

DEFENCE MATERIEL ORGANISATION

RESOURCES AND PLANNED PERFORMANCE

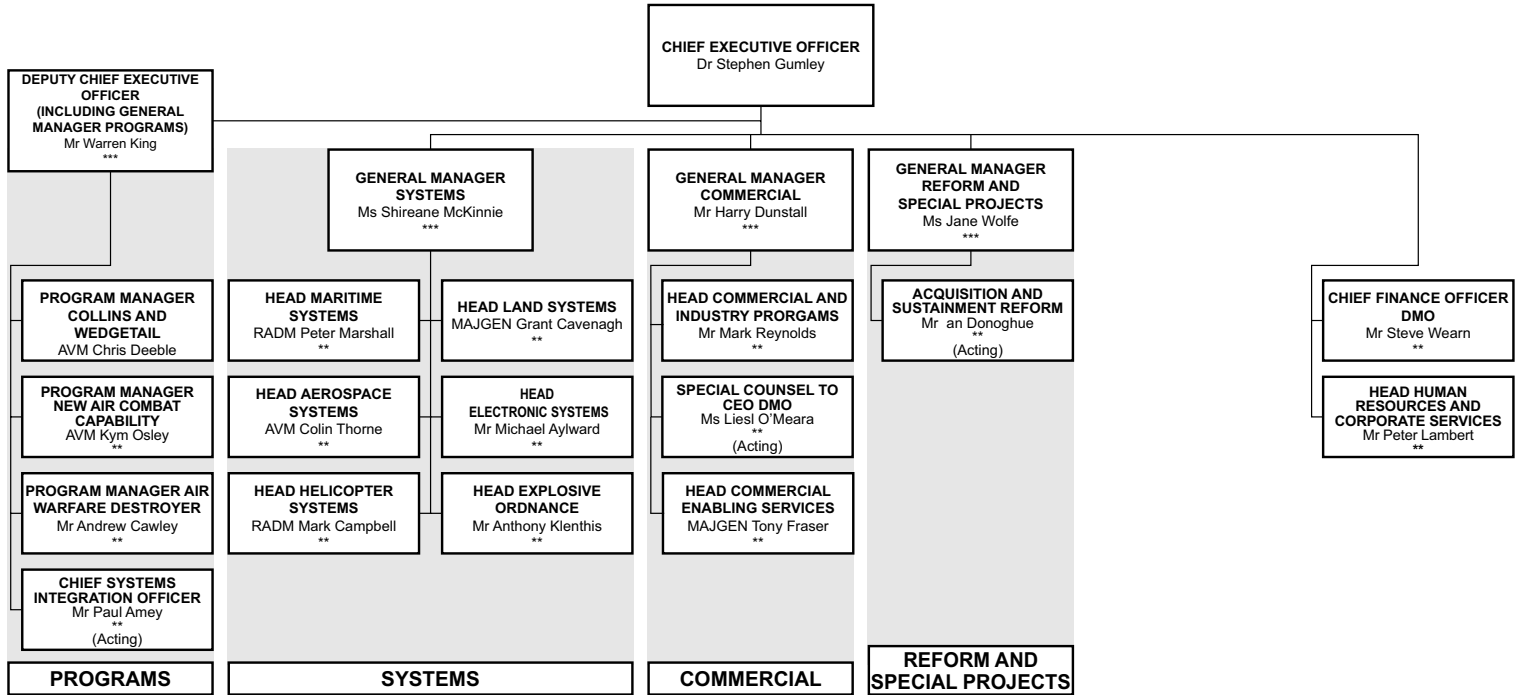
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Section 1: DMO Overview and Resources

1.1 Strategic Direction

There has been no change to the DMO's strategic direction since the *Portfolio Budget Statements 2010-11*.

Figure 4: The DMO organisational structure^[1]



Note

1. Structure formalised in January 2011.

SENIOR EXECUTIVE CHANGES

The DMO has seen a number of changes to the senior leadership group:

- In May 2010, Mr Warren King was appointed as Deputy Chief Executive Officer.
- In June 2010, Air Vice Marshal Chris Deeble was appointed to the position of Program Manager Collins and Wedgetail.
- From June 2010 to August 2010, Mr Peter Gosling was acting in the position of Special Counsel.
- In July 2010, Major General Tony Fraser was appointed Head Program Control and Assurance, and Head Commercial Enabling Services.
- In July 2010, Rear Admiral Mark Campbell was appointed to the position of Head Helicopter Systems.
- From July 2010 to December 2010, Air Commodore Roy McPhail was acting in the position of Program Manager New Air Combat Capability.
- In July 2010, Mr Mark Reynolds was appointed to the position of Head Commercial and Industry Programs.
- In August 2010, Mr Ian Donoghue commenced in the position of Acting Head Acquisition and Sustainment Reform.
- In August 2010, Ms Liesl O'Meara commenced in the position of Acting Special Counsel.
- In December 2010, Air Vice Marshal Kym Osley commenced in the position of Program Manager New Air Combat Capability.
- In January 2011, Ms Shireane McKinnie was appointed to the position of General Manager Systems.

1.2 DMO Resourcing

Table 76 shows the total resourcing from all origins. The table summarises how resources will be applied by Outcome and departmental classification.

Table 76: The DMO Resource Statement – for the 2010-11 additional estimates

	Estimate as at + Budget	Proposed Additional = Estimate	Total estimate at Additional Estimates	Total available appropriation
	2010-11 \$'000	2010-11 \$'000	2010-11 \$'000	2009-10 \$'000
Ordinary annual services				
Departmental appropriation				
Prior year departmental appropriation ^[1]	505,434	-3,875	501,559	320,135
Departmental appropriation ^[2]	899,607	-52,325	847,282	898,617
Total	1,405,041	-56,200	1,348,841	1,218,752
Total ordinary annual services	A 1,405,041	-56,200	1,348,841	1,218,752
Total available annual appropriations	1,405,041	-56,200	1,348,841	1,218,752
Special Accounts				
Opening balance ^[3]	505,434	-3,875	501,559	320,135
Appropriation receipts	899,607	-52,325	847,282	898,617
Appropriation receipts - other agencies ^[4]	10,536,764	-854,488	9,682,276	9,910,304
Non-appropriation receipts to Special Accounts	54,681	119,161	173,842	101,946
Total Special Account	B 11,996,486	-791,527	11,204,959	11,231,002
Total resourcing				
A+B	13,401,527	-847,727	12,553,800	12,449,754
Less appropriations drawn from annual or special appropriations above and credited to special accounts and/or CAC Act bodies through annual appropriations	1,405,041	-56,200	1,348,841	1,218,752
Total net resourcing for DMO	11,996,486	-791,527	11,204,959	11,231,002

Notes

- Es imated adjusted balance carried from previous year for annual appropriations.
- Appropriation Bill (No. 1 and No. 3) 2010-11.*
- Es imated opening balance for special accounts (less 'Special Public Money' held in accounts like Other Trust Monies (OTM) and Services for other Government and Non-agency Bodies (SOG) accounts). For further information on special accounts see Table 89.
- Appropriation receipts from Defence credited to the DMO's special accounts.

Reader note: All figures are GST exclusive.

Table 77: Third party payments for and on behalf of other agencies

	Estimate at Budget	Estimate at Additional Estimates
	2010-11 \$'000	2010-11 \$'000
Receipts received from Defence for the provision of goods and services	10,536,764	9,682,276
Payments made to Defence for the provision of services ^[1]	456,505	351,222

Note

- Primarily relates to the payments to military staff posted to the DMO and services provided by Defence to the DMO in accordance with the Defence Services Agreement.

1.3 Agency Measures Tables

There are no measures impacting the DMO during the 2010-11 additional estimates.

1.4 Additional Estimates and Variations

Table 78: Additional estimates and variations to outcomes from other variations

	Program impacted	2010-11 \$'000	2011-12 \$'000	2012-13 \$'000	2013-14 \$'000
Outcome 1					
Decrease in estimates (departmental)					
Adjustments to agreed level of activity	1.1 & 1.2	52,325	18,577	374	389
Net impact on estimates					
for Outcome 1 (departmental)		-52,325	-18,577	-374	-389

1.5 Appropriation Bills

The following table details changes to the additional estimates sought for the DMO through *Appropriation Bill (No.3) 2010-11* during the 2010-11 additional estimates. The DMO will seek a determination by the Minister of Finance and Deregulation, under Section 10 of the *Appropriation Act (No.1) 2010-11*, to decrease the Departmental appropriation by \$52.3m.

Table 79: Appropriation Bill (No.3) 2010-11

	2009-10 Available \$'000	2010-11 Budget \$'000	2010-11 Revised \$'000	Additional Estimates \$'000	Reduced Estimates \$'000
DEPARTMENTAL PROGRAMS					
Outcome 1					
Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies	898,617	899,607	847,282	-	52,325
Total departmental	898,617	899,607	847,282	-	52,325

1.6 DMO People

WORKFORCE SUMMARY

The DMO is forecast to achieve a combined APS, ADF and Contractor workforce of 7,184. This lower outcome is a result of vacancies in military positions, increased APS separations and reduced workforce demand. The forecast DMO workforce is shown in Table 80.

Table 80: Planned workforce statement – for the 2010-11 additional estimates

	2010-11 Budget estimate	2010-11 Revised estimate	2011-12 Forward year 1	2012-13 Forward year 2	2013-14 Forward year 3
Navy	367	304	376	383	388
Army	465	418	474	485	497
Air Force	928	803	953	938	956
1. Sub Total Permanent Force	1,760	1,525	1,803	1,806	1,841
Navy	140	36	36	36	36
Army	90	23	23	23	23
Air Force	90	23	23	23	23
2. Sub Total Reserve Force	320	82	82	82	82
3. APS	5,818	5,603	5,735	6,030	6,177
4. Contractors	56	56	52	49	49
Total Workforce strength (excluding Reserves) (1+3+4)	7,634	7,184	7,590	7,885	8,067
Total Workforce Strength (1+2+3+4)	7,954	7,266	7,672	7,967	8,149

Table 81: Breakdown of personnel numbers by Service and rank including APS and Contractors^[1]

	Budget Estimate 2010-11	Revised Estimate 2010-11	Variation	Variation %
NAVY				
Star Ranked Officers ^[1]	11	10	-1	-9
Senior Officers ^[2]	53	60	7	13
Junior Officers	148	111	-37	-25
Other Ranks	155	123	-32	-21
Sub-total : Permanent Navy ^{[3][4]}	367	304	-63	-17
Reserve Force ^[5]	140	36	-104	-74
Sub-total Navy	507	340	-167	-33
ARMY				
Star Ranked Officers ^[1]	8	7	-1	-13
Senior Officers ^[2]	55	48	-7	-13
Junior Officers	213	185	-28	-13
Other Ranks	189	178	-11	-6
Sub-total : Permanent Army ^{[3][4]}	465	418	-47	-10
Reserve Force ^[5]	90	23	-67	-74
Sub-total Army	555	441	-114	-21
AIR FORCE				
Star Ranked Officers ^[1]	8	8	-	-
Senior Officers ^[2]	88	78	-10	-11
Junior Officers	466	368	-98	-21
Other Ranks	366	349	-17	-5
Sub-total : Permanent Air Force ^{[3][4]}	928	803	-125	-13
Reserve Force ^[5]	90	23	-67	-74
Sub-total Air Force	1,018	826	-192	-19
APS				
Senior Executives ^[1]	38	36	-2	-5
Senior Officers ^[2]	1,644	1,735	91	6
Other APS Staff	4,136	3,832	-304	-7
Sub-total : APS	5,818	5,603	-215	-4
Contractors^[6]	56	56	-	-
Sub-total civilian workforce	5,874	5,659	-215	-4
Sub-total ADF permanent workforce	1,760	1,525	-235	-13
Sub-total ADF Reserves Force	320	82	-238	-74
Total DMO Workforce	7,954	7,266	-688	-9

Notes

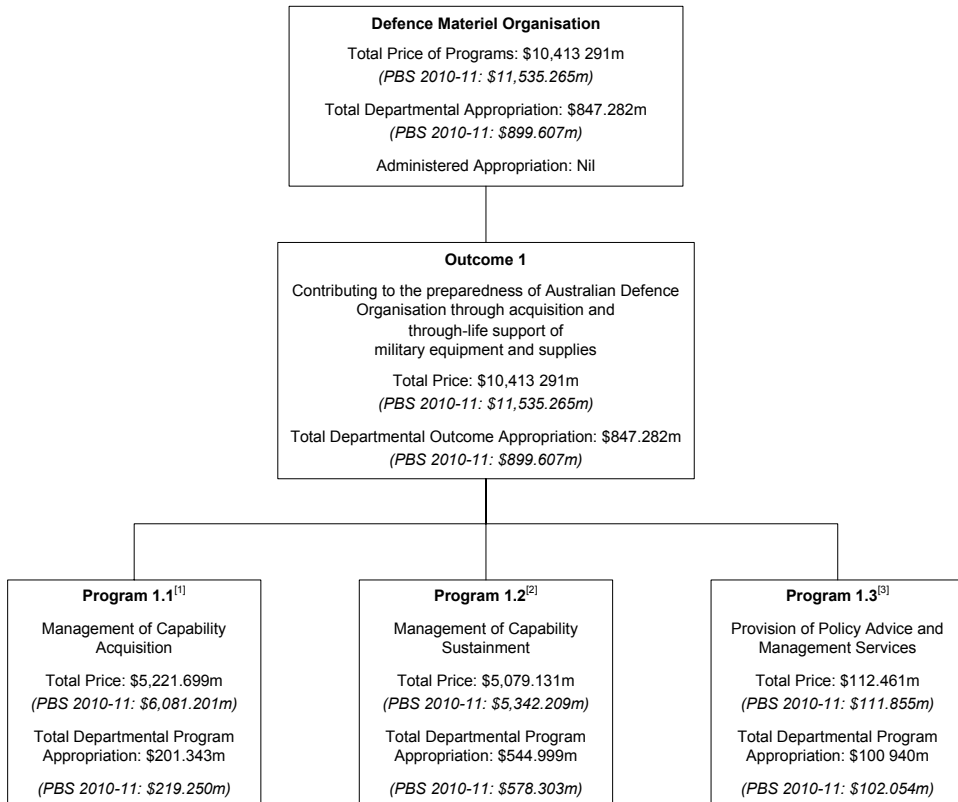
1. Senior Executive Officers are of General to Brigadier rank equivalent and substantive Senior Executive Band 3 to 1.
2. Senior Officers are of Colonel and Lieutenant Colonel rank equivalent and substantive Executive Level 2 and 1.
3. ADF rank distribution will be finalised in the Military Workforce Agreement with the Services.
4. Reflects the ADF Permanent forces and includes Reservists undertaking continuous full-time service.
5. Reservist figures represent numbers of active Reservists (excluding Reservists undertaking full-time service and Foreign Service Reservists) who are rendering service during 2010-11.
6. Contractors (formerly known as PSPs) are individuals with specialist skills under contract to fill line positions.

Section 2: DMO Outcomes and Planned Performance

The relationship between activities of the DMO and its Outcome is summarised in Figure 5 in terms of accrual-based prices rather than cash received from Defence and the Government. Prices have been updated in accordance with the Revised Estimate.

The total price of the programs estimates has primarily decreased to reflect reductions in major and minor capital project expenditure, net personnel and operating costs and sustainment funding.

Figure 5: Contribution to Outcome and Programs



Note

1. Further details on Program 1.1, including 2010-11 revised estimates for the Top 30 Projects, are provided at pages 117 to 133.
2. Further details on Program 1.2, including revised estimates for the Top 20 Sustainment Products, are provided at pages 134 to 139.
3. Further details on Program 1.3 are provided at page 140.

2.1 DMO Outcome and Performance Information

Outcome 1: Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies

OUTCOME 1 STRATEGY

There has been no change to the DMO's Outcome Strategy since the *Portfolio Budget Statements 2010-11*.

OUTCOME EXPENSES AND RESOURCES STATEMENT

Table 82: Budgeted Expenses and Resources for Outcome 1

Outcome 1: Contributing to the preparedness of Australian Defence Organisation through acquisition and through-life support of military equipment and supplies	2009-10 Actual expenses \$'000	2010-11 Revised estimated expenses \$'000
Program 1.1: Management of Capability Acquisition		
Departmental expenses		
Ordinary annual services (Appropriation Bill No. 1 & 3)	234,250	201,343
Special Accounts	5,720,095	5,010,898
Expenses not requiring appropriation in the Budget year	9,068	9,458
Total for Program 1.1	5,963,413	5,221,699
Program 1.2: Management of Capability Sustainment		
Departmental expenses		
Ordinary annual services (Appropriation Bill No. 1 & 3)	479,375	544,999
Special Accounts	4,122,983	4,512,034
Expenses not requiring appropriation in the Budget year	21,187	22,098
Total for Program 1.2	4,623,545	5,079,131
Program 1.3: Provision of Policy Advice and Management Services		
Departmental expenses		
Ordinary annual services (Appropriation Bill No. 1 & 3)	81,711	100,940
Special Accounts	-	1,025
Expenses not requiring appropriation in the Budget year	10,156	10,496
Total for Program 1.3	91,867	112,461
Outcome 1 Totals by appropriation type		
Departmental expenses		
Ordinary annual services (Appropriation Bill No. 1 & 3)	795,336	847,282
Special Accounts	9,843,078	9,523,957
Expenses not requiring appropriation in the Budget year	40,411	42,052
Total expenses for Outcome 1	10,678,825	10,413,291
	2009-10	2010-11
Average Staffing Level (number)^[1]	5,526	5,603

Note

1. Average staffing levels do not include military staff posted to the DMO, as military staff remain employees of Defence and are included in its staffing numbers. The average staffing levels for military staff posted to the DMO is provided in Table 80.

CONTRIBUTIONS TO OUTCOME 1

Program 1.1: Management of Capability Acquisition

Performance information is as reported in the *Portfolio Budget Statements 2010-11*.

PROGRAM 1.1 EXPENSES

The nature of the costs of Program 1.1 remains as described in the *Portfolio Budget Statements 2010-11*.

The revised planned resources use for Program 1.1 is \$5,221.7m in 2010-11 which now represents approximately 50 per cent of the DMO's total expenses. The revised planned resource use for Program 1.1 includes:

- direct appropriation of \$201.3m relating to Acquisition workforce and operating expenses
- the DMO major capital equipment program of \$4,910.2m which comprises of \$4,798.4m of the approved major capital investment program and a further \$111.8m of work planned to be transferred to the DMO during 2010-11 from Defence
- the DMO minor capital investment program of \$100.7m, which comprises of the approved minor program of \$83.7m and \$17.0m of work planned to be transferred to the DMO during 2010-11
- resources received free of charge from Defence of \$9.5m.

Table 83: Program 1.1 Management of Capability Acquisition

	2009-10 Actuals \$'000	2010-11 Revised budget \$'000	2011-12 Forward year 1 \$'000	2012-13 Forward year 2 \$'000	2013-14 Forward year 3 \$'000
Special Account Expenses:					
Defence Materiel Special Account	5,720,095	5,010,898	5,070,893	4,526,299	5,279,693
Annual departmental expenses:					
Ordinary Annual Services (Appropriation Bill No. 1 and No. 3)	234,250	201,343	227,039	258,714	268,447
Departmental item					
Expenses not requiring appropriation in the Budget year	9,068	9,458	9,719	9,943	10,171
Total program expenses	5,963,413	5,221,699	5,307,651	4,794,956	5,558,311

PROGRAM 1.1 DELIVERABLES

The changes to the detailed descriptions of deliverables for the Top 30 Projects are provided in Table 84. A status update on other major projects included in the previous five years is provided at Table 85.

Australian Defence industry involvement in major capital equipment projects will be reported as part of an appendix in the *Defence Annual Report 2010-11*.

Table 84: Top 30 Projects by 2010-11 forecast expenditure^[1]

	Project number/ phase	Approved project expenditure \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Explanation of variation
General Manager Systems							
Aerospace Systems							
Bridging Air Combat Capability	AIR 5349 Phase 1	3,591	2,226	493	427	-66	Savings due to favourable United States to Australian exchange rates, coupled with the United States Navy managing to negotiate procurement of spares and support equipment at prices lower than initially estimated. Additionally, a change in the FMS case prepayment basis brought forward spend into the 2009-10 financial year.
Air to Air Refuelling Capability	AIR 5402	1,851	1,052	493	334	-159	Variation due to delay in the delivery of Aircraft from the contractor.
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	1,936	1,471	107	75	-32	While the contractor is still forecasting the testing to occur in June 2011, the DMO assesses this to be a risk and has programmed funds accordingly. The potential delay would not affect the achievement of the Initial Operating Capability milestone.
Airborne Surveillance for Land Operations	JP 129 Phase 2	102	2	77	29	-48	Funding provision was initially made for the accelerated delivery of two Shadow 200 systems during 2010-11, however, the United States Army subsequently agreed to release only one system for delivery this year.
Electronic Systems							
Next Generation Satellite Communications System	JP 2008 Phase 4	920	213	193	197	4	The Wideband Global Satellite Financial Management Planning Document was re-negotiated with the United States. Negotiations resulted in a variation of expense phasings across financial years and the bringing forward of funding to 2010-11.
Ultra High Frequency Satellite Communications	JP 2008 Phase 5A	416	124	145	116	-29	The option for the take-up of the full satellite payload against the Prime Contract was exercised in 2009-10 resulting in substantial increase in milestone payments in that year. In addition, a milestone payment was made late in 2009-10, earlier than anticipated. These two factors resulted in a corresponding reduction in expenditure in 2010-11.

	Project number/ phase	Approved project expenditure	Cumulative expenditure to 30 June 2010	Budget estimate 2010-11	Revised estimate 2010-11	Variation	Explanation of variation
		\$m	\$m	\$m	\$m	\$m	
Battle Management System	LAND 75 Phase 3.4	336	26	124	60	-64	A better cash flow outcome from an in-year cash perspective was negotiated by the Commonwealth than had been assumed and resulted in a reduction to required 2010-11 expenditure, combined with the deferral of a payment from June to July 2011.
Dismounted Battlegroup and Below Command, Control Communication System	LAND 125 Phase 3A	116	3	65	21	-44	Variation is due to the difference in cost estimates for Second Pass Approval in November 2009 and estimates after contract negotiations which resulted in a different milestone payment profile to that assumed at project approval.
Battlepace Communications Systems (LAND)	JP 2072 Phase 1	264	29	59	73	14	Variation is a result of shorter than anticipated production lead times for Tactical Data Radio Systems being procured from Raytheon Australia resulting in deliveries occurring earlier than forecast.
Tactical Information Exchange Domain	JP 2089 Phase 2A	105	20	35	29	-6	The variation was due to a schedule slip for the Anzac ship element of the project. There was a re-baseline of the schedule. Further, there were delays with the delivery of terminal equipment and delays in the purchase of Joint Range Extension equipment.
High Frequency Modernisation	JP 2043 Phase 3A	672	414	34	20	-14	Work on the Nullarbor sub-project (a signal improvement capability) was delayed pending sponsor confirmation that the requirement remained valid. Also, some Mobiles Upgrade equipment purchases have been delayed pending sponsor review of the Mobiles Upgrade program and approval of changes.
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	275	196	34	28	-6	To enable early operational access to the Northern Region Operations Centre (NROC), a number of software deliverables have been deferred for delivery during development of the Eastern Region Operations Centre (EROC), in 2011-12.

	Project number/ phase	Approved project expenditure \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Explanation of variation
Explosive Ordnance							
Follow-On Stand Off Weapon	AIR 5418 Phase 1	399	201	70	50	-20	Variation is mainly due to a revised integration payment schedule for Hornet integration work.
Lightweight Torpedo Replacement	JP 2070 Phase 2	342	220	46	16	-30	Variation is mainly due to a decision to delay obtaining approval from Government to release of preserved funding and rescheduling a number of minor contracts, plus delayed FFG integration work.
Lightweight Torpedo Replacement	JP 2070 Phase 3	304	192	40	47	7	Variation is due to incorrect forecasts of contractor invoicing for price escalation in accordance with the contract.
Mulwala Redevelopment Project	JP 2086 Phase 1	370	243	39	42	3	Variation is due to extension in contract administrator support and increased requirements under the support services contract.
Helicopter Systems							
Multi Role Helicopter	AIR 9000 Phase 2	3,758	1,577	424	327	-97	Delays in the delivery of mature configuration aircraft have resulted in reduced milestone payments.
Armed Reconnaissance Helicopter	AIR 87 Phase 2	2,062	1,637	151	117	-34	The variation results from delays in delivery of production aircraft and spares.
Land Systems							
Bushmaster Protected Mobility Vehicle	LAND 116 Phase 3	928	568	144	109	-35	The focus has been on delivering vehicles for operations and enhancements to those vehicles. This diversion of staff has delayed other project expenditure. Primarily due to delays in finalising detailed design work for External Composite Armour, Cold Drinking Water Systems and Tyre Maintenance Shelters. The change in acquisition strategy for trailer procurement and the requirement for towing certification has resulted in the schedule for these activities being deferred. Each of these activities have been affected by the diversion of staff towards support for operational activities including enhancements to vehicle protection.

	Project number/ phase	Approved project expenditure \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Explanation of variation
Field Vehicles and Trailers	LAND 121 Phase 3	3,299	46	106	77	-29	Variation is the result of cost saving associated with the movement of Medium/Heavy test procedures to on site facilities, the advancement of less expensive Light Lightweight variants in the production line to allow for design work to be completed on more expensive variants and the reschedule of integrated logistic support deliverables.
Upgrade of M-113 Armoured Vehicles	LAND 106	887	610	97	100	3	Variation is due to an increase in the planned procurement of initial spare parts and life of type rotables to support the transition into service of the upgraded M-113 vehicles.
Artillery Replacement 155mm Howitzer	LAND 17 Phase 1A	346	10	76	67	-9	Likely slippage of radio deliveries due to delays in finalising communications architecture requirements and obtaining United States Government approval for the purchase.
Direct Fire Support Weapons	LAND 40 Phase 2	145	5	67	29	-38	The variance is attributed to the delay in entering into contract for the Automatic Grenade Launcher, due to difficulties in finalising the contracted terms and conditions.
Maritime Systems							
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	463	225	76	74	-2	The variation is due to short schedule delays in the compilation of work packages for scheduled work.
Standard Missile Replacement	SEA 1390 Phase 4B	623	273	49	29	-20	Technical problems have delayed a software deliverable from 2010-11 to 2011-12.
Guided Missile Frigate Upgrade Implementation	SEA 1390 Phase 2.1	1,531	1,342	36	21	-15	Technical problems have delayed a software deliverable from 2010-11 to 2011-12.
Deputy Chief Executive Officer							
Air Warfare Destroyer							
Air Warfare Destroyer Build	SEA 4000 Phase 3	7,996	2,094	1,146	1,000	-146	Expenditure this financial year was adjusted because of delays in early hull block production and receipt of a new expenditure plan for the procurement of Explosive Ordnance (EO).

	Project number/ phase	Approved project expenditure \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Explanation of variation
Airborne Early Warning and Control System							
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	3,915	2,796	385	223	-162	The variation is driven primarily by further slippage in the System Acquisition Contract schedule due to ongoing issues with subsystem technical maturity and integrated system stability.
Amphibious Deployment and Sustainment							
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/4B	3,131	1,011	553	501	-52	The variation is due to foreign exchange rate movement, price indexation movements and minor milestone movements.
New Air Combat Capability							
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/2B	2,862	..	43	68	25	Due to the scheduled payment for the Project occurring two weeks earlier than planned.
Total -Top 30 Projects		43,944	18,826	5,407	4,305	-1,102	
Other approved Project estimates		33,628	27,745	916	853	-63	
Total Program Estimate for Major Capital Projects		77,572	46,571	6,323	5,158	-1,165	
Management Margin ^[2]				-893	-360	533	
Payment of 2009-10 accrued expenses				-	213	213	
Estimated Outturn for Existing Major Capital Projects				5,430	5,011	-419	
Projects planned for Government Consideration				250	112	-138	
Total Funds Available^[3]				5,680	5,123	-557	

Notes

1. The Top 30 Projects are based on a review of expenditure plans for 2010-11 and the following years, conducted in December 2010.
2. Management margin is an estimate of the 2010-11 approved capital program expenditure slippage.
3. The total variance in the Funds Available consists of: adjustments for a reduction in Foreign Exchange movements of \$62m, transfers from Defence to the DMO for new project and project variations of \$59m, a re-programming of major Capital Project cash flows of -\$416m and a reduction in planned transfers from the unapproved program of \$138m.

TOP 30 PROJECT DESCRIPTIONS

Information relating to the Top 30 Projects remains as reported in the *Portfolio Budget Statements 2010-11*, except for the following.

General Manager Systems

Aerospace Systems

Bridging Air Combat Capability – AIR 5349 Phase 1

A total of 15 aircraft have been delivered to RAAF Base Amberley since 26 March 2010. This is three aircraft ahead of schedule.

On 8 December 2010, the Minister for Defence announced that the Super Hornet had reached its Initial Operational Capability (IOC). The project remains on schedule for declaration of Final Operational Capability (FOC) in December 2012.

Twelve aircraft, including three of those that have been delivered, will have wiring installed during production which would enable cheaper and easier incorporation of a future 'Growler' Electronic Warfare capability, if required.

Air to Air Refuelling Capability – AIR 5402

Airbus Military achieved a Military Technical Certificate for the first-of-type Airbus A330 Multi-Role Tanker Transport (MRTT) aircraft from the Spanish military certification agency, Instituto Nacional de Tecnica Aeroespacial on 5 October 2010, after an extended certification test program. However, further work is needed to achieve and demonstrate full compliance with the requirements of the contract, and to deliver spares and support systems needed to operate and maintain the aircraft.

Defence and Airbus Military are working towards contractual acceptance of the first-of-type KC-30A MRTT by the end of March 2011. After completion of the Australian Military Airworthiness Type Certification process, RAAF flying is planned to commence by mid-2011.

F/A-18 Hornet Upgrade – AIR 5376 Phase 2

The introduction into service of the supplementary countermeasures dispensing system has been delayed from 2010 until mid 2011, due to the manufacturer identifying a need to remedy deficiencies in the design and delays in the release of the F/A-18 aircraft software upgrades.

Airborne Surveillance for Land Operations – JP 129 Phase 2

On 16 July 2010, the Government approved the acquisition of two RQ-7B Shadow 200 systems via Foreign Military Sales (FMS) from the United States Army, with the potential to negotiate an accelerated delivery and deployment into the Middle East Area of Operation. The project budget estimate was adjusted in anticipation of the accelerated delivery. Letters of Offer and Acceptance with the United States Army were approved on 11 August 2010. Subsequently, the United States Army approved the early diversion of one RQ-7B Shadow 200 system to Australia in 2011, with the second system to be delivered as originally offered in 2012-13.

The key schedule risk for JP 129 Phase 2 relates to the early deployment of the first system, in areas such as technical certification, airworthiness release, establishment of logistics support arrangements, and the training of Army personnel. The key financial risks associated with the project have been resolved through clarification of the United States Army offer.

Electronic Systems

Next Generation Satellite Communications System – JP 2008 Phase 4

The FOC of the in-country anchoring capability will occur in early 2011.

The schedule to FOC for Interim Anchoring is still being developed as the amount of retest required is still being determined. It is likely to be complete in the first half of 2011. This milestone is late due to the additional testing required to achieve Wideband Global Satellite Certification.

High Frequency Modernisation – JP 2043 Phase 3A

Primary focus is now on the upgrade of designated mobile platforms, based on products and design material developed under the prime contract, which is still to be contracted.

New Air Defence Command and Control Systems for Control Units 2 & 3 – AIR 5333

Operational release of the Northern Regional Operations Centre located at RAAF Base Tindal occurred in September 2010. The major activities remaining for 2010-11 will be the installation and acceptance testing of the Vigilare system into the Eastern Regional Command Centre.

Explosive Ordnance

Follow-On Stand Off Weapon – AIR 5418 Phase 1

Technical issues with the Joint Air to Surface Standoff Missile (JASSM) F/A-18A/B integration caused a delay in achieving IOC, which is now planned for no later than December 2011.

The United States Navy (USN) managed integration of JASSM on the F/A-18A/B culminated in the test firing of a JASSM missile at China Lake USA using a RAAF F/A 18 A/B (Classic) Hornet in December 2010. The missile was released from the aircraft and directly impacted the target. Lockheed Martin and the USN are analysing the test data and will provide a formal integration certification in February 2011.

Initial operational testing of the mission planning component of the JASSM capability was completed in October 2010, while initial ground and air crew operational testing was completed in November 2010. Operational test and evaluation will be completed with a JASSM firing by a RAAF F/A-18A/B squadron planned to be conducted at Woomera Test Range in 2011 to confirm suitability of the JASSM capability to enter service.

Lightweight Torpedo Replacement – JP 2070 Phase 2

The system is now installed on Anzac and Adelaide Class Frigates.

Acceptance Test and Evaluation torpedo firing in November 2010 did not proceed as planned. Further investigation will be required to define what additional work is required to achieve acceptance of the lightweight torpedo system. The transition of the operational capability will commence once operational Test and Evaluation has been completed in mid 2012.

Obtaining tender quality cost, schedule and risk information to complete Phase 2 activities is expected to be completed later in 2011 at which time the Government will be asked to approve the Stage 2 release of preserved funds.

Lightweight Torpedo Replacement – JP 2070 Phase 3

The project has established an Australian manufacturing and support capability for the Eurotorp MU90 lightweight torpedo, and is now assembling quantities to meet war reserve requirements.

Based on the successful transfer of overseas supplier skills and technical knowledge into Australian defence industry, which is necessary to provide in-country through-life support for the weapon system, so this Phase will complete mid 2012.

Mulwala Redevelopment Project – JP 2086 Phase 1

Construction of the modernised propellant manufacturing facility is expected to be completed in the first quarter of 2011, approximately 12 months behind contract schedule. Commissioning of the facility will commence when construction has been completed. Design and construction of the modernised Mulwala propellant manufacturing facility has proved far more challenging than the Design and Construction contractor, Bovis Lend Lease, had anticipated. Major contributing factors to the 12 month delay in completion of construction were the complexity of design and the shortage of design expertise created by the demands arising from the resources boom.

Helicopter Systems

Multi Role Helicopter – AIR 9000 Phase 2

Thirteen Multi Role helicopters (MRH-90) have been accepted and are based with the Army's 5th Aviation Regiment in Townsville, Queensland; Army Aviation Training Centre in Oakey, Queensland; and the Navy's 808 Squadron in Nowra, New South Wales. Training for Navy and Army aircrew, maintenance and support personnel is underway.

The MRH-90 flying rate of effort has been less than required, leading to significant delays in training MRH-90 aircrew and certification activities. As a consequence, Navy's IOC of one aircraft at sea is planned to be achieved in mid 2011, and the Army IOC of a troop of four aircraft is planned for late 2012.

The flying rate of effort as well as engine reliability and susceptibility to foreign object damage continue to hamper the introduction of these aircraft into service. Significant effort by industry, Defence and the DMO project office to mature the MRH-90 logistics and support systems should result in the flying rate of effort improving throughout 2011-12. A full diagnostic Gate Review will be held into the MRH Project in late February 2011.

Armed Reconnaissance Helicopter – AIR 87 Phase 2

All 22 Tiger Armed Reconnaissance Helicopters are expected to be delivered by July 2011, with acceptance of final supplies by July 2012.

The most significant issue for the program continues to be the underperformance of the world-wide Tiger supply chain and maintenance support networks which are constraining the availability of Repairable Items, Breakdown Spares and Support and Test Equipment. This has impacted on aircraft availability and required flying rates of effort as well as the contractor's ability to deliver aircraft on time from its production and retrofit programs. Multiple strategies have been implemented to address the issues including monthly integrated program meetings to review schedule progress, and to agree actions to recover schedule and prevent further slippage. Improvement in rate of effort has been observed recently and is expected to continue as the maintenance and supply support networks mature.

Land Systems

Bushmaster Protected Mobility Vehicle – LAND 116 Phase 3

The Protected Mobility Vehicle (PMV) fleet is currently sustaining 610 vehicles in six variants (troop, command, mortar, assault pioneer, direct fire weapon, and ambulance).

Upgrade of M-113 Armoured Vehicles – LAND 106

The final contracted delivery date for all 431 vehicles is April 2012; however the contractor has forecast production slippage of four months to August 2012.

Deliveries of turrets and major drive system sub-assemblies for all variants are ahead of schedule.

The Production Readiness Review of the Armoured Ambulance variant is complete and the vehicle is now in production. The Armoured Logistics Vehicle has undergone testing and has met the technical specification for ride height, but has not as yet formally passed the Production Readiness Review. Production for the Armoured Logistics Variant is expected to commence in early to mid 2011.

The seventh variant, the Armoured Mortar variant, is progressing on schedule. Design development is almost complete and prototype testing commenced in December 2010. The Production Readiness Review for the Armoured Mortar is scheduled for September 2011.

Defence remains concerned at BAE Systems poor schedule performance and is working with the contractor to address their production issues.

Artillery Replacement 155mm Howitzer – LAND 17 Phase 1A

Key Activities for 2010-11 are:

- Introduction into service of the M777A2 towed gun (as the Lightweight 155mm Towed Howitzer capability) will commence. The first gun was delivered in August 2010 with the next major delivery of nine guns planned for March 2011.
- Introduction into service of the Advanced Field Artillery Tactical Data System will commence. The contract flowing from the FMS case is now in place and initial deliveries of the software, for acceptance testing, are planned to occur from May 2011. The communication bearers necessary for this battle management system are now planned for delivery in the May/June 2011 timeframe, with associated expenditure budgeted for July 2011.
- The XM1156 Precision Guidance Kit has been selected as the course correcting fuze materiel solution and is being procured through FMS arrangements with the US Government. The XM1156 is produced by Alliant Techsystems (USA). The XM1156 is planned to be fielded during the 2011-12 timeframe.

Direct Fire Support Weapons – LAND 40 Phase 2

A contract was signed in November 2009 with SAAB Bofors Dynamics for 437 M3 Carl Gustaf Weapons. The first weapons were delivered in July 2010 and all remaining deliveries are planned to be completed by February 2011.

A contract was signed in December 2009 with BAE Systems Australia for 437 heavy weapon thermal sights for fitment to the M3 Carl Gustaf. All sights have been delivered.

Contract negotiations with the preferred tenderer for the Light Weight Automatic Grenade Launcher are continuing. Concerns remain over the preferred tenderer's capacity to meet the performance and management requirements of the contract. It is expected this will be resolved by the end of March 2011.

Deputy Chief Executive Officer

Air Warfare Destroyer Program

Air Warfare Destroyer Build – SEA 4000 Phase 3

The Air Warfare Destroyer (AWD) support system detailed design review was successfully conducted mid-year and resulting actions closed out on schedule by September 2010.

The AWD Alliance has signed contracts for the supply of the electronic warfare, satellite communications and radio sub-systems. Factory acceptance testing of the second shipset of Aegis Combat System equipment was completed by the United States Navy in August 2010, and the first piece of Aegis equipment for HMAS *Hobart* arrived in the ASC AWD Shipbuilder Pty Ltd shipyard in Adelaide in September 2010.

The Alliance and hull block fabrication shipyards have taken action to overcome early problems in block production. The impact of production delays on the Alliance's overall project schedule is now being analysed by the Alliance.

Airborne Early Warning and Control System

Airborne Early Warning and Control Aircraft – AIR 5077 Phase 3

The third aircraft was accepted in an initial configuration as planned in June 2010. A fourth aircraft, planned for initial acceptance in September 2010, was accepted in December 2010. While Boeing planned to offer all six aircraft in a FOC over the period December 2010 to April 2011, Boeing is currently running more than six months behind the revised schedule—agreed with the Commonwealth in November 2009—due to ongoing issues with subsystem technical maturity and integrated system stability. As a result, Boeing and the Commonwealth entered into contract negotiations in November 2010 to refine the path to final acceptance.

Amphibious Deployment and Sustainment

Amphibious Deployment and Sustainment – JP 2048 Phase 4A/4B

All 105 blocks for the first Landing Helicopter Dock (LHD) hull have been erected on the slipway in Ferrol, Spain. Launch of LHD 01 hull is planned for 17 February 2011. The keel of LHD 02 hull will be laid one to two days later.

The LHD hulls will be transported to Australia by Heavy Lift Ship and are scheduled to arrive in August 2012 and February 2014 respectively.

New Air Combat Capability

Joint Strike Fighter Aircraft – AIR 6000 Phase 2A/B

The Government has adopted a phased approval approach to the acquisition of around 100 Joint Strike Fighter (JSF).

In November 2009, the Government provided Second Pass approval for Phase 2A/B (Stage 1) to acquire 14 Conventional Take-Off and Landing (CTOL) JSF, with the first two aircraft to be delivered in 2014. The first 10 aircraft will remain in the United States for a number of years for pilot and maintainer training and participation in operational test activities. The remaining four aircraft are planned to arrive in Australia in 2017 to commence operational test and evaluation activities with other ADF systems.

The New Air Combat Capability project's focus is on securing Second Pass approval for Stage 2 (i.e. acquisition of up to 58 CTOL JSF, along with support and enabling elements). A Government decision is planned for 2012 to achieve an IOC in 2018.

The staged approval approach allows time for refinement of costs and more detailed definition of support requirements prior to the Government's decision in 2012 on buying the additional aircraft.

Through a detailed Technical Baseline Review of the JSF Program in 2010, Program plans and schedules are being revised and further cost clarity is expected by March/April 2011. As a result of this Review, JSF flight testing has been extended, the early aircraft production rate has been reduced, and an additional \$4.6b has been provided by the United States Department of Defense to reduce risk and to ensure development issues are adequately resourced. This is at no additional cost to Australia. Despite the magnitude of the changes to the United States Program, on available information, adequate schedule and cost buffers exist in Australia's JSF project.

Following 12 months of public consultations, in November 2010 Defence referred JSF operations to the Environment Minister for guidance on any further environmental studies required prior to JSF's introduction.

Defence support for Australian industry on JSF is focused on securing several major opportunities currently on offer.

Table 85: Current status of previously reported Top 30 Projects (projects reported in the last five financial years)

	Project number/ phase	Last financial year reported in Top 30	Approved project expenditure ^[1] \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Status report
General Manager Systems								
Aerospace Systems								
C-17 Globemaster III	AIR 8000 Phase 3	2008-09	1,856	1,313	6	7	1	All four C-17 aircraft are in service with the Air Force. All four aircraft are operating in an air logistics support role (personnel, cargo transport and high-dependency patient aero-medical evacuation role). Expansion to other roles, including personnel and equipment air drop, will occur progressively during 2010-11. A C-17 aircrew training simulator and maintenance training system were commissioned at RAAF Base Amberley, within the C-17 training facility in 2009-10. The project is within budget and on schedule to deliver remaining self-protection improvements, a cargo compartment training device, specialist role equipment and mature support arrangements. FOC will be achieved when mature C-17 facilities have been established. This is anticipated to occur during 2011.
Strategic Air Lift Capability	AIR 5216 Phase 1	2005-06	1,049	1,023	-	The capability has been delivered and accepted into service. Project closure will occur in 2010-11.
Hornet Structural Refurbishment Program Stage 2	AIR 5376 Phase 3.2	2009-10	952	309	22	17	-5	The centre barrel replacement program for 10 aircraft was completed late in 2009-10. Twenty-seven (of forty-five) aircraft have had a suite of discrete modifications incorporated to date.

	Project number/ phase	Last financial year reported in Top 30	Approved project expenditure ^[1] \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Status report
P-3C Update Implementation	AIR 5276 Phase 2	2004-05	906	871	9	9	1	The final two aspects of the project are Acoustics and Radar Processing: Acoustics Stage 2: Prime Contractor: General Dynamics - Canada. Prototype Aircraft Installation will now occur in parallel to AIR 5276 CAP1 (February 2011), reducing impact of aircraft fleet availability. In-Service Date (ISD) is to occur in mid 2011 with IOC by the end of 2011. Radar Processor - Advanced: Prime Contractor: ELTA - Israel. Design Acceptance and ISD is forecast for first quarter 2011 with IOC occurring mid 2011. On aircraft testing currently well advanced with positive results.
Hornet Upgrade Project Target Designation System	AIR 5376 Phase 2.4	2006-07	153	114	7	3	-4	The project office was closed in December 2009, and residual activities transferred to the AIR 5376 PH2 project. Expanded flight clearances to allow full use of the Litening pod are scheduled to be granted in May 2011. Further development of residual software changes has been delayed whilst higher priority Hornet (non AIR 5376 PH2.4) software changes are progressed.
Maritime Patrol and Response Aircraft System	AIR 7000 Phase 2	2008-09	129	34	22	18	-4	AIR 7000 Ph2 is in discussions with the United States Navy to establish a Production, Sustainment and Follow-on Development (PSFD) Memorandum of Understanding (MoU) which is intended to provide the framework under which future P-8A acquisition and through-life support can be conducted if approved by Government at Second Pass. Project activity and expenditure during 2010-11 is focused on ongoing management of the P-8A Spiral 1 co-operative development MoU and development of the PSFD MoU.

	Project number/ phase	Last financial year reported in Top 30	Approved project expenditure ^[1] \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Status report
AP-3C Electronic Support Measure Upgrade	AIR 5276 Phase 8B	2009-10	131	43	22	22	..	A current estimate of 26 months delay to ISD to February 2013 is attributable to BAE Systems dependency on AIR 5077 (AEW&C) and underestimates of software development activity. Defence also estimates that the final delay could be as much as 36 months resulting from ongoing delays with subcontractors, and integration of the design onto the aircraft. The project has been listed as a project of concern.
AP-3C Capability Assurance Program	AIR 5276 CAP 1	2009-10	89	41	15	18	3	Project approved in July 2008. Supply of hardware from FLIR Systems Inc and L3 Communications (via FMS), and aircraft installation design by BAE Systems is well advanced. A delay in delivery of a number of key components by a BAE subcontractor, Cornet Technologies, will see ISD occurring in the second half of 2011. Aircraft modification has commenced.
Electronic Systems								
Jindalee Radar Network	JP 2025 Phase 3&4	2006-07	1,249	1,237	3	2	-1	The minor residual activities on this project relate to the finalisation of the capability's support and environment.
Electronic Warfare Self Protection for Selected Aircraft	AIR 5416 Phase 2	2009-10	293	266	29	10	-19	The EWSP modification for 12 Black Hawks was completed in June 2010. The EWSP upgrade to the Black Hawk Full Flight Mission Simulator was completed in December 2010. The Prime contract with BAE Systems Australia and sub-contracts have been finalised. The residual activities on this project relate to remediation and support. Project closure is on track for June 2011.

	Project number/ phase	Last financial year reported in Top 30	Approved project expenditure ^[1] \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Status report
MILSATCOM Terrestrial Infrastructure	JP 2008 Phase 3E	2007-08	210	205	2	4	2	All Maritime terminal installations are complete. The Land terminals have been delivered and accepted, and the Advanced Satellites Terrestrial Infrastructure System has been transitioned to the sustainment organisation. Shipboard systems interference remediation has commenced and will conclude in October 2011. Project Closure activities will be completed by December 2011.
Explosive Ordnance								
Explosive Ordnance Reserve Stocks	JP 2085 Phase 1B	2008-09	237	198	18	11	-7	Planned expenditure on a number of FMS Cases related to Excalibur precision guided munitions and the control system could not be progressed last quarter due to delay in resolving a range of technical issues. The slippages have been re-phased for expenditure in 2011-12.
Bridging Air Combat Capability Weapons	AIR 5349 Phase 2	2009-10	187	87	28	18	-10	Revised FMS payment schedule due to updated information from the United States.
Evolved Sea Sparrow Missiles	SEA 1428 Phase 4	2009-10	89	69	10	9	-1	Variation reflects changes in transport cost due to later than expected delivery dates of hardware and removal of need to purchase final missile canister.
Land Systems								
Australian Light Armoured Vehicles	LAND 112 Phase 3	2005-06	694	595	3	5	2	Variation is due to ASLAV Gen 2 suspension upgrades being brought forward into 2010-11.
Tank Replacement Project	LAND 907 Phase 1	2007-08	564	436	15	6	-9	Variation due to Support contract Phase-in payments being dispersed over a longer period and reduced FMS payments.

	Project number/ phase	Last financial year reported in Top 30	Approved project expenditure ^[1] \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Status report
General Service Field Vehicles	LAND 121 Phase 2	2005-06	94	68	2	3	1	Project is nearing completion and on track for closure by 30 June 2011.
Maritime Systems								
Anzac Ship Project	SEA 1348 Phase 2	2007-08	5,381	5,355	11	12	1	Contractor warranty work and essential safety upgrade of ships to contemporary standards continue to be progressed during maintenance availability periods. Financial reconciliation of the original project scope of ships, related shore facilities and logistic support has progressed.
Armidale Class Patrol Boat	SEA 1444 Phase 1	2007-08	537	479	3	7	4	The 14 patrol boats are in service and engaged in operations. The fleet upgrade to improve a number of engineering and habitability features has been progressed.
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2A	2007-08	389	196	34	42	8	Harbour trials of systems installed in HMAS <i>Perth</i> , and the set to work of the Combat Management System have been completed successfully. Sea-acceptance testing is scheduled for February 2011.
Ships Self Defence Capability	SEA 1779 Phase 1	2007-08	53	44	5	..	-5	Installation of the weapon systems in HMA Ships <i>Kanimbla</i> , <i>Manoora</i> and <i>Tobruk</i> is complete and the project will now be closed.
Deputy Chief Executive Officer								
Amphibious Deployment and Sustainment								
Maritime Operations Support Capability	SEA 1654 Phase 2A	2006-07	139	136	2	2	..	On track to achieve financial closure by June 2011.
Collins and Wedgetail								
Collins Replacement Combat System	SEA 1439 Phase 4A	2007-08	450	422	7	5	-2	Reduction due to removal of contractor support from project organisation.

	Project number/ phase	Last financial year reported in Top 30	Approved project expenditure ^[1] \$m	Cumulative expenditure to 30 June 2010 \$m	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Status report
Collins Class Submarine Reliability and Sustainability	SEA 1439 Phase 3	2008-09	412	299	21	17	-4	Reduction due to revision of costed response by ASC AWD Shipbuilder Pty Ltd and changes to the full cycle docking schedule prior to the IMS being issued in April 2010.
New Heavyweight Torpedo	SEA 1429 Phase 2	2009-10	430	267	26	20	-6	Variance attributed to revised in year work scope and cost by ASC AWD Shipbuilder Pty Ltd. Also a reduction in spend by the United States Navy under the MoU.
Human Resources and Corporate Services								
Improvements to the Logistics Information Systems	JP 2077 Phase 2B	2009-10	153	134	13	19	6	Project closure criteria have been agreed with Defence stakeholders. Project closure is scheduled for February 2011.
New Air Combat Capability								
Detailed Analysis and Acquisition Planning	AIR 6000 Phase 1B	2009-10	103	98	2	1	-1	Due to refinement of scope for the JSF Environment Impact Statement, the project has been able to better align expenditure to activities. Funding and scope for this activity will be transferred to AIR 6000 PH2A/B as the AIR 6000 PH1B phase of the program will be closed in 2010-11.

Note

1. The current status of the previously reported Top 30 Projects (projects reported in the last five years) are based on a review of expenditure plans for 2010-11 and the following years, conducted in December 2010.

Program 1.2 Management of Capability Sustainment

Performance information is as reported in the *Portfolio Budget Statements 2010-11*.

PROGRAM 1.2 EXPENSES

The revised planned resources use for Program 1.2 is \$5,079.1m in 2010-11, which now represents approximately 49 per cent of the DMO's total expenses. The revised planned resource use for Program 1.2 includes:

- direct appropriation of \$545.0m relating to Sustainment workforce and operating expenses
- the cost of contracted services to Defence of \$3,929.4m
- support for current operations of \$483.5m
- the future DMO Personnel and Operating Costs of \$45.4m in support of new capabilities expected to enter into service
- support for foreign government activities of \$53.7m
- resources received free of charge from Defence of \$22.1m.

Table 86: Program 1.2 Management of Capability Sustainment

	2009-10 Actuals \$'000	2010-11 Revised budget \$'000	2011-12 Forward year 1 \$'000	2012-13 Forward year 2 \$'000	2013-14 Forward year 3 \$'000
Special Account Expenses:					
Defence Materiel Special Account	4,122,983	4,512,034	4,758,959	4,723,941	4,887,342
Annual departmental expenses:					
Ordinary Annual Services (Appropriation Bill No.1 and No. 3)	479,375	544,999	597,177	625,795	665,618
Departmental item					
Expenses not requiring appropriation in the Budget year	21,187	22,098	22,708	23,230	23,765
Total program expenses	4,623,545	5,079,131	5,378,844	5,372,966	5,576,725

Table 87: Top 20 Sustainment Products by 2010-11 forecast expenditure^[1]

	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Explanation of variation
General Manager Systems				
Aerospace Systems				
P-3C/AP-3C Orion Weapons System	115	120	5	Ageing aircraft inspections and an additional Deeper Maintenance to better manage scheduled maintenance congestion.
F/A-18 Hornet Weapons System	105	124	18	Increased funds allocated for structural refurbishment activities associated with an ageing aircraft, in addition to on-going funds required to support the new Litening Pod imaging sensor.
F/A-18F Block II Super Hornet Weapons System	95	62	-33	2010 was the first year of Australian Super Hornet operations. Cost estimating for sustainment support is immature. Variation reflects more realistic budget based upon initial actual support costs.
Lead-in Fighter Hawk 127 Weapons System	88	89	1	Variation due to procurement of new Head Down Flight Displays which will improve reliability and reduce support costs through to planned withdrawal date.
C-130J-30 Weapons System	75	74	-1	Increase in propulsion costs offset by a decrease in requirement for repairable items.
C-130H Weapons System	61	54	-7	Contract efficiencies in major Sustainment contracts.
Electronic Systems				
Wide Area Surveillance Capability	72	82	11	Funding increases were used to cover core contract costs being realised as a result of delays in finalising negotiations to incorporate SRP initiatives into the contract. Additional funding was also used to resolve a number of urgent obsolescence issues causing CAT 1 failures in radar operations.
Explosive Ordnance				
Explosive Ordnance - Navy, Army, Air Force	249	261	11	Majority of the variance is due to an increase in Army funding to procure 155mm EO product, transfer of funds to Defence Support Group in order to deliver Mulwala New Policy Proposal infrastructure works and return of funds to Air Force.
Helicopter Systems				
Multi Role Helicopter	124	78	-46	Support costs are lower than planned because fewer aircraft have been accepted, together with a lower than planned rate of effort.
Armed Reconnaissance Helicopter Weapons System	97	86	-11	Variation is the result of delays in establishing overseas repair contracts for some repairable items.
S70B-2 Seahawk Weapons System	59	73	14	Variation is due to increasing costs associated with maintenance and support of aging aircraft.
S70A-9 Black Hawk Weapons System	64	99	36	Life of type procurement of spares and operational service.

	Budget estimate 2010-11 \$m	Revised estimate 2010-11 \$m	Variation \$m	Explanation of variation
Land Systems				
General Service B Vehicle Fleet	82	90	8	The variation represents supplementation funding provided to this product to maintain service delivery levels following the remediation and renegotiation of the Defence Integrated Distribution System (DIDS) contract.
ADF Clothing and Personal Equipment	60	52	-8	Variation due to decision not to proceed with the Non-Combat Uniform Prime Vendor Contract.
Protected Mobility Fleet	60	17	-42	The Budget Estimate included funding that was incorrectly allocated to this Product. The position was corrected at Additional Estimates. There is no impact on the Protected Mobility Fleet capability.
Maritime Systems				
Fuels and Lubricants - Navy, Army, Air Force	454	400	-55	Variation is due to a decrease in Air Force fuel requirements; a reduced RAN operational rate of effort, and the slip of actual deliveries against estimated schedules.
Anzac Class Frigate	222	177	-45	Variation is due to the delay in the docking cycle for HMAS <i>Arunta</i> and the contract for this task will not occur this financial year.
Adelaide Class Frigate	103	101	-2	Variation is attributed to the realignment of platform maintenance requirements with the operational requirements in the RAN Fleet Activity Schedule.
Deputy Chief Executive Officer				
Airborne Early Warning and Control System				
Airborne Early Warning and Control System	142	141	-1	The variation is due to Exchange Rate changes.
Collins and Wedgetail				
Collins Class Submarines	352	399	47	The Integrated Master Schedule (IMS), agreed during 2010, delivers the Navy's current and projected obligations to Government and includes provision for previously deferred and recent emergent work. Completion of the IMS workscope is fundamental to Collins Program reform and requires additional resources above budgeted projections this year.
Total -Top 20 Products	2,679	2,579	-101	
Other approved Sustainment Product estimates	1,344	1,351	7	
Total Sustainment Product Funds Available	4,023	3,930	-94	
Support to Operations	515	484	-31	
Total Sustainment and Operations Funding	4,538	4,414	-125	

Note

1. Figures include baseline sustainment funding and support for ADF operations.

TOP 20 SUSTAINMENT PRODUCT DESCRIPTIONS

Information relating to sustainment products remains as reported in the *Portfolio Budget Statements 2010-11*, except for the following.

Aerospace Systems

Aerospace Systems Products

F/A-18 Hornet Weapons System

During 2010 aircraft serviceability rates have improved by approximately 40 per cent due to a number of initiatives put in place by the DMO and the Air Force.

A number of major contracts, such as the Hornet Usage Monitoring Services contract and the Structural Component Repair contract, were entered into during the second half of 2010.

F/A-18F Block II Super Hornet Weapons System

Fifteen aircraft have been delivered, with deliveries continuing to remain ahead of the original schedule. No. 1 Squadron has been operating the aircraft since March 2010, with aircraft availability and serviceability exceeding all performance requirements.

Following a successful Super Hornet Airworthiness Board in November 2010 the Chief of Air Force, as the ADF Airworthiness Authority, issued an Australian Military Type Certificate for the Super Hornet on 8 December 2010. The Chief of Air Force also declared IOC on 8 December 2010. Two of three FMS cases have been established with the final case expected to be established by April 2011.

Helicopter Systems

Helicopter Systems Products

Multi Role Helicopter

Thirteen aircraft have been accepted into service and are based with the Army's 5th Aviation Regiment in Townsville, Queensland; the Army Aviation Training Centre in Oakey, Queensland; and the Navy's 808 Squadron in Nowra, New South Wales. Training for Navy and Army aircrew, maintenance and support personnel is underway.

The MRH helicopter fleet is not flying sufficient hours to develop the capability and train all required personnel. Engine issues, immature and unreliable systems and insufficient spares are the primary reasons for the low flying rate.

Armed Reconnaissance Helicopter Weapons System

Eighteen of the 22 Armed Reconnaissance Helicopters (ARH) have been accepted and in excess of 7,100 hours flown. Nine of the mature configuration aircraft have been fielded in the Army's first Aviation Regiment, Darwin, Northern Territory. Four of the mature configuration aircraft are being used for training and type acceptance testing at the Army Aviation Training Centre, Oakey, Queensland. Five Commonwealth accepted aircraft are undergoing retrofit to the mature configuration at Australian Aerospace's facility in Brisbane, Queensland. Operational Evaluation for the next milestone, Operational Capability 2 (a deployable squadron), is now in progress.

The DMO and the prime contractor, Australian Aerospace, continue their collaborative approach to resolve the difficulties associated with the logistic support system so that the flying rate of effort increases to the level required for aircrew training and increased operational readiness.

Land Systems

Land Systems Products

General Services B Vehicle Fleet

Planned activities for this fleet include a reduction in overall fleet numbers by up to 2,000 vehicles by the end of 2012. This does not include vehicles that will be replaced by LAND 121 (Project Overlander). This fleet reduction will not impact on support to operations or capability but will allow the fleet to deliver efficiencies.

ADF Clothing and Personal Equipment

Significant procurement activities have been progressed in 2010 including the purchase of new operational uniforms to support an extended user trial in Afghanistan, combat boots, fire fighting clothing, combat gloves, garrison wear and metal insignia.

Non-Combat Uniform Prime Contract activity was bought to conclusion in 2010. The decision was made to not award a contract. A contract was deemed not in the public's interest, as the proposed contract no longer represented value for money.

Clothing System Program Office (SPO) conducts six-monthly clothing industry forums, fostering relationships with the textile clothing and footwear industry. The forums were conducted in April and October 2010. Three Threads newsletters were released to industry during 2010.

The development of a new integrated body armour and load carriage solution, called 'Soldier Combat Ensemble' (SCE) is being led by the Integrated Soldier System Development Directorate and Soldier Modernisation SPO of Land Systems Division. Scheduled for open tender release late 2011, the SCE will provide an increased level of flexibility and utility to deployed forces on operations. The SCE will incorporate shorter development lead times with lower production numbers and more frequent purchases to enable more rapid adaption to changing operational needs.

On 19 November 2010, the 'MyDefenceGear' Project was announced. This project will reform the procurement and supply of uniforms and other personal equipment to members of the ADF. The 'MyDefenceGear' Project will:

- develop and procure a new generation combat uniform
- implement the agreed recommendations of the Whalan and Lewincamp Reviews including modernising the current supply chain model through an on line ordering, feedback and supply system for military clothing and selected personal equipment.

Protected Mobility Fleet

The Protected Mobility Vehicle (PMV) fleet is currently sustaining 610 vehicles in six variants (troop, command, mortar, assault pioneer, direct fire weapon, and ambulance).

Maritime Systems

Maritime Systems Products

Anzac Class Frigate

Changes in the programs of two Anzac class frigates have affected the expenditure plan, reducing expenditure in 2010-11.

Deputy Chief Executive Officer

Description as reported under the General Manager Programs title in the *Portfolio Budget Statements 2010-11*.

Deputy Chief Executive Officer Products

Program Manager Collins & Wedgetail

Airborne Early Warning and Control System

Northrop Grumman Corporation (United States) has been added to the sustainment contract as a major subcontractor and negotiations are currently underway to add BAE Systems Australia as a major subcontractor.

Collins Class Submarines

In late 2010 the Collins Program initiated a reform plan, extending out to 2013, to deliver best practice capability sustainment that produces reliable submarine availability for the Navy. This reform includes the stabilisation of the Integrated Master Schedule agreed with the Navy, and remediation of the supply support system.

Program 1.3 Provision of Policy Advice and Management Services

Performance information is as reported in the *Portfolio Budget Statements 2010-11*.

PROGRAM 1.3 EXPENSES

The nature of the costs of Program 1.3 remains as described in the *Portfolio Budget Statements 2010-11*.

The revised planned resources use for Program 1.3 is \$112.5m in 2010-11, which now represents approximately one per cent of the DMO's total expenses. The planned resource use for Program 1.3 includes:

- direct appropriation of \$100.9m for policy advice and management services
- resources received free of charge from Defence and ANAO of \$10.5m
- other revenue of \$1.0m.

Table 88: Program 1.3 Provision of Policy Advice and Management Services

	2009-10 Actuals \$'000	2010-11 Revised budget \$'000	2011-12 Forward year 1 \$'000	2012-13 Forward year 2 \$'000	2013-14 Forward year 3 \$'000
Special Account Expenses:					
Defence Materiel Special Account	-	1,025	1,035	1,040	1,042
Annual departmental expenses:					
Ordinary Annual Services (Appropriation Bill No.1 and No. 3)	81,711	100,940	105,518	98,873	98,444
Departmental item					
Expenses not requiring appropriation in the Budget year	10,156	10,496	10,724	10,919	11,118
Total program expenses	91,867	112,461	117,277	110,832	110,604

Section 3: DMO Explanatory Tables and Budgeted Financial Statements

3.1 DMO Explanatory Tables

3.1.1 SPECIAL ACCOUNTS

Special Accounts provide a means to set aside and record amounts used for specified purposes. Table 89 shows the expected additions (receipts) and reductions (payments) for each account used by the DMO. The corresponding table in the *Portfolio Budget Statements 2010-11* is Table 73.

Table 89: Estimate of Special Account flows and balances

	Outcome	Opening balance	Receipts	Payments	Closing balance
		2010-11	2010-11	2010-11	2010-11
		2009-10	2009-10	2009-10	2009-10
		\$'000	\$'000	\$'000	\$'000
Defence Materiel Special		501,559	11,440,799	11,281,036	661,322
Account (A & D)	1	320,135	11,491,230	11,309,806	501,559
Services for Other Entities					
and Trust Moneys - Defence		-	-	-	-
Materiel Organisation (S)	1	-	-	-	-
Total Special Accounts					
2010-11 Budget estimate		501,559	11,440,799	11,281,036	661,322
<i>Total Special Accounts</i>					
<i>2009-10 estimate actual</i>		320,135	11,491,230	11,309,806	501,559

Notes

(A) = Administered
(D) = Departmental
(S) = Special Public Monies

3.2 DMO Budgeted Financial Statements

3.2.1 ANALYSIS OF BUDGETED FINANCIAL STATEMENTS

Revisions to the budgeted Financial Statements for the DMO since the *Portfolio Budget Statements 2010-11* are presented in this section.

Budgeted Income Statement

A decrease in the DMO's estimated income and expenditure for 2010-11 of \$1,122.0m is largely a result of the movements including:

- a reduction of major capital projects cash flow for 2010-11 of \$416.0m (refer to Table 90 for major variations)
- cash provisions for improved creditor management relating to major capital projects of \$213.0m
- a reduction by Defence to the provision for personnel and operating costs of \$115.7m anticipated to be transferred to the DMO
- a decrease in sustainment funding of \$120.9m reflecting customer demand and requirements
- a reduction by Defence in unapproved major capital investment of \$79.3m anticipated to be transferred to the DMO
- a decrease in estimates due to foreign exchange rates movements of \$66.4m
- a reduction to minor approved and unapproved projects of \$56.1m
- a decrease in workforce and operating expenses of \$52.3m.

Balance Sheet

The balance sheet has been updated to reflect the 2010-11 audited financial statements and adjustments to the income statement as described above.

Creditors are anticipated to reduce from the 30 June 2010 balances.

Statement of Cash Flows

The estimated cash flow has been updated to reflect the changes in the income statement and balance sheet as noted above and in particular:

- a reduction in receipts from goods and services of \$888.7m reflecting the reductions in major capital cash flows and other adjustments referred to above
- changes to GST receipts of \$18.4m representing recoveries from 2009-10, offset by expected GST payments as a result of the reduced planned activity.

3.2.2 BUDGETED FINANCIAL STATEMENTS TABLES

Table 90: Budgeted departmental comprehensive income statement (showing net cost of services)

	Actual 2009-10 \$'000	Revised budget 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
EXPENSES					
Employee benefits	507,917	534,246	566,253	621,590	665,853
Supplier expenses	10,147,997	9,866,495	10,224,624	9,643,332	10,564,838
Grants	16,128	11,068	12,253	13,190	14,307
Depreciation and amor isation	2,346	1,482	642	642	642
Write down and impairment of assets	4,429	-	-	-	-
Other	9	-	-	-	-
Total expenses	10,678,826	10,413,291	10,803,772	10,278,754	11,245,640
LESS:					
OWN-SOURCE INCOME					
Revenue					
Sale of goods and rendering of services	9,774,695	9,470,301	9,775,890	9,194,633	10,109,957
Other	59,569	53,656	54,997	56,647	58,120
Total revenue	9,834,264	9,523,957	9,830,887	9,251,280	10,168,077
Gains					
Foreign Exchange Gains	11,024	-	-	-	-
Other	40,578	42,052	43,151	44,092	45,054
Total gains	51,602	42,052	43,151	44,092	45,054
Total own-source income	9,885,866	9,566,009	9,874,038	9,295,372	10,213,131
Net cost of (contribution by) services	792,960	847,282	929,734	983,382	1,032,509
Revenue from Government	898,617	847,282	929,734	983,382	1,032,509
Surplus (Deficit)	105,657	-	-	-	-

Table 91: Departmental balance sheet (as at 30 June)^[1]

	Actual 2009-10 \$'000	Revised budget 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
ASSETS					
Financial assets					
Cash and equivalents	92,440	92,440	92,440	92,440	92,440
Trade and other receivables	698,109	667,172	677,874	688,638	692,126
Total financial assets	790,549	759,612	770,314	781,078	784,566
Non-financial assets					
Property, plant and equipment	7,588	7,588	7,588	7,588	7,588
Intangibles	318	318	318	318	318
Other	1,404,821	1,404,821	1,404,821	1,404,821	1,404,821
Total non-financial assets	1,412,727	1,412,727	1,412,727	1,412,727	1,412,727
Total assets	2,203,276	2,172,339	2,183,041	2,193,805	2,197,293
LIABILITIES					
Payables					
Suppliers	1,483,365	1,270,366	1,270,366	1,270,366	1,270,366
Grants	4,548	4,548	4,548	4,548	4,548
Other	116,727	306,137	308,893	309,674	312,118
Total payables	1,604,640	1,581,051	1,583,807	1,584,588	1,587,032
Provisions					
Employee provisions	167,356	173,760	181,706	191,689	192,733
Other	13,751	-	-	-	-
Total provisions	181,107	173,760	181,706	191,689	192,733
Total liabilities	1,785,747	1,754,811	1,765,513	1,776,277	1,779,765
Net assets	417,529	417,528	417,528	417,528	417,528
EQUITY*					
Parent entity interest					
Contributed equity	155,368	155,368	155,368	155,368	155,368
Reserves					
Retained surplus (accumulated deficit)	262,161	262,160	262,160	262,160	262,160
Total parent entity interest	417,529	417,528	417,528	417,528	417,528
Total equity	417,529	417,528	417,528	417,528	417,528

Note

1. 'Equity' is the residual interest in assets after deduction of liabilities.

**Table 92: Departmental statement of change in equity – summary of movement
(budget year 2010-11)**

	Retained earnings	Asset revaluation reserve	Other reserves	Contributed equity/ capital	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance as at 1 July 2010					
Balance carried forward from previous period	262,160	-	-	155,368	417,528
Adjustment for changes in accounting policies	-	-	-	-	-
Adjusted opening balance	262,160	-	-	155,368	417,528
Surplus (deficit) for the period	-	-	-	-	-
Total comprehensive income recognised directly in equity	-	-	-	-	-
Transactions with owners					
<i>Contributions by owners</i>					
Appropriation (equity injection)	-	-	-	-	-
Appropriation (departmental capital budget)	-	-	-	-	-
Sub-total transactions with owners	-	-	-	-	-
Estimated closing balance as at 30 June 2011	262,160	-	-	155,368	417,528

Table 93: Budgeted Departmental statement of cash flows (as at 30 June)

	Actual 2009-10 \$'000	Revised budget 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	9,890,057	9,642,699	9,765,188	9,183,869	10,106,469
Appropriations	768,000	847,282	929,734	983,382	1,032,509
Net GST received	580,363	735,899	673,961	635,528	696,464
Other	65,020	53,656	54,997	56,647	58,120
Total cash received	11,303,440	11,279,536	11,423,880	10,859,426	11,893,562
Cash used					
Employees	495,442	525,272	555,551	610,826	662,365
Suppliers	9,713,195	10,037,443	10,181,473	9,599,240	10,519,784
Grants	11,580	11,068	12,253	13,190	14,307
Net GST paid	658,100	664,360	673,961	635,528	696,464
Funds returned to Defence	427,503				
Other	19	39,911	-	-	-
Total cash used	11,305,839	11,278,054	11,423,238	10,858,784	11,892,920
Net cash from (used by) operating activities	-2,399	1,482	642	642	642
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	1,810	1,482	642	642	642
Total cash used	1,810	1,482	642	642	642
Net cash from (used by) investing activities	-1,810	-1,482	-642	-642	-642
Net increase (decrease) in cash held	-4,209	-	-	-	-
Cash and cash equivalents at the beginning of the reporting period	96,649	92,440	92,440	92,440	92,440
Cash and cash equivalents at the end of the reporting period	92,440	92,440	92,440	92,440	92,440

Table 94: Capital budget statement – Departmental

	Actual 2009-10 \$'000	Revised budget 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
PURCHASE OF NON-FINANCIAL ASSETS					
Funded internally from departmental resources ^[1]	1,810	1,482	642	642	642
TOTAL	1,810	1,482	642	642	642
RECONCILIATION OF CASH USED TO ACQUIRE ASSETS TO ASSET MOVEMENT TABLE					
Total purchases	1,810	1,482	642	642	642
Total cash used to acquire assets	1,810	1,482	642	642	642

Note

- Includes the following sources of funding:
 - annual prior year appropriations
 - donations and contributions
 - gifts
 - internally developed assets
 - Section 31 relevant agency receipts (for FMA agencies only)
 - proceeds from the sale of assets.

Table 95: Statement of asset movements (2010-11)

	Asset Category		
	Other property, plant and equipment \$'000	Intangibles \$'000	Total \$'000
As at 1 July 2010			
Gross book value	23,191	26,878	50,069
Accumulated depreciation/amortisation and impairment	15,603	26,560	42,163
Opening net book balance	7,588	318	7,906
CAPITAL ASSET ADDITIONS			
Estimated expenditure on new or replacement assets			
By purchase - internal sources	917	565	1,482
Total additions	917	565	1,482
Other movements			
Depreciation/amortisation expense	917	565	1,482
As at 30 June 2011			
Gross book value	24,108	27,443	51,551
Accumulated depreciation/amortisation and impairment	16,520	27,125	43,645
Closing net book balance	7,588	318	7,906

**Table 96: Schedule of budgeted income and expenses administered on behalf of Government
(for the period ended 30 June)**

	Actual 2009-10 \$'000	Revised budget 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
INCOME ADMINISTERED ON BEHALF OF GOVERNMENT					
Revenue					
Non-taxation revenue					
Interest	2,774	1,500	1,500	1,500	1,500
Total non-taxation revenue	2,774	1,500	1,500	1,500	1,500
Total revenues administered on behalf of Government	2,774	1,500	1,500	1,500	1,500
Total income administered on behalf of Government	2,774	1,500	1,500	1,500	1,500

**Table 97: Schedule of budgeted assets and liabilities administered on behalf of Government
(as at 30 June)**

	Actual 2009-10 \$'000	Revised budget 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Receivables	162	162	162	162	162
Total financial assets	162	162	162	162	162
Total assets administered on behalf of Government	162	162	162	162	162

Table 98: Schedule of budgeted administered cash flows (for the period ended 30 June)

	Actual 2009-10 \$'000	Revised budget 2010-11 \$'000	Forward estimate 2011-12 \$'000	Forward estimate 2012-13 \$'000	Forward estimate 2013-14 \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	2,619	1,500	1,500	1,500	1,500
Total cash received	2,619	1,500	1,500	1,500	1,500
Net cash from (used by) investing activities	2,619	1,500	1,500	1,500	1,500
Net increase (decrease) in cash held	2,619	1,500	1,500	1,500	1,500
Cash and cash equivalents at beginning of reporting period	-	-	-	-	-
Cash to Official Public Account for: - Transfers to other entities (Finance - Whole of Government)	2,619	1,500	1,500	1,500	1,500
Cash and cash equivalents at end of reporting period	-	-	-	-	-

3.2.3 NOTES TO THE FINANCIAL STATEMENTS

Departmental

The notes on the budgeted Departmental financial Statements remain as reported in the *Portfolio Budget Statements 2010-11*.

Administered

Interest collected by the DMO, for use by the Government rather than the DMO, is administered by nature. Collections are transferred to the OPA maintained by the Department of Finance and Deregulation. The schedules of administered items largely reflect the Government's transactions, through the DMO, with parties outside the Government.

