

**PORTFOLIO ADDITIONAL
ESTIMATES STATEMENTS 2012-13**

DEFENCE PORTFOLIO

EXPLANATIONS OF ADDITIONAL ESTIMATES 2012-13



© Commonwealth of Australia 2012

ISBN 978-0-642-29773-0

This publication is available for your use under a [Creative Commons BY Attribution 3.0 Australia](http://creativecommons.org/licenses/by/3.0/au/legalcode) licence, with the exception of the Commonwealth Coat of Arms, the Department of Defence and Defence Housing Australia logo, photographs, images, signatures and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.



Use of the Department of Defence's material under a [Creative Commons BY Attribution 3.0 Australia](http://creativecommons.org/licenses/by/3.0/au/legalcode) licence requires you to attribute the work (but not in any way that suggests that the Department of Defence endorses you or your use of the work).

Department of Defence material used 'as supplied'

Provided you have not modified or transformed the Department of Defence material in any way including, for example, by changing the text; calculating percentage changes; graphing or charting data; or deriving new statistics from published Department of Defence statistics – then the Department of Defence prefers the following attribution:

Source: The Australian Government Department of Defence

Derivative material

If you have modified or transformed the Department of Defence's material, or derived new material from those of the Department of Defence in any way, then the Department of Defence prefers the following attribution:

Based on The Australian Government Department of Defence's data.

Defence Housing Australia material used 'as supplied'

Provided you have not modified or transformed the Defence Housing Australia material in any way including, for example, by changing the text; calculating percentage changes; graphing or charting data; or deriving new statistics from published Defence Housing Australia statistics – then the Defence Housing Australia prefers the following attribution:

Source: The Australian Government Defence Housing Australia

Derivative material

If you have modified or transformed the Defence Housing Australia's material, or derived new material from those of the Defence Housing Australia in any way, then the Defence Housing Australia prefers the following attribution:

Based on The Australian Government Defence Housing Australia's data.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are set out on the It's an Honour website (see www.itsanhonour.gov.au)

Other Uses

Inquiries regarding this licence and any other use of this document are welcome at:

Director Chief Finance Officer Coordination
R1-2-C003
Department of Defence
PO Box 7900 Canberra BC ACT 2610
Telephone: (02) 6265 5341
Email: CFO.FINCOORD@defence.gov.au



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 Speaker

I hereby submit Portfolio Additional Estimates Statements in support of the 2012-13 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

Best Wishes

A handwritten signature in black ink, appearing to read 'Steve Smith'.

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
\$b	\$ billion

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.

Enquiries

Should you have any enquiries regarding this publication please contact:

Chief Finance Officer
R1-2-C001
Department of Defence
PO Box 7900 Canberra BC ACT 2610
Telephone: (02) 6265 5341
Email: CFO.FINCOORD@defence.gov.au

A copy of this document can be located on the Australian Government Budget website at:

<<http://www.budget.gov.au>>.

References

Previous years' Defence Portfolio Budget Statements, Portfolio Additional Estimates Statements and Annual Reports can be found at <www.defence.gov.au/budget/>.

**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 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) 2012-13. 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 2012-13* 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 Portfolio Additional Estimates Statements 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	<p>Section Two provides a brief overview of Defence's outcomes and programs for 2012-13. 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.</p>
Section Three: Explanatory tables and 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 PB Statements 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 2012-13 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	<p>Section Two provides an overview of the DMO's outcome and programs, 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.</p>
Section Three: DMO Explanatory tables and 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 PB Statements 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	
	<p>This part provides an overview of DHA, including performance forecasts for 2012-13, DHA's outcome and output, and its 2012-13 budgeted financial statements.</p>
Glossary	Explains key terms relevant to the Portfolio.

Table of Contents

User Guide	viii
Structure of the Portfolio Additional Estimates Statements	ix
Table of Contents	11
PORTFOLIO OVERVIEW	14
Ministers and their Portfolio Responsibilities	15
Portfolio Structure and Outcomes	16
Portfolio Resource Statement.....	17
Portfolio Workforce.....	20
DEPARTMENT OF DEFENCE	24
Section 1: Defence Overview and Resources	24
1.1 Strategic Direction Statement	24
1.2 Defence Resourcing.....	28
1.3 Funding from Government.....	36
1.4 Capital Investment Program.....	41
1.5 People.....	43
Section 2: Outcomes and Planned Performance	48
2.1 Outcomes and Performance Information.....	48
Section 3: Explanatory Tables and Budgeted Financial Statements	78
3.1 Explanatory Tables.....	78
3.2 Budgeted Financial Statements	82
3.3 Consolidated Budgeted Financial Statements for the Department of Defence (including DMO).....	97
Appendices	102
Appendix A.....	103
Appendix B	104
Appendix C.....	105
Appendix D.....	114
Appendix E	118
Appendix F.....	125

DEFENCE MATERIEL ORGANISATION	128
Section 1: Agency Overview and Resources	128
1.1 Strategic Direction Statement	128
1.2 DMO Resource Statement	131
1.3 Agency Measures Table.....	132
1.4 Additional Estimates and Variations.....	132
1.5 Breakdown of Additional Estimates by Appropriation Bill.....	132
1.6 People.....	133
Section 2: Outcomes and Planned Performance	134
2.1 DMO Outcomes and Performance Information.....	135
Section 3: Explanatory Tables and Budgeted Financial Statements	165
3.1 Explanatory Tables.....	165
3.2 DMO Budgeted Financial Statements	168
DEFENCE HOUSING AUSTRALIA	176
Section 1: DHA Overview and Resources	176
Section 2: Outcomes and Planned Performance	176
Section 3: Explanatory Tables and Budgeted Financial Statements	176
APPENDICES	177
Glossary	178
Acronyms and Abbreviations	184

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.

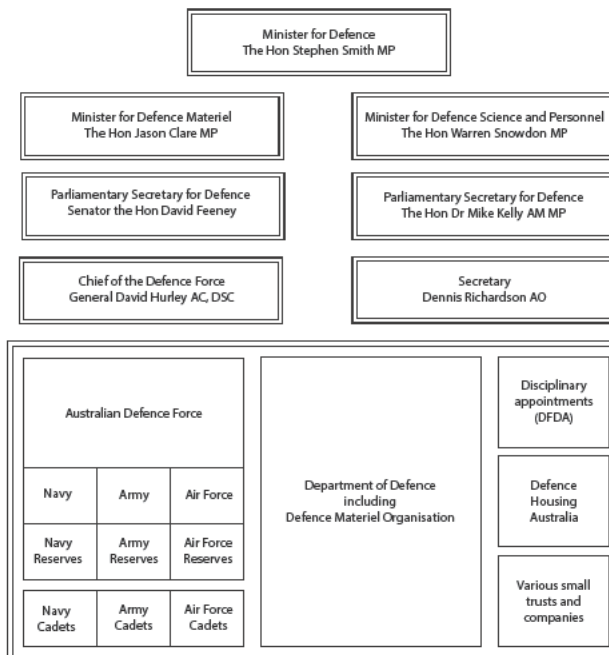
The Minister for Defence's portfolio also contains the Department of Veterans' Affairs and associated bodies, as it is designated as part of the Defence portfolio in the Administrative Arrangements Order. The Department of Veterans' Affairs is administered separately to Defence.

Ministers and their Portfolio Responsibilities

No changes have been made to Ministers and their Portfolio Responsibilities since the *Portfolio Budget Statements 2012-13*.

Defence Portfolio Structure and Outcomes

Figure 1: Defence Portfolio Structure and Outcomes Department of Defence



Department of Defence
 Secretary: Mr Dennis Richardson AO
 Chief of Defence Force: GEN David Hurley AC, DSC

Outcome 1: The protection and advancement of Australia's national interests through the provision of military capabilities and the promotion of security and stability.

Outcome 2: The advancement of Australia's strategic interests through the conduct of military operations and other tasks directed by the Government.

Outcome 3: Support for the Australian community and civilian authorities as requested by Government.

Defence Materiel Organisation (Prescribed Agency within the Department)
 Chief Executive Officer: Mr Warren King

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

Defence Housing Australia
 Managing Director: Mr Peter Hammond (Appointed 4 February 2013)
 Mission: To deliver total housing and related services that meet Defence operational and client needs through a strong customer and business focus.

Portfolio Resource Statement

Table 1: Portfolio Resources^[1]

	Departmental Bill No. 3	Appropriation Bill No. 4	Section 10 Appropriation Act (No.1) 2012-13 ^[3]	Return to the OPA	Special Appropriation	Total Appropriation	Non- Appropriation Receipts	Other Non- Appropriated Items ^[2]	Total Resources Available
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Department of Defence									
Administered appropriations	-	-	-	-	-	-	-	-	-
Departmental appropriations	-	468.8	-366.5	76.2	-	178.5	-60.7	-	117.8
Total Department of Defence	-	468.8	-366.5	76.2	-	178.5	-60.7	-	117.8
	Departmental Bill No. 3	Appropriation Bill No. 4	Section 10 Appropriation Act (No.1) 2012-13	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
Defence Materiel Organisation									
Administered appropriations ^[4]	-	-	-	-	-	-	-	-	-
Departmental appropriations	-	-	-17.4	-	-	-17.4	110.6	-	93.2
Total Defence Materiel Organisation	-	-	-17.4	-	-	-17.4	110.6	-	93.2
	Departmental Bill No. 3	Appropriation Bill No. 4	Section 10 Appropriation Act (No.1) 2012-13	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
Defence Housing Australia									
Administered appropriations	-	-	-	-	-	-	-	-	-
Departmental appropriations	-	-	-	-	-	-	-	-	-
Total Defence Housing Australia	-	-	-	-	-	-	-	-	-
Total Portfolio	-	468.8	-383.9	76.2	-	161.1	49.9	-	211.0

Notes

- Figures shown include inter-agency transactions.
- Represents interest on DHA loans taken out prior to 30 June 2008 reported against non-appropriation receipts.
- Defence will seek a determination by the Minister for Finance and Deregulation, under Section 10 of the *Appropriation Act (No. 1) 2012-13*, to decrease the Departmental outcome appropriation.
- DMO receives interest receipts from overseas bank accounts which are returned to the OPA and do not form part of DMO's resources. The revised estimate for 2012-13 is \$4.3m.

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

	2012-13 Revised Budget \$m
APPROPRIATIONS AND CAPITAL	
Appropriation (Bill 1) ⁽²⁾	23,846.4
Appropriation - Contributed Equity (Bill 2)	-
Appropriation (Bill 3)	-
Appropriation (Bill 4)	468.8
Appropriations for military superannuation ⁽³⁾	2,019.9
/less Returns to the OPA	-1,363.0
Total cash available	24,972.0
OPERATING ACTIVITIES	
Cash received	
Goods and services	475.8
Net GST received	1,186.5
Interest	32.0
Other cash	206.2
Fees	10.0
Total cash received	1,910.4
Cash used	
Employees	9,237.9
Suppliers	8,824.6
Net GST paid	1,186.5
Grants	71.7
Other cash	195.4
Subsidies paid	109.2
Military benefits	1,910.6
Total cash used	21,535.9
Net cash from or (used by) operating activities	-19,625.5
INVESTING ACTIVITIES	
Cash received	
Proceeds from sales of land and buildings	44.5
Proceeds from sales of infrastructure, plant and equipment	28.7
Dividends	48.6
Other	-
Total cash received	121.9
Cash used	
Purchase of land and buildings	859.0
Purchase of infrastructure, plant and equipment	246.2
Purchase of specialist military equipment	3,261.6
Purchase of intangibles	13.8
Purchase of inventory	897.1
Selling costs on sale of assets	8.4
Finance costs	77.5
Total cash used	5,363.5
Net cash from or (used by) investing activities	-5,241.7

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

	2012-13 Revised Budget \$m
FINANCING ACTIVITIES	
Cash used	
Repayment of debt	79.6
Total cash used	79.6
Net cash from or (used by) financing activities	-79.6
Net increase or (decrease) in cash and cash equivalents held	25.3
Cash and cash equivalents at beginning of the reporting period	42.8
Effect of exchange rate movements on cash and cash equivalents	-
Cash and cash equivalents at end of the reporting period	68.1

Notes

1. Figures shown eliminate interagency transactions and transactions flowing between Departmental and Administered funding.
2. Includes \$943.0m of appropriation planned to be drawn down by DMO.
3. Cross reference with Table 65 Consolidated Budgeted Administered Statement of Cash Flows for the Department of Defence (including DMO) for the period ended 30 June.

Portfolio Workforce

The *Portfolio Budget Statements 2012-13* noted that following a period of historically low separation rates which led the Australian Defence Force (ADF) to exceed its budgeted workforce strength, the measures implemented to correct the overachievement had succeeded and the ADF workforce had returned to its budgeted strength.

Since then, changes in labour market conditions have led to increased separations as civilian employment opportunities for ADF personnel continue to grow. Recruiting, while relatively strong, is insufficient to compensate for the increased separations.

Consequently the military workforce has declined, and the Revised Estimate for 2012-13 is some 1,345 lower than the Budget Estimate.

In response, Defence has implemented the Defence Employment Offer project, aiming to provide a mechanism for identifying those elements of their employment that are important to ADF personnel, and facilitating the use of targeted retention initiatives.

The program of reductions to Defence's Australian Public Service workforce outlined in the *Portfolio Budget Statements 2012-13* is on track. From July 2012 to January 2013, Defence's actual APS workforce has reduced from 22,159 to 21,147 (a reduction of 1,012 staff). During 2012-13, the separation rate for APS staff has been lower than originally anticipated as fewer APS left the department in the first half of the financial year than forecast. Under the DMO's combined workforce management model, DMO can utilise funding from ADF positions that cannot be filled and this has the effect of increasing Defence's APS workforce beyond its budgeted strength by an average of 384, even though its total workforce (civilian and military) is within the parameters.

Table 3: Defence and DMO Consolidated Workforce (Average)

	2012-13 Budget Estimate	2012-13 Revised Estimate	Variation	2013-14 Forward Estimate	2014-15 Forward Estimate	2015-16 Forward Estimate
ADF						
ADF Permanent Force ⁽¹⁾	58,636	56,751	-1,885	58,235	58,518	58,664
Reserves ⁽²⁾	21,650	22,190	540	22,645	22,895	23,095
1 Total ADF Workforce	80,286	78,941	-1,345	80,880	81,413	81,759
APS						
Defence APS	15,651	15,731	80	15,476	15,115	14,934
DMO APS	5,544	5,406	-138	5,368	5,590	5,608
DMO APS Backfill	-	384	384	-	-	-
2 Total APS	21,195	21,521	326	20,844	20,705	20,542
Contractor⁽³⁾						
Defence Contractor	488	385	-103	448	445	447
DMO Contractor	48	48	-	48	48	46
3 Total Contractor	536	433	-103	496	493	493
Total Workforce (1+2+3)	102,017	100,895	-1,122	102,220	102,611	102,794

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 and are actual reservists rendering service not averages.
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

