

**PORTFOLIO ADDITIONAL
ESTIMATES STATEMENTS 2011-12**

DEFENCE PORTFOLIO

EXPLANATIONS OF ADDITIONAL ESTIMATES 2011-12

ISBN 978-0-642-29760-0



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The document must be attributed as the *Defence Portfolio Additional Estimates Statements 2011-12*

Printed by Blue Star Group Aust Pty Limited



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 2011-12 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', written over a horizontal line.

Stephen Smith MP
Minister for Defence

Abbreviations and Conventions

The following notations may be used:

NEC/nec	not elsewhere classified
-	nil
..	not zero, but rounded to zero
na	not applicable (unless otherwise specified)
nfp	not for publication
\$m	\$ million

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. Discrepancies in tables between totals and sums of components are due to rounding.

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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**

USER GUIDE

The purpose of the Portfolio Additional Estimates Statements (PAES), like that of the Portfolio Budget Statements (PB Statements), 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. The focus of the PAES differs from the PB Statements in one important aspect. While the PAES include an Agency Resource Statement to inform Parliament of the revised estimate of the total resources available to an agency, the focus of the PAES is on explaining the changes in resourcing by outcome(s) since the Budget. As such, the PAES provides information on new measures and their impact on the financial and/or non financial planned performance of programs supporting those outcomes.

The PAES facilitate understanding of the proposed appropriations in Appropriation Bills (No. 3 and No. 4) 2011-12. 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 2011-12* 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 three parts with subsections.

User guide	
Provides a brief introduction explaining the purpose of the PAES.	
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, including the DMO.</p>
Section Two: Outcomes and Planned Performance	Section Two provides a brief overview of Defence's outcomes and programs for 2011-12. 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>Section Three 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	<p>Section One provides an overview of the DMO's functions and responsibilities, including the strategic priorities for 2011-12 and 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 summaries of the DMO's reform initiatives and governance activities.</p>
Section Two: DMO Outcomes and Planned Performance	Section Two provides an overview of the DMO's outcomes and outputs, including the Top 30 Projects, the Top 20 Sustainment Products and the Top 10 Minor Projects. This section also provides summaries of the DMO's reform initiatives and governance activities.
Section Three: DMO Explanatory tables and budgeted financial statements	<p>Section 3 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 2011-12, DHA's outcome and output, and its 2011-12 budgeted financial statements.
Glossary	Explains key terms relevant to the Portfolio.

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PORTFOLIO OVERVIEW

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, Navy, Army and the Air Force (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 the Department of Defence, headed by its Chief Executive Officer (CEO) DMO.

In practice, these bodies have to 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.

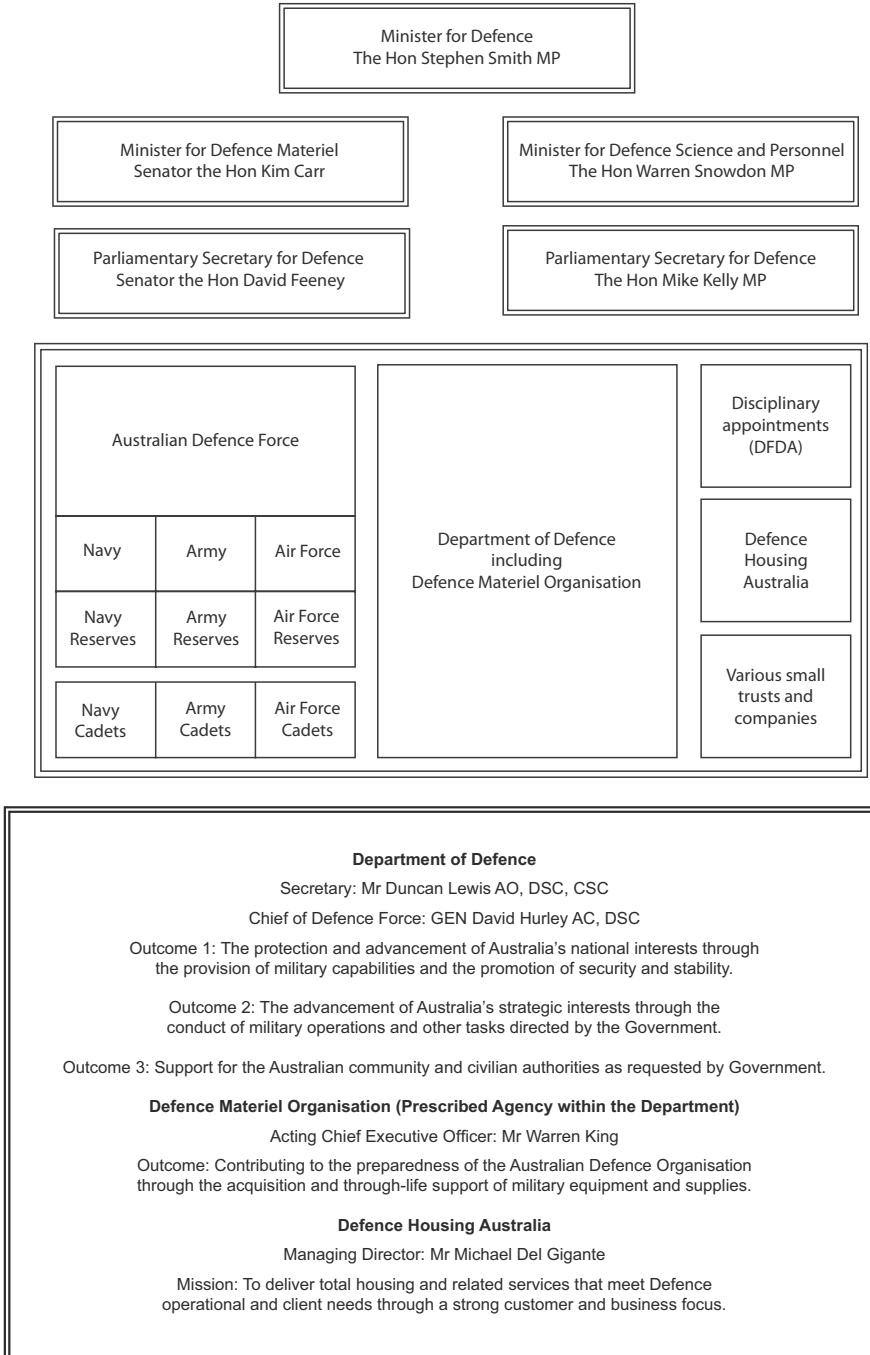
Ministers and their Portfolio Responsibilities

Changes Affecting the Portfolio

Following the Prime Minister's announcement on changes to the Ministry, on 14 December 2011, Senator the Hon Kim Carr was sworn in as the Minister for Defence Materiel, replacing the Hon Jason Clare MP; and the Hon Mike Kelly MP was sworn in as a Parliamentary Secretary for Defence.

PORTFOLIO STRUCTURE AND OUTCOMES

Figure 1: Defence Portfolio Structure and Outcomes



DEFENCE PORTFOLIO BODIES

The following changes have taken place since the *Portfolio Budget Statements 2011-12*.

Australian Military Forces Relief Trust Fund

Chairman: Brigadier Gavan Reynolds AM

Royal Australian Air Force Veterans' Residences Trust Fund

Chairman: Air Commodore David Tindal AM (Ret'd)

Royal Australian Navy Central Canteens Board

Chairman: Commodore Clint Thomas AM CSC

AAF Company

Chairman: Brigadier Gavan Reynolds AM

Portfolio Resource Statement

Table 1: Portfolio Resources^[1]

	Departmental Bill No. 3	Appropriation Bill No. 4	Section 10 Appropriation Act (No.1) 2011-12 ^[2]	Section 13 Appropriation Act (No.2) 2011-12 ^[3]	Return to the OPA	Special Appropriation	Total Appropriation	Non- Appropriation Receipts	Other Non- Appropriated Items ^[4]	Total Resources Available
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Department of Defence										
Administered appropriations	-	-	-	-	-43.2	259.2	216.0	71.3	-28.1	259.2
Departmental appropriations	-	-	-14.6	-135.5	-104.6	-	-254.8	55.3	-	-199.4
Total Department of Defence	-	-	-14.6	-135.5	-147.8	259.2	-38.8	126.6	-28.1	59.8
	Departmental Bill No. 3	Departmental Bill No. 4	Section 10 Appropriation Act (No.1) 2011-12	Section 13 Appropriation Act (No.2) 2011-12	Return to the OPA	Special Appropriation	Total Appropriation	Non- Appropriation Receipts	Other Non- Appropriated Items	Total Resources Available
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Defence Materiel Organisation										
Administered appropriations	-	-	-	-	-	-	-	-0.5	-	-0.5
Departmental appropriations	2.1	-	-	-	-	-	2.1	-	-	2.1
Total Defence Materiel Organisation	2.1	-	-	-	-	-	2.1	-0.5	-	1.6
	Departmental Bill No. 3	Departmental Bill No. 4	Section 10 Appropriation Act (No.1) 2011-12	Section 13 Appropriation Act (No.2) 2011-12	Return to the OPA	Special Appropriation	Total Appropriation	Non- Appropriation Receipts	Other Non- Appropriated Items	Total Resources Available
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Defence Housing Australia										
Administered appropriations	-	-	-	-	-	-	-	-	-	-
Departmental appropriations	-	-	-	-	-	-	-	-	-	-
Total Defence Housing Australia	-	-	-	-	-	-	-	-	-	-
Total Portfolio	2.1	-	-14.6	-135.5	-147.8	259.2	-36.7	126.1	-28.1	61.4

Notes

- Figures shown include inter-agency transactions.
- Defence will seek a determination by the Minister for Finance and Deregulation, under Section 10 of the *Appropriation Act (No. 1) 2011-12*, to decrease the Departmental outcome appropriation.
- Defence will seek a determination by the Minister for Finance and Deregulation, under Section 13 of the *Appropriation Act (No. 2) 2011-12*, to decrease the Departmental equity injection.
- Represents interest on DHA loans taken out prior to 30 June 2008 reported against non-appropriation receipts.

Table 2: Total Departmental and Administered Consolidated Cash Budget for the Department of Defence (including DMO)^[1]

	2011-12 Revised Budget \$m
APPROPRIATIONS AND CAPITAL	
Appropriation (Bill 1) ^[2]	23,553.1
Appropriation - Contributed Equity (Bill 2)	2,773.8
Appropriation (Bill 3)	2.1
Appropriation (Bill 4)	-
Appropriations for military superannuation ^[3]	2,154.8
less Returns to the OPA	-1,501.0
Total cash available	26,982.8
OPERATING ACTIVITIES	
Cash received	
Goods and services	520.5
Interest and licence fees	52.3
Other cash received including GST	1,461.1
Total cash received	2,033.9
Cash used	
Employees	9,042.4
Suppliers	8,961.2
Subsidies and grants	192.7
Administered military benefits	2,053.1
Other cash used including GST	1,287.6
Total cash used	21,537.0
Net cash from or (used by) operating activities	-19,503.1
INVESTING ACTIVITIES	
Cash received	
Proceeds from sales of land and buildings, infrastructure, plant and equipment	133.6
Dividends	52.4
Total cash received	186.0
Cash used	
Purchase of land and buildings, infrastructure, plant and equipment	1,248.3
Purchase of specialist military equipment	5,027.1
Purchase of inventory	1,201.4
Purchase of intangibles	31.5
Loans	-
Other	79.2
Total cash used	7,587.6
Net cash from or (used by) investing activities	-7,401.6
FINANCING ACTIVITIES	
Cash used	
Repayment of debt	70.1
Total cash used	70.1
Net cash from or (used by) financing activities	-70.1
Net increase or (decrease) in cash and cash equivalents held	8.0
Cash and cash equivalents at beginning of the reporting period	107.9
Effect of exchange rate movements on cash and cash equivalents	-
Cash and cash equivalents at end of the reporting period	115.9

Notes

- Figures shown eliminate interagency transactions flowing between Departmental and Administered funding.
- Includes \$8.0m of Prior Year Appropriation for 2010-11 relating to Operations.
- Cross reference with Table 75 Consolidated budgeted administered statement of cash flows for the Department of Defence (including DMO) for the period ended 30 June.

Portfolio Workforce

The 2011-12 Portfolio Budget Statements noted the projected achievement (Budget Estimate) for the Australian Defence Force (ADF) was 801 personnel over budget guidance. ADF workforce growth was accelerated in 2009-10 by the lowest separation rates for military personnel for over 20 years, and for a time the ADF workforce exceeded its budgeted strength. In response, Defence has pursued measures throughout 2011 to return the ADF to its budgeted strength by reducing recruiting (both for normal entry and the ADF Gap Year) and reducing the use of Reservists on Continuous Full Time Service.

These measures have been effective, and in conjunction with changes in labour market conditions, have led to the return of the ADF workforce to its budgeted strength. The reductions in recruitment have consequently been moderated. However, as the Budget Estimate for Permanent Forces was based on the earlier overachievement, the Revised Estimate is some 796 personnel lower.

The 2011-12 Revised Estimate for Australian Public Service (APS) staff in the DMO represents an increase of 368 APS employees over the Budget Estimate. DMO manages its workforce under a combined ADF, APS and contractor model. Through this arrangement, DMO can utilise the funding from vacant ADF positions by filling them with APS staff. The increase in the estimated APS workforce represents the number of positions that the Services have been unable to fill and have instead been filled by APS staff. While the strength of the ADF is close to budget, personnel of the necessary skill and experience profile are not available for the vacant DMO positions. Options for remedying the underlying structural causes of these imbalances in the medium to long term are currently under development.

From 2012-13 onward, the increase in the APS workforce is primarily associated with workforce allocations approved by the Defence White Paper 2009 and ongoing initiatives under the Strategic Reform Program (SRP), which includes civilianisation of military positions and contractor conversions.

The conversion of contractor positions to APS positions is an SRP initiative that supports APS growth over the forward estimates to achieve 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

		2011-12 Budget Estimate	2011-12 Revised Estimate	Variation	2012-13 Forward Estimate	2013-14 Forward Estimate	2014-15 Forward Estimate
	ADF						
	ADF Permanent Force ^[1]	59,053	58,257	-796	58,031	58,589	58,872
	Reserves ^[2]	22,350	21,753	-597	23,400	23,890	23,890
1	Total ADF Workforce	81,403	80,010	-1,393	81,431	82,479	82,762
	APS						
	Defence APS	16,001	15,974	-27	16,140	15,973	15,612
	DMO APS	5,647	6,015	368	5,719	5,874	6,096
2	Total APS	21,648	21,989	341	21,859	21,847	21,708
	Contractor^[3]						
	Defence Contractor	593	621	28	488	450	447
	DMO Contractor	51	25	-26	48	48	48
3	Total Contractor	644	646	2	536	498	495
	Total Workforce (1+2+3)	103,695	102,645	-1,050	103,826	104,824	104,965

Notes

1. Numbers for ADF Permanent Force include ADF members in the DMO and Reservists on full-time service.
2. Numbers for Reserves include Active and High Readiness Reserve members.
3. Contractors are individuals under contract performing agency roles. Contractors are not APS Employees.

AGENCY RESOURCES AND PLANNED PERFORMANCE

Department of Defence

Defence Materiel Organisation

Defence Housing Australia