsibilities have changed following the prorogation of Parliament on 19 July 2010 and subsequent election. On 14 September 2010 Mr Stephen Smith MP was sworn in as the Minister for Defence; Mr Warren Snowdon MP was sworn in as the Minister for Defence Science and Personnel; Mr Jason Clare MP was sworn in as the Minister for Defence Materiel; and Senator David Feeney was sworn in as the Parliamentary Secretary for Defence. The Ministers and their portfolio responsibilities are now as follows:

THE HON STEPHEN SMITH MP – MINISTER FOR DEFENCE

Specific responsibilities allocated to Mr Smith are:

- general
 - oversight of all aspects of the Defence portfolio
 - lead on all Cabinet submissions
- strategic policy
- operations and intelligence
- international policy
- Force structure
- Strategic Reform Program (SRP)
- budget and finance
- military justice system
- Defence export controls
- strategic aspects of:
 - Defence estate policy and major projects
 - Project SEA 1000
 - New Air Combat Capability
- capability responsibilities
 - development of the Defence Capability Plan (DCP)
 - DCP programming and budgeting
 - processing of unapproved projects up to and including Second-Pass stage.

THE HON WARREN SNOWDON MP – MINISTER FOR DEFENCE SCIENCE AND PERSONNEL

Specific responsibilities allocated to Mr Snowdon are:

- science and technology policy including:
 - strategic direction
 - external engagement
 - support to operations
 - support to the force-in-being
 - enabling research
- personnel policy including:
 - workforce planning
 - recruitment and retention
 - pay and superannuation
 - equity and diversity
 - personnel support
 - Defence families and community organisations
 - housing policy
 - health (including Occupational Health and Safety).

THE HON JASON CLARE MP – MINISTER FOR DEFENCE MATERIEL

Specific responsibilities allocated to Mr Clare are:

- Defence materiel acquisition
- sustainment issues
- tendering and contracting for materiel acquisition
- industry capacity, structure, policy and engagement
- skills policy
- equipment disposal
- science and technology matters as they relate to capability development, materiel acquisition and sustainment
- capability responsibilities
 - acquisition strategy throughout the capability approval process
- assist the Minister for Defence on:
 - development of the DCP
 - DCP programming and budgeting
 - processing of unapproved projects up to and including Second-Pass stage.

SENATOR DAVID FEENEY – PARLIAMENTARY SECRETARY FOR DEFENCE

Specific responsibilities allocated to Senator Feeney are:

- garrison services and administration of Defence estate policy
- facilities, infrastructure and property
- Reserve policy and employer engagement
- ADF Cadets
- Asia Pacific Civil-Military Centre of Excellence (APCMCOE)
- Asia Pacific Centre for Military Law
- honours and awards
- Nature of Service Review
- ADF Parliamentary exchange program
- aircraft noise and abatement
- assist the Minister for Defence on information communications technology matters
- Defence education and training^[1].

1. The Parliamentary Secretary for Defence has prime carriage of education and training, but he will consult the Minister for Defence Science and Personnel on matters in relation to overall personnel policy.

Figure 1: Defence Portfolio Structure and Outcomes

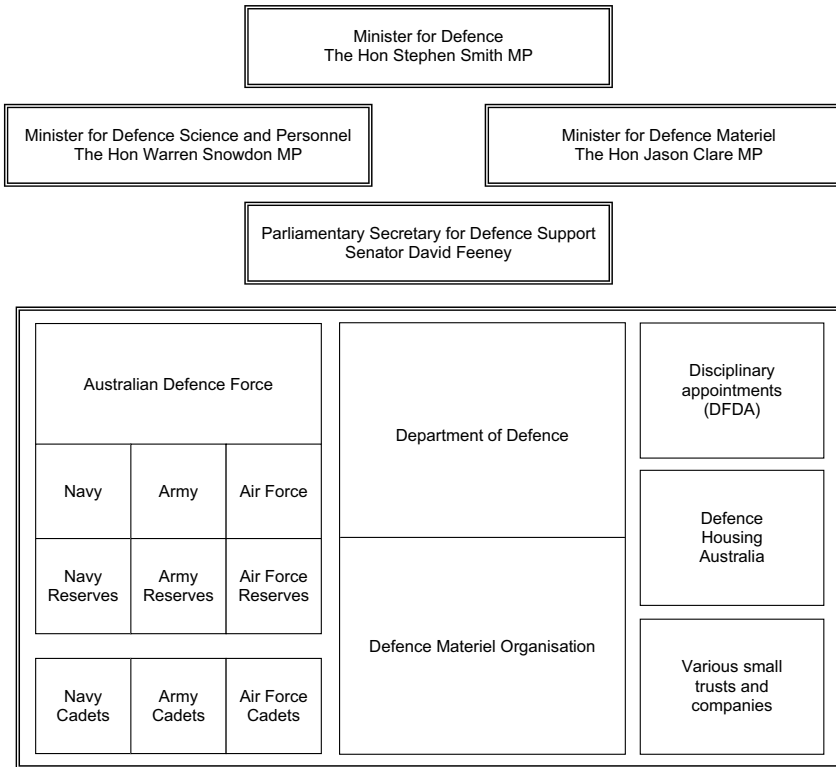


Figure 2: Defence Outcomes

<p>Department of Defence and ADF</p> <p>Outcome 1: The protection and advancement of Australia's national interests through the provision of military capabilities and the promotion of security and stability.</p> <p>Outcome 2: The advancement of Australia's strategic interests through the conduct of military operations and other tasks directed by the Government.</p> <p>Outcome 3: Support for the Australian community and civilian authorities as requested by the Government.</p> <p>Defence Materiel Organisation (Prescribed Agency)</p> <p>Outcome: Contributing to the preparedness of the Australian Defence Organisation through the acquisition and through-life support of military equipment and supplies.</p>

Portfolio Resource Statement

Table 1: Portfolio resources made available in the budget year^[1]

	Departmental Bill No. 3	Appropriation Bill No. 4	Section 10 <i>Appropriation Act (No. 1)</i> 2010-11 ^[3]	Return to the OPA	Special Appropriation	Non- Appropriation Receipts	Other Non- Appropriated Items ^[2]	Total Additional Resources Available
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Department of Defence								
Administered appropriations	-	-	-	29.1	33.2	123.8	-	186.1
Departmental appropriations	-	112.8	-19.5	5.7	-	20.4	-	119.4
Total	-	112.8	-19.5	34.8	33.2	144.2	-	305.6
Defence Materiel Organisation								
Administered appropriations	-	-	-	2.5	-	-2.5	-	-
Departmental appropriations	-	-	-52.3	-	-	-854.5	-	-906.8
Total	-	-	-52.3	2.5	-	-857.0	-	-906.8
Defence Housing Australia								
Administered appropriations	-	-	-	-	-	-	-	-
Departmental appropriations	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Notes

- Figures shown include inter-agency transactions.
- Includes dividends and payments to CAC Act bodies.
- Defence and the DMO will seek determinations by the Minister for Finance and Deregulation, under Section 10 of the *Appropriation Act (No. 1) 2010-11*, to decrease their Departmental outcome appropriations.

Table 2: Total consolidated cash budget for Defence and DMO (Departmental and Administered)

	2010-11 Revised Budget ⁽¹⁾ \$m
APPROPRIATIONS AND CAPITAL	
Appropriation (Bill 1) ⁽²⁾	23,022.6
Appropriation - contributed equity (Bill 2)	3,578.2
Appropriation (Bill 3)	-
Appropriation (Bill 4)	112.8
Appropriations for military superannuation	2,107.4
/less Returns to the OPA	-1,250.7
Total Cash Available	27,570.2
OPERATING ACTIVITIES	
Cash received	
Goods and services	454.8
Interest and licence fees	16.2
Other cash received including GST	1,653.5
Total cash received	2,124.5
Cash used	
Employees	8,791.1
Suppliers	8,602.3
Subsidies and grants	167.5
Administered military benefits	1,955.6
Other cash used including GST	1,248.4
Total cash used	20,764.9
Net cash from or (used by) operating activities	-18,640.4
INVESTING ACTIVITIES	
Cash received	
Proceeds from sales of land and buildings, infrastructure, plant and equipment	154.7
Proceeds from sales of specialist military equipment	-
Dividends	49.0
Total cash received	203.7
Cash used	
Purchase of land and buildings, infrastructure, plant and equipment	1,714.9
Purchase of specialist military equipment	5,909.7
Purchase of heritage and cultural assets	-
Purchase of inventory	1,268.7
Loans	44.1
Other	127.5
Total cash used	9,064.8
Net cash from or (used by) investing activities	-8,861.1
FINANCING ACTIVITIES	
Cash received	
Cash used	
Repayment of debt	68.7
Total cash used	68.7
Net cash from or (used by) financing activities	-68.7
Net increase or (decrease) in cash and cash equivalents held	-
Cash and cash equivalents at beginning of the reporting period	144.7
Effect of exchange rate movements on cash and cash equivalents	-
Cash and cash equivalents at end of the reporting period	144.7

Notes

- Figures shown eliminate interagency transactions and transactions flowing between Departmental and Administered funding.
- This includes \$2.1m for Force Protection and centralisation of security vetting.

Portfolio Workforce

Australian Defence Force (ADF) workforce growth has been accelerated by the lowest separation rates for military personnel for over twenty years.

The increase in the Australian Public Service (APS) workforce beyond the 2010-11 revised estimate is primarily associated with workforce allocations approved by the Defence White Paper and ongoing initiatives under the SRP, which include civilianisation of military positions and contractor conversions.

The conversion of contractor positions to APS positions is a SRP initiative that will continue to support APS growth over the forward estimates and will result in cost savings to the total workforce expenses budget.

The use of APS staff in civilianised non-combat related ADF positions provides value for money for the Defence budget due to the lower cost of APS staff.

Table 3: Defence and DMO consolidated workforce

	2010-11 Budget Estimate	2010-11 Revised Estimate	Variation	2011-12 Forward Estimate	2012-13 Forward Estimate	2013-14 Forward Estimate
1	ADF Permanent Force ^[1]					
	Total Permanent Force	57,276	59,126	1,850	59,039	59,068
	APS					
	Defence APS	16,043	15,267	-776	16,101	16,638
	DMO APS	5,818	5,603	-215	5,735	6,030
2	Total APS	21,861	20,870	-991	21,836	22,668
	Contractor^[2]					
	Defence Contractor	747	790 ^[3]	43	593	488
	DMO Contractor	56	56	–	52	49
3	Total Contractor	803	846	43	645	537
	Total Workforce (1+2+3)	79,940	80,842	902	81,520	82,431

Notes

1. Numbers for ADF Permanent Force include ADF members in the DMO and Reservists on full-time service.
2. Contractors are individuals under contract performing agency roles. Contractors are not APS employees.
3. The increase in the number of contractors is due to delays in the conversion of contractors to APS as part of the SRP.