

DEFENCE MATERIEL ORGANISATION

AGENCY RESOURCES AND PLANNED PERFORMANCE

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Defence Materiel Organisation

Section 1: DMO Overview and Resources

1.1 Strategic Direction Statement

In February 2013, the Chief Executive Officer, Defence Materiel Organisation (DMO) released a new strategic framework to enhance accountability, re-balance the structure and deliver further reform across the DMO.

The DMO is progressively aligning internal business plans, reform activities and initiatives to ensure alignment with the goals and behaviours articulated in the DMO Strategic Framework and outlined in the *Portfolio Budget Statements 2013-14*. The DMO Executive Committee and Council Chairs Forum have been formed and are overseeing the prioritisation and implementation of activities that will contribute directly to DMO staff building better relationships with internal and external stakeholders and performing with greater efficiency and effectiveness in delivering materiel capability solutions to the Government and ADF.

Organisational Structure

The following changes have taken place since the *Portfolio Budget Statement 2013-14*:

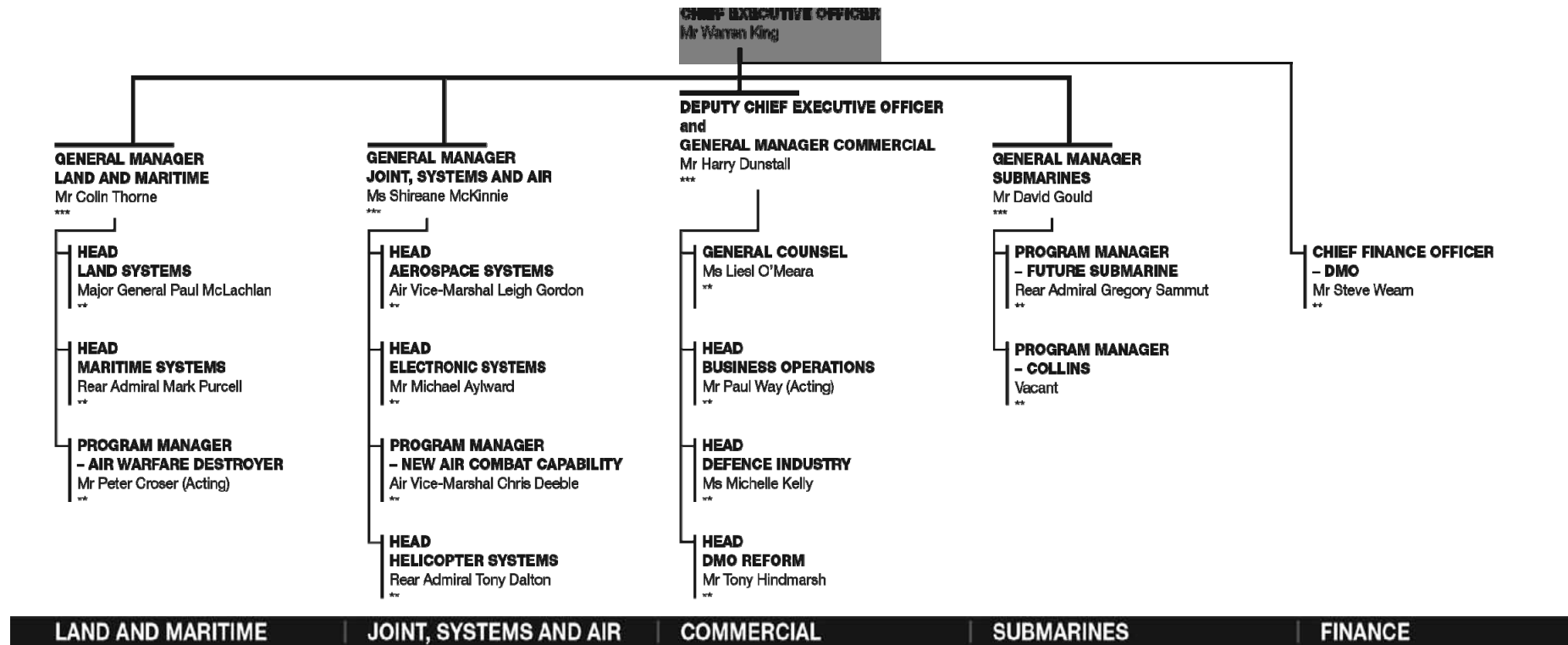
- Commercial Industry Programme and Commercial Enabling Services combined together under the new name Industry Division, headed by Ms Michelle Kelly.
- Explosive Ordnance Branch Heads now report directly to General Manager Land and Maritime, Mr Colin Thorne.

Senior Executive changes

The following changes have taken place since the *Portfolio Budget Statement 2013-14*:

- In July 2013, Ms Michelle Kelly was appointed to position of Head Industry Division, formerly Head Commercial Industry Programs.
- In August 2013, Air Vice-Marshal Leigh Gordon was appointed to the position of Head Aerospace Systems.
- In August 2013, Mr Colin Thorne was appointed to the position of General Manager Land and Maritime.
- In August 2013, Mr Tony Hindmarsh was appointed to the position of Head DMO Reform.
- In September 2013, Mr Mark Reynolds was appointed to Head Business Operations.
- In September 2013, Rear Admiral Gregory Sammut was appointed to Head Future Submarine Program.
- In December 2013, Mr Paul Way was appointed to the position of Acting Head Business Operations.
- In January 2014, Air Vice-Marshal Chris Deeble was appointed to the position Program Manager New Air Combat Capability.

Figure 4: The DMO Organisational Structure as 20 January 2014



1.2 DMO Resource Statement

Resourcing for 2013-14

Table 77 shows the total resources from all sources to support the delivery of the DMO Outcome.

Table 77: DMO Resource Statement for the 2013-14 Additional Estimates

	Estimate as at Budget 2013-14 \$'000	+	Proposed Additional Estimate 2013-14 \$'000	=	Total Estimate at Additional Estimates 2013-14 \$'000	Total Available Appropriation 2012-13 \$'000
ORDINARY ANNUAL SERVICES						
Departmental appropriation						
Prior year departmental appropriation ^[1]	320,000		-72,864		247,136	326,647
Departmental appropriation ^[2]	907,791		-35,413		872,378	911,104
Total Departmental appropriation	1,227,791		-108,277		1,119,514	1,237,751
Total Ordinary Annual Services A	1,227,791		-108,277		1,119,514	1,237,751
Total Available Annual Appropriations	1,227,791		-108,277		1,119,514	1,237,751
Special Accounts						
Opening Balance ^[3]	320,000		-72,864		247,136	326,647
Appropriation Receipts ^[4]	907,791		-35,413		872,378	911,104
Appropriation Receipts - other agencies ^[5]	8,708,445		754,401		9,462,846	8,252,816
Non-Appropriation Receipts to Special Accounts	60,569		-		60,569	98,060
Total Special Accounts B	9,996,805		646,124		10,642,929	9,588,627
Total Resourcing (A + B)	11,224,596		537,847		11,762,443	10,826,378
Less appropriations drawn from annual appropriations above and credited to special accounts						
	1,227,791		-108,277		1,119,514	1,237,751
Total Net Resourcing for DMO	9,996,805		646,124		10,642,929	9,588,627

Notes

1. Estimated adjusted balance carried forward from previous year for annual appropriations.
2. Appropriation Bill (No. 1) 2013-14.
3. Estimated opening balance for the DMO Special Account. For further information refer to Table 92.
4. Direct appropriation for Workforce and Operating Expenses.
5. Appropriation receipts from Defence credited to DMO's special accounts.

Reader Note: All figures are GST exclusive

Table 78: Third Party Payments from and on Behalf of Other Agencies

	Estimate as at Budget 2013-14 \$'000	Estimate at Additional Estimates 2013-14 \$'000
Receipts received from the Department of Defence for the provision of goods and services	8,708,445	9,462,846
Payments made to the Department of Defence for the provision of services ^[1]	376,923	265,004

Note

1. Primarily relates to the payment of military staff posted to the DMO and services provided by the Department of Defence to the DMO in accordance with the Defence Services Agreement.

1.3 DMO Measures Table and Other Adjustments

Table 79: Measures and Other Adjustments

	Program Impacted	2013-14 \$'000	2014-15 \$'000	2015-16 \$'000	2016-17 \$'000
Outcome 1					
Budget measures					
Efficiency Dividend - temporary increase in the rate	1.3	-	-1,077	-2,497	-4,030
Total measures		-	-1,077	-2,497	-4,030
Other adjustments					
Decrease in Estimates (Departmental) Adjustments to agreed level of activity	All	-35,413	-39,373	-41,093	-43,448
Total other adjustments		-35,413	-39,373	-41,093	-43,448
Net impact on estimates for Outcome 1 (Departmental)					
		-35,413	-40,450	-43,590	-47,478

1.4 Breakdown of Additional Estimates by Appropriation Bill

The following table details changes sought by the DMO during the 2013-14 Additional Estimates. The DMO will seek a determination by the Minister of Finance, under Section 10 of the *Appropriation Act (No.1) 2013-14*, to decrease the Departmental appropriation by \$35.413m due to transfers to Defence.

Table 80: Appropriation Bill (No 3) 2013-14

	2012-13 Available \$'000	2013-14 Budget \$'000	2013-14 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	911,104	907,791	872,378	-	35,413
Total	911,104	907,791	872,378	-	35,413

1.5 People

Workforce Summary

The DMO combined APS, ADF and Contractor workforce forecast is 6,658. This is a decrease of 449 in comparison with the 2013-14 budget estimates of 7,107. It is important to note that the DMO manages its workforce under a total workforce model in which the DMO workforce is represented as a combined ADF, APS and Contractor model. Under the DMO's approved total workforce model it is able to employ additional civilian staff to fill positions that cannot be filled by ADF members (428) with appropriate skills and experience, which may lead to the DMO exceeding its budgeted APS workforce even though its overall workforce (civilian + military + contractors) is within agreed parameters. Therefore, the overall total workforce plan should be viewed in its entirety.

Table 81: DMO Consolidated Workforce Statement

	2013-14 Budget Estimate	2013-14 Revised Estimate	Variation	2014-15 Forward Estimate	2015-16 Forward Estimate	2016-17 Forward Estimate
Navy	301	300	-1	360	364	368
Army	383	360	-23	487	492	497
Air Force	705	664	-41	932	944	957
Sub Total Permanent Force ^[1]	1,389	1,324	-65	1,779	1,800	1,822
DMO - APS	5,307	4,878	-429	5,087	5,106	5,141
APS - ADF backfill	363	428	65	-	-	-
Total DMO APS (including APS-ADF Backfill)	5,670	5,306	-364	5,087	5,106	5,141
DMO Contractor ^[2]	48	28	-20	48	46	46
Total Workforce Strength	7,107	6,658	-449	6,914	6,952	7,009

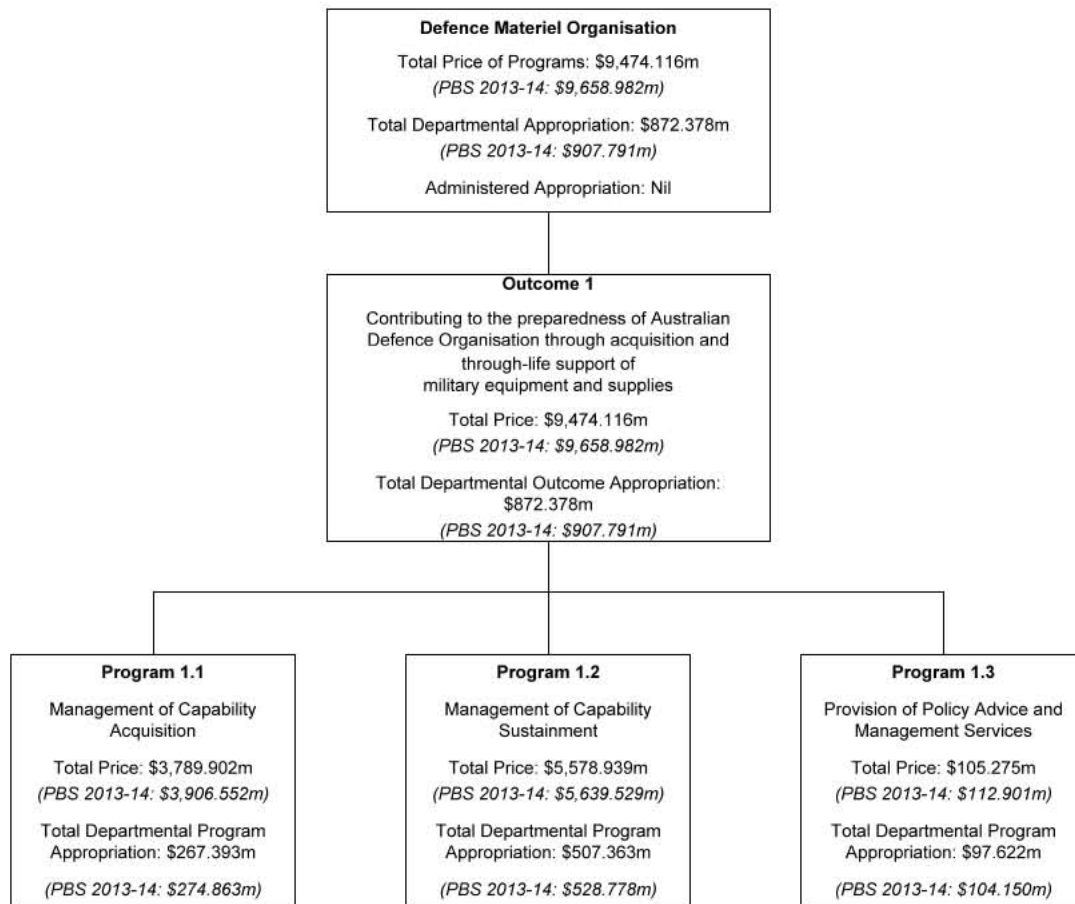
Notes

1. Numbers for ADF Permanent Force includes the DMO ADF Permanent Force and Reservists on continuous full-time service.
2. Contractors are individuals under contract performing agency roles. Contractors are not APS Employees.

Section 2: DMO Outcomes and Planned Performance

Outcome 1 encapsulates the entire business of the DMO, the activities it undertakes as part of Defence in acquisition and sustainment of materiel and the advice it provides on contracting policy and industry policy.

Figure 5: Contributions to Outcomes and Programs



2.1 Outcomes and Performance Information

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

Outcome 1 Strategy

No changes have been made to Outcome 1 Strategy since the *Portfolio Budget Statements 2013-14* except for the following:

Program 1.2, Management of Capability Sustainment

Under Rizzo implementation the roll out of the Sustainment Business Model across DMO to promote better and more consistent practice has been delayed pending further trialling (and refinement) in Maritime Systems Division.

Outcome Expenses and Resource Statement

Table 82 provides an overview of the total expenses for Outcome 1 by program.

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	2012-13 Actual Expenses \$'000	2013-14 Revised Estimated Expenses \$'000
Program 1.1 Management of Capability Acquisition		
Departmental expenses		
Departmental appropriation ^[1]	221,455	267,393
Special Accounts	3,733,528	3,513,632
Expenses not requiring appropriation in the Budget year ^[2]	8,967	8,877
Total for Program 1.1	3,963,950	3,789,902
Program 1.2 Management of Capability Sustainment		
Departmental expenses		
Departmental appropriation ^[1]	554,128	507,363
Special Accounts	4,484,405	5,052,741
Expenses not requiring appropriation in the Budget year ^[2]	19,027	18,835
Total for Program 1.2	5,057,560	5,578,939
Program 1.3 Provision of Policy Advice and Management Services		
Departmental expenses		
Departmental appropriation ^[1]	103,742	97,622
Special Accounts	5,396	2,449
Expenses not requiring appropriation in the Budget year ^[2]	4,146	5,204
Total for Program 1.3	113,284	105,275
Outcome 1 Total by appropriation type		
Departmental expenses		
Departmental appropriation ^[1]	879,325	872,378
Special Accounts	8,223,329	8,568,822
Expenses not requiring appropriation in the Budget year ^[2]	32,140	32,916
Total Expenses for Outcome 1	9,134,794	9,474,116
	2012-13	2013-14
Average Staffing Level (number)^[3]	5,748	5,306

Notes

1. Departmental Appropriation combines "Ordinary annual services (Appropriation Bills No. 1)" and "Revenue from independent sources (s31)".
2. Expenses not requiring appropriation in the Budget year is made up of resources received free of charge.
3. Average staffing levels do not include military staff posted to DMO, as military staff remain employees of The Department of Defence and are included in its staffing.

Contributions to Outcome 1

Program 1.1: Management of Capability Acquisition

Program 1.1 Objective

No changes have been made to the Program Objective since the *Portfolio Budget Statement 2013-14*.

Program 1.1 Expenses

The nature and costs of Program 1.1 remains as described in the *Portfolio Budget Statements 2013-14*.

The planned resource use for Program 1.1 is \$3,789.9m in 2013-14 which continues to represent approximately 40 per cent of the DMO's total expenses. The revised planned resource use for Program 1.1 includes:

- the DMO major capital equipment program of \$3,422.5m which comprises \$3,405.4m of the approved major capital investment program and a further \$17.1m of work planned to be transferred to the DMO during the remainder of 2013-14 from Defence
- the DMO minor capital investment program of \$91.1m, including the approved minor program of \$52.8m and \$38.2m of work planned to be transferred to the DMO during the remainder of 2013-14
- direct appropriation of \$267.4m relating to Acquisition workforce and operating expenses
- resources received free of charge from Defence of \$8.9m.

The estimates for Program 1.1 reduced by \$116.6m since the *Portfolio Budget Statements 2013-14* as a result of the following:

- the DMO major capital equipment program decreased by \$55.6m reflecting:
 - reduction in payments required from Defence for approved major projects of \$444.1m in large part reflecting the accelerated outcome achieved in 2012-13
 - supplementation due to foreign exchange movements of \$249.7m
 - reprogramming of estimates from forward years of \$200.0m
 - other changes largely as a result of a reduction by Defence of the estimated value of major projects to be approved and transferred to the DMO for delivery during the remainder of 2013-14 of \$61.2m.
- the DMO minor capital investment program decreased by \$52.1m largely reflecting a reduction by Defence of the estimated value of projects to be approved and transferred to the DMO for the remainder of 2013-14
- the direct appropriation relating to Acquisition workforce and operating expenses decreased by \$7.5m due to minor functional transfers to Defence
- the resources received free of charge from Defence reduced by \$1.5m.

Table 83: Program 1.1 Management of Capability Acquisition

	2012-13 Actual \$'000	2013-14 Revised Budget \$'000	2014-15 Forward Year 1 \$'000	2015-16 Forward Year 2 \$'000	2016-17 Forward Year 3 \$'000
Special Account Expenses:					
Defence Materiel Special Account	3,733,528	3,513,632	5,487,278	6,293,555	6,211,013
Annual Departmental Expenses:					
Ordinary Annual Services (Appropriation Bill No. 1)	221,455	267,393	295,815	316,813	350,427
Expenses not requiring appropriation in the Budget year ^[1]	8,967	8,877	9,099	9,326	9,559
Total Program Expenses	3,963,950	3,789,902	5,792,192	6,619,694	6,570,999

Note

1. Expenses not requiring appropriation in the Budget year is made up of resources received free of charge.

Program 1.1 Deliverables

Changes to the detailed descriptions of deliverables for the top 30 DMO projects is contained in Table 84 Top 30 Projects by 2013-14 Expenditure. A status update on other major projects that are no longer included in the top 30, but were included in the previous five years, is provided at Table 86.

Program 1.1 Key Performance Indicators

No changes have been made to the Program Key Performance Indicators since the *Portfolio Budget Statement 2013-14*.

Top 30 Projects by 2013-14 Forecast Expenditure

Table 84: Top 30 Projects by 2013-14 Forecast Expenditure

Project number/ phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Project Performance Update and Explanation of Variation	
General Manager Joint, Systems and Air							
Aerospace Systems							
Battlefield Airlift - Caribou Replacement	AIR 8000 Phase 2	1,257	278	162	164	2	Aircraft production is progressing with the first aircraft nearing completion and the next three well advanced. Initial spares deliveries will commence under the Foreign Military Sales (FMS) and the United States Government will finalise contract arrangements for the three year period of interim training and logistics support. Initial training is scheduled to commence second half 2015 to support the planned 2015 Australian In Service Date. The variation is due to the refinement in FMS case in relation to support and spares contracts (-\$17m). This is offset by foreign exchange (Forex) supplementation. (+\$19m).
Growler Airborne Electronic Attack Capability	AIR 5349 Phase 3	2,920	37	90	291	201	Several FMS cases have been signed with the United States Government for the 12 new-build Growler aircraft and associated systems; Anti-Radiation Missiles (training variant) and initial Growler aircrew and maintainer training. The first Growler aircrew commenced training with the United States Navy in November 2013. The variation is due to revised project scope from converting existing Super Hornet aircraft to acquisition of new-build Growler aircraft. The variation includes Forex (+ \$27m).
Airborne Early Warning and Control Aircraft	AIR 5077 Phase 3	3,867	3,452	87	59	-28	Final logistics support requirements are on contract and are progressively being delivered. The remaining radar performance and software remediation activities have been defined and planned, and are being executed. The variation (-\$33m) is due to a combination of rephased milestones and contracting of residual remediation work, and savings in contracted activities, partially offset by Forex (+\$4.9m).
Air to Air Refuelling Capability	AIR 5402	1,815	1,557	61	29	-32	Testing of military avionics identified changes which are being implemented. Testing of the Aerial Refuelling Boom System also identified changes. A joint Industry and Defence "task force" has confirmed the scope and strategy for the development and testing of the changes to the boom. The remaining contracted scope is expected to be delivered but with a delay in the final completion, refurbishment and redelivery of the first (prototype) aircraft. A negative \$36m variation is due to delays in completion of milestones for operational testing of the boom and pod refuelling systems, delays to delivery of spares and a reduction in the reimbursement of Air Force costs for alternative tanker and air logistics services arising from project delays. This is partially offset by a Forex (+\$4m).

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	Project number/ phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Project Performance Update and Explanation of Variation
Electronic Systems							
Battlespace Communications System (Land)	JP 2072 Phase 2A	456	158	152	114	-37	The project is approximately half way through delivery and introduction into service of the new digital radios. Interim support arrangements are in place while contracts to support the new radios through life-of-type are being tendered. Delivery of Combat Net Radio equipment and associated key generation cryptographic devices has been deferred to 2014-15. The associated mature support contract for this equipment has also been deferred to align with expiration of current support arrangements. This resulted in a -\$48m variance that is partially offset by Forex (+\$11.6m).
Next Generation Satellite Communications System	JP 2008 Phase 4	868	543	38	39	1	Wideband Global Satellite Communications System (WGS) 5 became operational in late 2013 following launch in mid 2013. WGS6, which Australia is funding, also launched in mid 2013, and is expected to become operational by early 2014.
Battle Management System	LAND 75 Phase 3.4	313	184	30	29	-1	This project has delivered to Army all installations of the Battle Management Systems into Bushmaster Protected Mobility Vehicle and selected logistic vehicles. Delivery of installations into G-Wagon vehicles will continue in 2013-14. The focus for the balance of the 2013-14 period is on completion of design acceptance activities and introduction into service processes leading to project closure. The variation is due to minor re-scheduling of project closure activities between financial years.
Military Satellite Capability - Wideband Terrestrial Terminals	JP 2008 Phase 3H	45	8	29	30	2	The project has completed acceptance testing of the transportable satellite terminals with delivery and introduction into service training to commence in early 2014. The variation is due to the cost reduction associated with the installation of a Defence Restricted Network terminal in the Prime Contractors facility.
Anzac Electronic Support System Improvements	SEA 1448 Phase 4A	266	10	25	22	-3	System Preliminary Design Review was completed in October 2013. The variation is due to early delivery of an item (-\$4m) in 2012-13, partially offset by Forex (+\$1m).
Joint Command Support Environment	JP 2030 Phase 8	256	147	24	22	-2	Evolution 2 Releases one to three have been completed. The Special Operations Combat Net Radio Interface capability system has been completed and placed into operational service. An interim support contract has been established for the Combat Net Radio Interface system.
Helicopter Systems							
Future Naval Aviation Combat System Helicopter	AIR 9000 Phase 8	3,141	467	412	425	13	The first two of four MH-60R Seahawk Romeo helicopters scheduled for acceptance in 2013-14 were accepted in December 2013, six months ahead of schedule. The project remains on track to conduct Seahawk Romeo flying operations in the United States throughout 2014 ahead of returning to Australia at the end of 2014. Construction of the dedicated Seahawk Romeo facilities at HMAS Albatross commenced in late 2013. There is little schedule float in the facilities construction schedule and this remains a key project risk. The variation is due to Forex (+\$39m) and FMS payments varying from originally planned (-\$26m).
Multi Role Helicopter	AIR 9000 Phase 2	3,733	2,179	204	244	40	There are currently 26 MRH90 aircraft in service. Contract performance has improved in line with negotiated outcomes of the Deed of Settlement agreed in May 2013. The variation reflects the improved performance of the support arrangements (+\$19m) and Forex (+\$21m).

	Project number/ phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Project Performance Update and Explanation of Variation
New Air Combat Capability							
Joint Strike Fighter Aircraft	AIR 6000 Phase 2A/2B	2,808	228	231	214	-18	Since June 2013 the United States Joint Program Office managed contract for Australia's first two Joint Strike Fighter Aircraft was signed. Production of the aircraft continued on schedule to meet the planned delivery and acceptance timeframe in the second half of 2014. The variation is due to delays in contract signature which has been partially offset by Forex (+\$19.7m).
General Manager Land and Maritime							
Air Warfare Destroyer							
Air Warfare Destroyer Build	SEA 4000 Phase 3	7,820	4,565	625	623	-2	The completion of block consolidation and integration for Ship 01, Hobart, is scheduled to be completed in early 2014. The keel-laying ceremony for Ship 02, Brisbane, is scheduled for February 2014. Blocks will continue to arrive in South Australia for Ship 02 and Ship 03. Combat system equipment will continue to be delivered. The variance is due to several factors including a transfer back to Defence for the development of facilities (-\$16m), minor slippage (-\$5m) and Forex (+\$19m).
Explosive Ordnance							
Standard Missile-2 Conversion and Upgrade	SEA 4000 Phase 3.2	102	20	37	35	-2	The Intermediate Level Maintenance Facility upgrade of the existing Standard Missile-2 missile MK 698 Test Set at Orchard Hills remains on schedule to occur in 2014. The variance is due to minor schedule delay.
Lightweight Torpedo Replacement	JP 2070 Phase 2	341	274	26	26	-1	In August 2013, Navy undertook the successful 'world first' war shot firing of an MU90 lightweight torpedo against a manufactured target. In September 2013, the DMO implemented contractor provided maintenance support for the MU90 and the Chief of Navy declared a Final Operational Capability for the MU90 lightweight torpedo system. Work to finalise project transition and project closure is ongoing. The variation is due to the delivery delay of spares.
Mulwala Redevelopment Project	JP 2086 Phase 1	370	329	24	15	-10	Commissioning of the Modernised Facility has proceeded, with this work taking place in two separable zones within the plant, Nitrocellulose Production and Propellant Manufacturing. The Nitrocellulose Production area has been commissioned and performance testing is now underway. Support facilities built around the perimeter of the Modernised Facility have been granted Final Acceptance and are being utilised by the Commonwealth's operator of the Mulwala site. Planning is underway with the construction contractor to deliver functional stages of the plant in 2014. The variation is primarily due to delays in Mulwala infrastructure works.
Bridging Air Combat Capability	AIR 5349 Phase 2	284	138	24	8	-16	The delivery of Joint Stand Off Weapon C1 weapons remain on schedule for early 2014 and the delivery of Advanced Medium Range Air to Air Missile weapons remain on schedule for 2015. Delays in the United States Navy's integration of these weapons with the F/A-18F Super Hornet has the potential to further delay the introduction into service of these capabilities. The variance is due to rephrasing of FMS payments to match United States Government information.

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	Project number/ phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Project Performance Update and Explanation of Variation
Land Systems							
Field Vehicles and Trailers - Overlander Program	LAND 121 Phase 3A/5A	1,012	386	235	204	-30	As at December 2013, 894 G-Wagons and 564 trailers had been delivered to units. Operator and maintainer training are to be completed by late 2014 and late 2015 respectively. Materiel release of the Surveillance and Reconnaissance variant is scheduled for achievement by mid 2014. The variation reflects some rescheduling of deliveries and cost saving partially offset by Forex (+\$16m).
Bushmaster Protected Mobility Vehicles	LAND 116 Phase 3	1,251	858	62	59	-3	Delivery of 101 Production Period 4 (attrition vehicles) vehicles was completed. Delivery of Production Period 5 vehicles (up to 214) commenced in July 2013 and is due to be completed in mid 2016. The variation is due to a reduction in the cost of External Composite Armour, and the rescheduling of price variation claims.
Additional Lightweight Towed Howitzers	LAND 17 Phase 1C 1	76	24	47	29	-18	This project will take delivery of the additional 19 Howitzers and progress the Capability Assurance Program for Government consideration in early 2014. The first two of the additional Howitzers were delivered in October 2013, with the remaining 17 Howitzers to be delivered from February 2014. The variation is primarily due to FMS payments being brought forward into 2012-13 due to accelerated performance.
Overlander - Medium Heavy Capability, Field Vehicles, Modules and Trailers	LAND 121 Phase 3B	3,391	8	45	45	..	This project successfully sought a revised Second Pass approval from Government and signed contracts for the production, delivery and through-life support of the medium/heavy capability field vehicles, modules and trailers. Initial deliverables have been received and the project will begin the first design review process in early 2014.
Digital Terminal Control System	LAND 17 Phase 1B	120	40	41	37	-4	This project achieved the Initial Materiel Release milestone on schedule and within budget. This included the delivery of the next tranche of digital terminal control systems (updating hardware elements and software), and associated operator training. The upgrade of the currently fielded systems is progressing and software development will continue to include additional platform integration requirements. The variation is due primarily to slipping the payment and delivery of the Laser Target Designator to 2014-15.
Artillery Replacement 155MM Howitzer	LAND 17 Phase 1A	333	135	28	22	-6	This project has achieved Final Materiel Release for the towed howitzers and the battle management system. The acquisition of the course correcting fuze is progressing with ADF certification activities planned to commence this financial year and fuze deliveries expected from 2015. The variation is primarily due to savings identified for both Advanced Field Artillery Tactical Data System support and M777A2 introduction into service activities. This is in addition to rescheduling of Protected Mobility Vehicle integration work to 2014-15.

	Project number/ phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Project Performance Update and Explanation of Variation
Maritime Systems							
Amphibious Deployment and Sustainment	JP 2048 Phase 4A/B	3,084	2,391	203	227	24	The variation is due to movement of Prime Contract Milestones from 2012-13 to 2013-14 and Forex.
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2B	678	405	73	62	-10	Anti-Ship Missile Defence refits continue with HMAS <i>Arunta</i> almost complete and HMAS <i>Anzac</i> well underway. The weapon firings in the Hawaii region were an outstanding success. The variation is due to a rescheduling of work.
Amphibious Watercraft Replacement	JP 2048 Phase 3	233	49	37	39	2	The first four landing craft are currently conducting sea trials which are scheduled to conclude in early 2014. The variation is due to Forex.
SM-1 Missile Replacement	SEA 1390 Phase 4B	406	327	24	7	-17	Work continues towards achieving Operational Release by Navy, and subsequent project closure. The variation is due to realigning FMS payments to match projected disbursement.
Anzac Ship Anti-Ship Missile Defence	SEA 1448 Phase 2A	387	283	23	17	-7	Anti-Ship Missile Defence upgrade work is almost complete on HMAS <i>Arunta</i> and well underway on HMAS <i>Anzac</i> . The variation is due to a rescheduling of work.
General Manager Submarines							
Future Submarines							
Future Submarine - Acquisition	SEA 1000 Phase 1A	234	14	58	52	-7	Government has suspended work on Military off the shelf design options with the project focussing on Option 3 (Evolved Collins Class) and Option 4 (new design) submarines. A contract into the feasibility of an Evolved Collins has been signed with ThyssenKrupp Marine Systems AB of Sweden for Option 3 and the Defence and Industry Project Team has commenced work in Adelaide, South Australia, on Option 4. The variation is due to delays in entering contracts.
Total -Top 30 Projects (Gross Plan)		41,865	19,492	3,158	3,189	31	

Table 85: Major Capital Investment Program by 2013-14 Forecast Expenditure

		Budget estimate 2013-14 \$m	Revised estimate 2013-14 \$m	Variation \$m
Top 30 Projects Gross Plans	A	3,158	3,189	31
Other Approved Project Gross Plans	B	403	839	436
Total Gross Plan Project Estimates	C = A+B	3,561	4,028	467
Management Margin: Slippage ¹	D	-640	-623	17
Payments Required from Defence for Approved Programs	E = C+D	2,921	3,405	485
Projects Planned for Government Consideration and Transfer to the DMO	F	557	17	-540
Total Estimated Funds Available	G = E+F	3,478	3,423	-55

Notes

1. Management margin is an estimate of possible overall approved capital program expenditure slippage that may accrue as the 2013-14 financial year progresses.

Acquisition Projects not included in the Top 30 Projects – Current Status

Table 86 provides an update on the status of major projects reported in previous five financial years. These projects were not ranked in the top 30 projects by expenditure in 2013-14.

Table 86: 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 \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Status Report	
General Manager Joint, Systems and Air								
Aerospace Systems								
AP-3C Electronic Support Measure Upgrade	AIR 5276 Phase 8B	2009-10	130	90	17	15	-2	The prototype aircraft testing was successfully completed in October 2013 and the aircraft returned to Air Force. Modification of the second aircraft commenced in October 2013 and is forecast for completion in early 2014. Modification of the supporting ground systems and simulators has commenced and will also be completed in early 2014.
F/A-18 Hornet Upgrade	AIR 5376 Phase 2	2011-12	1,881	1,636	17	11	-6	The Electronic Warfare Self Protection Phase contract closure activities are underway with final spares deliveries expected in December 2014. The Hornet simulators contract was established in November 2013 is due for completion in 2016.
AP-3C Capability Assurance Program	AIR 5276 CAP 1	2009-10	88	69	2	2	..	Nine AP-3C Orion aircraft and all associated ground systems and simulators have been upgraded. Three further aircraft will be modified during 2013-14, with the last two aircraft to be completed in 2014-15.
Bridging Air Combat Capability	AIR 5349 Phase 1	2012-13	3,301	2,726	20	11	-10	Residual acquisition activities and the completion of infrastructure tasks continue. Project closure activities have commenced including a significant reduction in the main Foreign Military Sales case with United States Navy.
Maritime Patrol and Response Aircraft System	AIR 7000 Phase 2	2012-13	178	99	21	23	2	This project has completed all required inputs for the submission to Government for Second Pass Approval planned for early 2014. The project has delivered to the United States Navy its procurement requirements for both aircraft and training systems. These requirements will be incorporated within the United States Navy's request for tender to the prime contractor Boeing, which will be released in early 2014.

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	Project number/ phase	Last Financial Year Reported in Top 30	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Status Report
C-17 Globemaster III	AIR 8000 Phase 3	2012-13	1,855	1,346	19	14	-6	Delivery of the remaining C-17 sustainment support requirements continues, including spares and the procurement of ancillary items such as training devices, role expansion equipment, ground support equipment and material handling equipment.
Additional C-17A Globemaster III	AIR 8000 Phase 4	2012-13	558	422	13	9	-4	The United States common electronic self protection system has been installed on the two C-17 Globemaster III aircraft delivered under this project. The project is progressing the delivery of remaining spares, ground support equipment and material handling equipment.
Airbourne Surveillance for Land Operations	JP 129 Phase 2	2012-13	95	63	9	9	..	Equipment has been delivered and accepted for the Australian configuration of the Shadow 200 System including two Air Vehicles and two Institutional Mission Simulators. Installation of Australian Combat Network Radios into the Ground Control Stations and installation of system shelters on Unimog vehicles was completed and accepted for Mission System One. Final Material Release is planned for May 2014, following airlift certification for C-17 aircraft.
Electronic Systems								
Ultra High Frequency Satellite Communications System	JP 2008 Phase 5A	2012-13	437	328	18	8	-10	Key Milestones, including System Acceptance, have been slipped to 2014-15 due to Commonwealth of Australia delays in providing key government furnished interfaces. These delays have directly affected the prime contractor's ability to deliver.
Battlespace Communications Systems	JP 2072 Phase 1	2011-12	258	207	17	16	-1	All core radios and associated ancillaries have been delivered. Final order for minor components and spares has been placed. Planning and activities for Project Closure have commenced.
High Frequency Modernisation	JP 2043 Phase 3A	2010-11	580	442	22	11	-11	Contract signature for the Direction Finding and Signal Improvement (Nullarbor) has been delayed and is now expected to occur in early 2014. The variation is due to delays in entering a contract for the Direction Finding & Signal Improvement (Nullarbor) scope of work and other minor delays associated with the transmitter replacement and Information Technology refresh.

	Project number/ phase	Last Financial Year Reported in Top 30	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Status Report
ADF Deployable Logistics Systems	JP 2077 Phase 2B.2	2011-12	21	21	-	-	-	This Project is now closed.
Dismounted Battlegroup and Below Command, Control Communication System	LAND 125 Phase 3A	2011-12	107	81	10	11	2	All dismounted Battle Management Systems have been completed and delivered to Army. The focus for the balance of 2013-14 is on project closure activities.
Tactical Information Exchange Domain	JP 2089 Phase 2A	2010-11	104	68	8	11	3	Rectified Tactical Data Link Processor following non-conformance to standard testing. This resulted in delays to Lead Ship Software installation.
New Air Defence Command and Control Systems for Control Units 2 & 3	AIR 5333	2011-12	274	246	-	-	-	This Project is now closed.
New Air Combat Capability								
Detailed Analysis and Acquisition Planning	AIR 6000 Phase 1B	2009-10	103	98	-	-	-	Project has been completed.
Helicopter Systems								
Armed Reconnaissance Helicopter	AIR 87 Phase 2	2012-13	2,033	1,858	4	7	2	Closure certification is planned for early 2014. Payment variation will result from payment for contract deliverables slipped from 2012-13.
General Manager Land and Maritime								
Land Systems								
Direct Fire Support Weapons	LAND 40 Phase 2	2010-11	145	39	1	..	..	The introduction of the M3 Carl Gustaf and its sights into service is complete and the capability has been accepted by Army. The way forward for acquisition of the Light Weight Automatic Grenade Launcher is under review and this component of the project continues to be managed as a Project of Concern.
Counter Rocket, Artillery & Mortar (C-RAM)	LAND 19 Phase 7A	2012-13	259	175	3	1	-2	The project will evaluate a Request for Tender for C-RAM sustainment costs and initial support arrangements to support a Business Case to be progressed to Government.

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	Project number/ phase	Last Financial Year Reported in Top 30	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Status Report
Australian Protected Route Clearance Capability (APRCC)	JP 154 Phase 3A	2012-13	74	32	17	3	-14	Initial Materiel Release was achieved on schedule and Initial Operating Capability achieved ahead of schedule. The Project Office is continuing with Australian-based 'Stage 2' deliverables such as future communications and Battle Management System integration.
Upgrade of M-113 Armoured Vehicles	LAND 106	2012-13	885	790	..	1	1	Applique Armour and Integrated Logistic Support. During 2013-14, the project commenced finalising the remaining activities to obtain Final Material Release.
Maritime Systems								
Guided Missile Frigate Upgrade Implementation	SEA 1390 Phase 2.1	2010-11	1,452	1,352	7	18	12	The remaining component of this project, Underwater Warfare System, is being progressed through a Navy directed solution that will achieve full operational release.
Explosive Ordnance								
Lightweight Torpedo Replacement	JP 2070 Phase 3	2011-12	302	272	5	3	-2	Australian production of MU90 torpedoes is complete and all warshot weapons have been accepted into inventory. In September 2013, Chief of Navy declared a Final Operational Capability for the MU90 lightweight torpedo system. Work to finalise project transition and project closure is underway.
Follow-On Stand Off Weapon	AIR 5418 Phase 1	2011-12	317	284	10	..	-10	Joint Air-to-Surface Stand Off Missile deliveries were completed in April 2013 and the project achieved Final Materiel Release in September 2013. Project closure activities have commenced.
Evolved Sea Sparrow Missiles (ESSM)	SEA 1428 Phase 4	2009-10	88	84	..	..	..	The project remains within scope, budget and schedule. Material Release Milestones 4 (next delivery of ESSM weapons) remains on track for early 2014.
Explosive Ordnance Reserve Stocks	JP 2085 Phase 1B	2008-09	235	206	..	..	-	All planned acquisitions are complete. Service release of the new precision artillery munitions acquired under the project is being finalised. Project closure is planned, but subject to the review of the remaining scope of the Advanced Field Artillery Tactical Data System integration by relevant stakeholders.
General Manager Submarines								
Collins								
New Heavyweight Torpedo	SEA 1429 Phase 2	2009-10	426	299	7	4	-3	System modifications continue.
Collins Class Submarine Reliability and Sustainability	SEA 1439 Phase 3	2008-09	412	335	14	12	-2	System modifications and construction of the diesel engine land based test facility continue.

Top 10 Minor Capital Investment Projects by 2013-14 Forecast Expenditure

Table 87 lists the top 10 approved Minor Capital Investment Projects by forecast expenditure for 2013-14.

Table 87: Top 10 Approved Minor Projects by 2013-14 Forecast Expenditure

Project number/ phase	Approved Project Expenditure to 30 June 2013 \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Project Performance Update and Explanation of Variation	
Navy							
Digital Voice Recording Equipment	NMP1822	20	7	3	3	..	Following successful installation of the digital voice recording systems on three first-of-class ships, installation in the remainder of the fleet and third (and final) training facility is progressing.
Army							
Enhanced Static Line Parachute Capability	AMP058.08	29	9	8	12	5	The Enhanced Static Line Parachute Project has delivered the bulk of the static line parachutes and all of the dispatcher parachute systems through a Foreign Military Sales case with the United States Government. It is anticipated that the remaining parachutes and ancillary items will be delivered by mid 2014. The variation is due to higher than planned Foreign Military Sales billing and foreign exchange supplementation to the budget.
Enhanced Land Force Weapons Training Simulation System	AMP029.44	35	12	5	7	2	The project successfully delivered the initial capability for five additional Weapons Training Simulation Systems at Edinburgh in South Australia; Townsville and Enoggera in Queensland; and Singleton and Kapooka in New South Wales. The additional Weapons Training Simulation Systems are in support of the Enhanced Land Force. The variation is due to an improved schedule with some elements delivered earlier than forecast.
Australian Light Armoured Vehicle Crew Procedural Trainers	AMP002.12	44	26	5	5	..	The project successfully delivered all nine Crew Procedural Trainers including a Through Life Support contract for engineering, supply, maintenance and training. All capability elements necessary for Final Materiel Release have been delivered.
Chinook Passenger and Crew Seating	AMP015.36	3	1	4	2	-2	The project schedule has slipped due to changes in design of the initial seating and floor configuration. Delays have been compounded by aircraft availability issues resulting from ongoing support to operations.
Kiowa Pilot Seating	AMP015.58	7	2	3	2	-1	The prototype installation did not meet airworthiness requirements and further guidance was required from stakeholders before a suitable design solution was approved. The project remains on track to commence fleet installation in 2013-14.

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	Project number/ phase	Approved Project Expenditure \$m	Cumulative Expenditure to 30 June 2013 \$m	Budget Estimate 2013-14 \$m	Revised Estimate 2013-14 \$m	Variation \$m	Project Performance Update and Explanation of Variation
Air Force							
Deployable Tactical Air Control and Navigation	AFM01006	6	-	3	..	-3	The Project is planning to release a Request for Tender (RFT) for the Deployable Tactical Air Control and Navigation system in early 2014. The variation is due to RFT development delays requiring expenditure to be reprogrammed in 2014-15.
Multi-Band, Multi-Mode Radio Capability	AFM00975	5	2	3	..	-2	Single Radio Integrated Base-station design has been sufficient to allow acquisition of prototypes and for testing to begin. Failure of Electromagnetic Interference/Compatibility testing and the amplifier during environmental testing necessitated return to the United States for remediation. This has caused a schedule delay with Base stations now being procured and delivered in 2014-15 instead of 2013-14.
Tactical Communications Router	AFM00935	4	1	2	3	..	All six systems being acquired under this project will be delivered in 2013-14.
Aeronautical Information Services	AFM00930	16	13	2	2	..	Delivery of the Digital Aeronautical Flight Information File Merge Tool has been delayed to May 2014 immediately prior to project closure.
Total - Top 10 Minor Projects		169	72	38	36	-1	

Table 88: Top 10 Minor Capital Investment Program by 2013-14 Forecast Expenditure

	Budget estimate 2013-14 \$m	Revised estimate 2013-14 \$m	Variation \$m
Top 10 Projects Gross Plans	38	36	-2
Other Approved Project Gross Plans	15	16	1
Total Gross Plan Project Estimates	53	52	-1
Management Margin: Slippage ¹	-	-	-
Payments Required from Defence for Approved Programs	53	53	..
Plus Projects Planned for Consideration and Transfer to the DMO	90	38	-52
Total Estimated Funds Available	143	91	-52

Notes

1. Management margin is an estimate of possible overall approved capital program expenditure slippage that may accrue as the 2013-14 year progresses.

Program 1.2: Management of Capability Sustainment

Program 1.2 Objective

No changes have been made to the Program Objective since the *Portfolio Budget Statements 2013-14*.

Program 1.2 Expenses

The nature of the costs of Program 1.2 remains as described in the *Portfolio Budget Statements 2013-14*.

The revised planned resource use for Program 1.2 is \$5,578.9m in 2013-14 which continues to represent approximately 59 per cent of the DMO's total expenses. The revised planned resource use for Program 1.2 includes:

- the cost of contracted sustainment services of \$4,757.1m
- support for current ADF operations of \$293.1m
- direct appropriation of \$507.4m relating to Sustainment workforce and operating expenses
- net Operating Costs of \$2.5m in support of new capabilities expected to enter service
- resources received free of charge from Defence of \$18.8m.

The estimates for Program 1.2 decreased by \$60.6m since the *Portfolio Budget Statements 2013-14* as a result of the following:

- the cost of contracted sustainment services increased by \$91.6m largely reflecting
 - an increase due to supplementation for foreign exchange movements of \$97.9m
 - an increase of \$182.3m relating to new activity and transfers from the Net Personnel and Operating Cost Provision that have been triggered during 2013-14
 - a decrease of \$188.6m relating to a variation in planned sustainment activities as agreed by Defence capability managers.
- the support for current ADF operations decreased by \$3.7m reflecting handbacks and supplementation
- the direct appropriation relating to Sustainment Workforce and Operating Expenses decreased by \$21.4m due to minor functional transfers to Defence
- the Net Personnel and Operating Costs in support of new capabilities expected to enter service decreased by \$122.3m due to transfers to Contracted Sustainment Services
- the resources received free of charge from Defence decreased by \$4.8m.

Table 89: Program 1.2 Management of Capability Sustainment

	2012-13 Actual \$'000	2013-14 Revised Budget \$'000	2014-15 Forward Year 1 \$'000	2015-16 Forward Year 2 \$'000	2016-17 Forward Year 3 \$'000
Special Account Expenses:					
Defence Materiel Special Account	4,484,405	5,052,741	5,690,259	5,975,892	6,208,646
Annual Departmental Expenses:					
Ordinary Annual Services (Appropriation Bill No. 1)	554,128	507,363	520,956	533,709	547,150
Expenses not requiring appropriation in the Budget year ¹¹	19,027	18,835	19,305	19,788	20,283
Total Program Expenses	5,057,560	5,578,939	6,230,520	6,529,389	6,776,079

Note

1. Expenses not requiring appropriation in the Budget year is made up of resources received free of charge.

Program 1.2 Deliverables

Information relating to Program 1.2 Deliverables remains as reported in the *Portfolio Budget Statements 2013-14*. Changes to the detailed descriptions of deliverables for the top 30 DMO Sustainment products are contained in Table 90.

Program 1.2 Key Performance Indicators

No changes have been made to the Program Key Performance Indicators since the *Portfolio Budget Statements 2013-14*.

Top 30 Sustainment Products by 2013-14 Forecast Expenditure

Table 90: Top 30 Sustainment Products by End of Financial Year Outcome 2013-14

	Budget estimate 2013-14 \$m	Revised Budget Estimate 2013-14 \$m	Variation \$m	Product Performance Update and Explanation of Variation
General Manager Joint, Systems & Air				
Aerospace Systems				
Airborne Early Warning & Control	163	167	4	The prime In-Service Support Contract has been novated from Boeing Defence Systems to Boeing Defence Australia, providing a greater involvement of Australian industry. In addition, the development of follow-on contracting arrangements to provide sustainment support beyond January 2015 is substantively complete. The variation is due to Foreign Exchange (Forex) updates offset by funding for 2013-14 returned to Air Force and repayment of Defence Logistics Transformation Funding used in 2012-13.
F/A-18A Hornet Weapons System	158	173	15	Under the Classic Hornet Deeper Maintenance contract, commencing February 2014, all deeper maintenance will be conducted by a combined contractor and military workforce at a single contractor venue. The final aircraft in the Structural Refurbishment Program will be delivered by the end of January 2014. The variation is due to Forex updates, and additional funding received to support the Joint Air-to-Surface Stand off Missiles.
F/A-18F Block II Super Hornet Weapons System	123	131	8	The focus for the remainder of 2013-14 is to evaluate and negotiate the new major commercial support contract. Challenges for the coming year will be an increase in the number of aircrew with a corresponding increase in Super Hornet flying hours, as well as the commencement of deeper maintenance and capability upgrades. The variation is due to Forex updates.
P-3C/AP-3C Orion Weapons System	110	113	3	Four aircraft repaints have been completed with three more scheduled this year. The first 'safety-by-inspection 2' servicing was completed on time and within budget and the second aircraft is undergoing this servicing. Work continues on supportability and obsolescence treatments for ageing avionics systems, and implementation of strategic reform activities. The T-56 engine re-contracting activity is at the tender selection stage. The variation is due to Forex updates and minor transfers.

	Budget estimate 2013-14 \$m	Revised Budget Estimate 2013-14 \$m	Variation \$m	Product Performance Update and Explanation of Variation
C-130J-30 Weapons System	95	100	5	Continuing capability upgrades for the C-130J include the improvement in C-130J electronic warfare self-protection through project AIR 5416, and the Selective Availability Anti-Spoofing Module compatible embedded GPS trial installation. The variation is due to Forex updates and minor transfers.
Lead-in Fighter Hawk 127 Weapons System	78	79	1	The new Lead-in Fighter In-Service Support Contract commenced operation on 1 July 2013. The Hawk 127 fleet re-paint program continues with 13 aircraft completed by mid 2014.
KC-30A Weapon System	59	46	-13	The KC-30A fleet is continuing to transition into full operational service. The acquisition project office is progressively delivering the remaining capability requirements, and maturing the support arrangements. The variation is due to a reprioritisation of funding by Air Force to other products.
C-17 Heavy Air Lift Weapons System	58	51	-7	A new Cargo Compartment Trainer was accepted in November 2013. The remaining focus will be on integrating the trainer into the C-17 training system. The variation is due to a reprioritisation of funding by Air Force to other products.
Special Purpose Aircraft Weapon System	47	49	2	Special Purpose Aircraft fleet performance and serviceability is being maintained at a very high level, which directly contributed to the outstanding support provided during the lead up to the Federal Election in September 2013. Aircraft lease and maintenance support arrangements have been extended until mid 2017. The variation is due to the extension of the Special Purpose Aircraft Leases and Maintenance and Supply Agreement to mid 2017.
PC-9/A Weapon System	38	40	1	The platform is now well into its third decade of continuous operation and the characteristic signs of an ageing aircraft continued to be evident. DMO is conducting a more detailed ageing aircraft audit to assure Air Force of continuing capability. The variation is primarily due to additional funding to support ageing aircraft challenges.
Electronic Systems				
Wide Area Surveillance Capability	99	99	..	The Jindalee Operational Radar Network (JORN) Priority Industry Capability Support Program is successfully mitigating the threat to skills retention, providing sixteen development work packages that utilise the full range of critical JORN industry skills required for the next major development program in 2017-18.

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	Budget estimate 2013-14 \$m	Revised Budget Estimate 2013-14 \$m	Variation \$m	Product Performance Update and Explanation of Variation
Command and Intelligence Systems	45	49	4	Engineering and security accreditations, licensing and upgrades of equipment to the Topographical Support System and Base Support Network capability successfully completed. A Base Standard Operating Environment for the Special Operations Command Support System capability has been delivered. Support for the Transition Remediation Plan draw down of Operational Deployable ICT capability is continuing. The variation is due to additional capability requirements required by Army for Geospatial upgrades and the engineering and security accreditations of the Topographical Support System and Base Support Network.
Air Traffic Control Capability	42	41	-1	Obsolescence remediation continued to assure ongoing performance of Air Traffic Management systems. A program of sustainment reform was implemented, and the Australian Defence Air Traffic System support contract was remediated achieving significant strategic reform savings.
Naval and Shore Communication Systems	40	39	-1	All performance targets have been met or exceeded. Replacement of Very Low Frequency Antenna Guy Wires and remediation of workshop equipment has commenced. The variation is a result of efficiencies achieved through revised procurement arrangements.
Battlespace Communication Systems	38	37	-2	Key Performance Indicators are being met. Concurrently Battlespace Communications is working with JP 2072 in delivering the next generation of equipment via a series of project phases. These project phases remain on track for delivery in accordance with the revised project timelines agreed with key sponsors and stakeholders. The variation is due to the project generating efficiencies.
Helicopter Systems				
Multi Role Helicopter - TLH MRH90	121	114	-7	There are currently 22 MRH90 aircraft in service. Contract performance has improved in line with negotiated outcomes of the Deed of Settlement agreed in May 2013. The variation reflects the improved performance of the support arrangements and Forex.

	Budget estimate 2013-14 \$m	Revised Budget Estimate 2013-14 \$m	Variation \$m	Product Performance Update and Explanation of Variation
Armed Reconnaissance Helicopter Weapons System	104	114	10	The Tiger support arrangements have improved and are expected to continue doing so throughout 2013-14. A strategic review of the Tiger through life support arrangements has commenced and is expected to reduce the future cost of ownership and improve the availability of the capability for Army. The variation is due to Forex adjustments and funding provided by Army to upgrade the Armed Reconnaissance Helicopter simulator.
S70A-9 Black Hawk Weapons System	77	79	2	The Black Hawk continues to perform well across 2013-14, meeting Army's airmobile and special operations capability requirements. Army relocated the Black Hawk training aircraft from Oakey, Queensland, to Holsworthy, New South Wales, in late 2013. The variation is due to higher than anticipated engine maintenance costs and some Ground Support Equipment had to be replaced, rather than repaired as anticipated.
S70B-2 Seahawk Weapons System	65	63	-2	The Seahawk continues to perform as expected across 2013-14. The variation is due to transfer of initial sustainment funding from the Seahawk "Classic" to the new "Romeo".
General Manager Land & Maritime				
Explosive Ordnance				
Explosive Ordnance - Navy, Army, Air Force	370	334	-36	The variation is mainly due to sustainment funding being returned to the Services as a result of reduced requirements identified by Capability Managers, offset by Forex. Munitions requirements for 2013-14 can be met with the revised funding.
Land Systems				
ADF Clothing	70	45	-26	Standing offers were established for: Service Dress caps; Army parade boots and Navy and Air Force dress shoes; combat and cold weather combat boots; new Army jacket; and new Air Force General Purpose Uniform. Procurement of Cadet boots (early 2014), Navy boots (early 2014), wet and foul weather garments (early 2014) and embroidered insignia (mid 2014) is underway. The variation is due to the decline in operational demand and the ongoing rationalisation of existing inventory stock holding levels.
General Service B Vehicle Fleet	67	71	4	Priority is directed to remediation of vehicles returning from operations and sustaining the fleet to meet ADF capability requirements. As at January 2014, approximately 600 Land Rover vehicles have been decommissioned during 2013-14, as the new Mercedes Benz G-Wagons are introduced into service. The variation of is due to an increase in requirements.

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	Budget estimate 2013-14 \$m	Revised Budget Estimate 2013-14 \$m	Variation \$m	Product Performance Update and Explanation of Variation
Australian Defence Organisation Commercial Vehicles Fleet	51	52	..	Commercial vehicle and trailer fleet replacement is proceeding as scheduled, including vehicle replacement deferred from 2012-13. A net reduction of over 500 vehicles is being implemented during 2013-14 under the Chief of Army directed fleet rationalisation program.
Health Systems	40	42	2	For the remainder of 2013-14 the focus will be on: the implementation of a new four year prime vendor contract for the supply of medical and dental consumables to the ADF in early 2014; the completion of a fleet replacement for the ADF defibrillator capability in mid-2014; and the conduct of outgoing procurements to meet ADF health requirements for remaining operations as well as for raise, train and sustain activities. The variation is due to additional funding triggered by the introduction into service of elements from project JP 2060 Phase 2B Deployable Health Capability
Maritime Systems				
Fuels & Lubricants - Air Force, Army & Navy	507	493	-14	Support to materiel remediation of Defence Bulk Fuel Installations continues. Both Exercise Talisman Sabre and the Navy International Fleet Review were supported with all fuel requirements satisfied. The Hazardous Chemicals Remediation Program completed the critical review and rationalisation of stock items while the Risk Assessments and compliant Safety Data Sheet work continues. Fuel cards for the Defence Commercial Vehicle Fleet were transitioned to the Whole of Government Contract Arrangement. Variation is driven by reduced fuel requirements and pricing.
ANZAC Class Frigate	224	250	26	Ongoing sustainment of materiel capability is now conducted under the Group Maintenance Contract. The variation is due to an increased level of maintenance being required including additional pre-Anti Ship Missile Defence work on HMAS <i>Warramunga</i> .
Adelaide Class Frigate	89	121	32	The Combat System Support Contract is now operating and the development of the Group Maintenance Contract is ongoing. The variation is due to delivery of the FFG upgrade (SEA 1390 Phase 2.1), provision of associated supplementary funding and Forex.
Mine Hunter Coastal	81	80	..	The focus is to complete scheduled ship maintenance activities for the operational ships throughout the financial year, and continue the detailed design for the upgrade of the ships' fire fighting and combat systems.
Armidaire Class Patrol Boat	40	44	5	The focus is on improving delivery of materiel support and ongoing maintenance of the vessels through in-service support arrangements. The variation is due to the requirement to procure additional Sea Boats to meet operational requirements.

	Budget estimate 2013-14 \$m	Revised Budget Estimate 2013-14 \$m	Variation \$m	Product Performance Update and Explanation of Variation
General Manager Submarines				
Collins Submarine Management Program				
Collins Class Submarines	574	580	6	Reform activities aimed at improving Collins Class Submarine availability and reliability are continuing. The variation is due to Forex updates.
Total -Top 30 Products	3,672	3,696	24	
Other approved Sustainment Product estimates	994	1,061	67	
Total Sustainment Product Funds Available	4,665	4,757	92	
Support to Operations	297	293	-4	
Total Sustainment and Operations Funding	4,962	5,050	88	

Program 1.3 Provision of Policy Advice and Management Services

Program 1.3 Objective

No changes have been made to the Program Objective since the *Portfolio Budget Statements 2013-14*.

Program 1.3 Expenses

The nature of the costs of Program 1.3 remains as described in *the Portfolio Budget Statements 2013-14*.

The revised planned resources use for Program 1.3 is \$105.3m in 2013-14 which continues to represent around one per cent of the DMO's total expenses. The planned resource use for Program 1.3 includes:

- direct appropriation of \$57.6m for policy advice and management services
- direct appropriation of \$40.0m relating to industry programs
- resources received free of charge from Defence and the ANAO of \$5.2m
- other revenue of \$2.4m.

The estimates for Program 1.3 decreased by \$7.6m since the Portfolio Budget Statements 2013-14 largely as a result of a reallocation of Workforce and Operating Costs (\$6.5m), and a reduction in resources received free of charge from Defence and the Australian National Audit Office (1.1m).

Table 91: Program 1.3 Provision of Policy Advice and Management Services

	2012-13 Actual \$'000	2013-14 Revised Budget \$'000	2014-15 Forward Year 1 \$'000	2015-16 Forward Year 2 \$'000	2016-17 Forward Year 3 \$'000
Special Account Expenses:					
Defence Materiel Special Account	5,396	2,449	894	917	2,596
Annual Departmental Expenses:					
Ordinary Annual Services (Appropriation Bill No. 1)	103,742	97,622	95,204	95,270	92,680
Expenses not requiring appropriation in the Budget year ⁽¹⁾	4,146	5,204	5,307	5,412	5,520
Total Program Expenses	113,284	105,275	101,405	101,599	100,796

Note

1. Expenses not requiring appropriation in the Budget year is made up of resources received free of charge.

Program 1.3 Deliverables

No changes have been made to the Program Deliverables since the *Portfolio Budget Statements 2013-14*.

Program 1.3 Key Performance Indicators

No changes have been made to the Program Key Performance Indicators since the *Portfolio Budget Statements 2013-14*.

Section 3: DMO Explanatory Tables and Budgeted Financial Statements

3.1 Explanatory Tables

3.1.1 Special Accounts

Special accounts provide a means to set aside and record amounts used for specified purposes. Table 92 shows the expected additions (receipts) and reductions (payments) for each account used by the DMO. The corresponding table in the *Portfolio Budget Statements 2013-14* is Table 93.

Table 92: Estimates of Special Account Flows and Balances

		Opening 2013-14 2012-13 Outcome \$'000	Receipts 2013-14 2012-13 \$'000	Payments 2013-14 2012-13 \$'000	Adjustments 2013-14 2012-13 \$'000	Closing Balance 2013-14 2012-13 \$'000
Defence Materiel Special Account (A & D)	1	247,136 326,647	10,396,043 9,261,980	10,392,976 9,341,491	-	250,203 247,136
Total Special Accounts 2013-14		247,136	10,396,043	10,392,976	-	250,203
<i>2012-13 actual</i>		326,647	9,261,980	9,341,491	-	247,136

Notes

- (A) = Administered
- (D) = Departmental

3.1.2 Australian Government Indigenous Expenditure

No changes have been made to this section since the *Portfolio Budget Statements 2013-14*.

3.1.3 Grants

Table 93 shows Approved Grants for 2013-14. Detailed information on Grant Programs and recipients can be found at:

<www.defence.gov.au/dmo/id/sadi/index.cfm>

<www.defence.gov.au/dmo/id/picip/>

<www.defence.gov.au/dmo/id/industry_skilling/>

<www.defence.gov.au/dmo/jsf/NACC_ISP.cfm>

Table 93: Approved Grants for 2013-14

	2012-13	2013-14
	Actual	Revised
	Expenses	Expenses
	\$'000	\$'000
Skilling Australia's Defence Industry (SADI)	9,773	12,189
Priority Industry Capability Innovation Program (PIC IP)	5,192	3,831
Industry Skilling Program Enhancement (ISPE)	1,602	2,106
New Air Combat Capability Industry Support Program (NACC ISP)	2,695	1,550
Total	19,262	19,676

3.2 DMO Budgeted Financial Statements

3.2.1 Budgeted Financial Statements Tables

Table 94: Comprehensive Income Statement (Showing Net Cost of Services) for the period ended 30 June

	2012-13 Actual Result \$'000	2013-14 Revised Estimate \$'000	2014-15 Forward Estimate \$'000	2015-16 Forward Estimate \$'000	2016-17 Forward Estimate \$'000
EXPENSES					
Employee benefits	591,070	551,707	565,620	589,571	618,734
Supplier expenses	8,494,163	8,900,143	11,544,767	12,649,791	12,816,481
Grants	19,262	19,676	11,076	8,599	9,870
Depreciation and amortisation	1,707	2,590	2,654	2,721	2,789
Write-down of assets and impairment of assets	13,239	-	-	-	-
Foreign Exchange Losses	15,299	-	-	-	-
Other	54	-	-	-	-
Total expenses	9,134,794	9,474,116	12,124,117	13,250,682	13,447,874
LESS:					
OWN-SOURCE INCOME					
Own-source revenue					
Sales of goods and rendering of services	8,217,929	8,568,822	11,178,431	12,270,364	12,422,255
Interest	5,452	-	-	-	-
Other revenue	31,848	31,816	32,611	33,426	34,262
Total own-source revenue	8,255,229	8,600,638	11,211,042	12,303,790	12,456,517
Gains					
Foreign exchange	-	-	-	-	-
Other gains	1,100	1,100	1,100	1,100	1,100
Total gains	1,100	1,100	1,100	1,100	1,100
Total own-source income	8,256,329	8,601,738	11,212,142	12,304,890	12,457,617
Net cost of (contribution by) services	878,465	872,378	911,975	945,792	990,257
Revenue from Government	911,104	872,378	911,975	945,792	990,257
Surplus (Deficit) attributable to the Australian Government	32,639	-	-	-	-
OTHER COMPREHENSIVE INCOME					
Changes in asset revaluation reserves	13	-	-	-	-
Total other comprehensive income	13	-	-	-	-
Total comprehensive income (loss) attributable to the Australian Government	32,652	-	-	-	-

Table 95: Budgeted Departmental Balance Sheet (as at 30 June)

	2012-13 Actual Result \$'000	2013-14 Revised Estimate \$'000	2014-15 Forward Estimate \$'000	2015-16 Forward Estimate \$'000	2016-17 Forward Estimate \$'000
ASSETS					
Financial assets					
Cash and cash equivalents	135,805	130,000	130,000	130,000	130,000
Trade and other receivables	1,165,560	731,375	735,030	721,895	730,587
Total financial assets	1,301,365	861,375	865,030	851,895	860,587
Non-financial assets					
Property, plant and equipment	5,560	5,896	6,241	6,594	6,956
Intangibles	28	113	201	291	383
Other	1,204,647	1,434,647	1,434,647	1,434,647	1,434,647
Total non-financial assets	1,210,235	1,440,656	1,441,089	1,441,532	1,441,986
Total assets	2,511,600	2,302,031	2,306,119	2,293,427	2,302,573
LIABILITIES					
Payables					
Suppliers	1,405,576	1,192,519	1,192,519	1,192,519	1,192,519
Grants	5,111	5,111	5,111	5,111	5,111
Other	517,377	519,821	522,289	503,281	505,905
Total payables	1,928,064	1,717,451	1,719,919	1,700,911	1,703,535
Provisions					
Employee provisions	174,981	176,025	177,645	183,961	190,483
Other	5,881	5,881	5,881	5,881	5,881
Total provisions	180,862	181,906	183,526	189,842	196,364
Total liabilities	2,108,926	1,899,357	1,903,445	1,890,753	1,899,899
NET ASSETS	402,674	402,674	402,674	402,674	402,674
EQUITY					
Contributed equity	155,368	155,368	155,368	155,368	155,368
Reserves	252	252	252	252	252
Retained surplus (accumulated deficit)	247,054	247,054	247,054	247,054	247,054
Total parent entity interest	402,674	402,674	402,674	402,674	402,674
Total equity	402,674	402,674	402,674	402,674	402,674

Table 96: Departmental Statement of Changes in Equity - Summary of Movement (Budget year 2013-14)

	Retained Earnings \$'000	Asset Revaluation Reserve \$'000	Other Reserves \$'000	Contributed Equity/ Capital \$'000	Total Equity \$'000
Opening balance as at 1 July 2013					
Balance carried forward from previous period	247,054	252	-	155,368	402,674
Adjustment for changes in accounting policies	-	-	-	-	-
Adjusted opening balance	247,054	252	-	155,368	402,674
Surplus (Deficit) for the period	-	-	-	-	-
Total comprehensive income recognised directly in equity	-	-	-	-	-
Transactions with owners					
<i>Contributions by owners</i>					
Appropriation (equity injection)	-	-	-	-	-
Departmental Capital Budget (DCBs)	-	-	-	-	-
Sub-total transaction with owners	-	-	-	-	-
Estimated closing balance as at 30 June 2014	247,054	252	-	155,368	402,674

Table 97: Budgeted Departmental Statement of Cash Flows (for the period ended 30 June)

	2012-13 Actual Result \$'000	2013-14 Revised Estimate \$'000	2014-15 Forward Estimate \$'000	2015-16 Forward Estimate \$'000	2016-17 Forward Estimate \$'000
OPERATING ACTIVITIES					
Cash received					
Goods and services	8,350,682	9,457,041	11,177,537	12,269,447	12,486,962
Appropriations	1,014,441	869,311	908,320	958,927	981,565
Net GST received	618,088	657,165	810,723	887,953	899,763
Other	53,224	60,569	60,525	62,099	65,368
Total cash received	10,036,435	11,044,086	12,957,105	14,178,426	14,433,658
Cash used					
Employees	616,037	548,219	561,532	602,263	609,588
Suppliers	8,407,885	9,368,404	11,570,687	12,676,447	12,843,891
Grants	19,312	19,676	11,076	8,599	9,870
Net GST paid	597,732	657,165	810,723	887,953	899,763
Other	283,926	453,416	-	-	67,303
Total cash used	9,924,892	11,046,880	12,954,018	14,175,262	14,430,415
Net cash from (used by) operating activities	111,543	-2,794	3,087	3,164	3,243
INVESTING ACTIVITIES					
Cash used					
Purchase of property, plant and equipment	460	3,011	3,087	3,164	3,243
Total cash used	460	3,011	3,087	3,164	3,243
Net cash from (used by) investing activities	-460	-3,011	-3,087	-3,164	-3,243
Net increase (decrease) in cash held	111,083	-5,805	-	-	-
Cash and cash equivalents at the beginning of the reporting period	24,722	135,805	130,000	130,000	130,000
Cash and cash equivalents at the end of the reporting period	135,805	130,000	130,000	130,000	130,000

Table 98: Departmental Capital Budget Statement

	2012-13 Actual Result \$'000	2013-14 Revised Estimate \$'000	2014-15 Forward Estimate \$'000	2015-16 Forward Estimate \$'000	2016-17 Forward Estimate \$'000
PURCHASE OF NON-FINANCIAL ASSETS					
Funded internally from departmental resources ^[1]	460	3,011	3,087	3,164	3,243
Total	460	3,011	3,087	3,164	3,243
Reconciliation of cash used to acquire assets to asset movement table					
Total purchases	460	3,011	3,087	3,164	3,243
Total cash used to acquire assets	460	3,011	3,087	3,164	3,243

Note

1. Includes the following sources of funding:

- annual and prior year appropriations
- donations and contributions
- gifts
- internally developed assets
- s31 relevant agency receipts (for FMA agencies only)
- proceeds from the sale of assets.

Table 99: Statement of Asset Movements (2013-14)

	Asset Category		
	Other Property, Plant and Equipment \$'000	Intangibles \$'000	Total \$'000
As at 1 July 2013			
Gross book value	7,325	292	7,617
Accumulated depreciation/amortisation and impairment	-1,765	-264	-2,029
Opening net book balance	5,560	28	5,588
CAPITAL ASSET ADDITIONS			
Estimated expenditure on new or replacement assets			
By purchase - internal sources	2,429	582	3,011
Total Additions	2,429	582	3,011
Other Movements			
Depreciation and amortisation	-2,093	-497	-2,590
As at 30 June 2014			
Gross book value	9,754	874	10,628
Accumulated depreciation/amortisation and impairment	-3,858	-761	-4,619
Closing net book value	5,896	113	6,009

3.2.2 Analysis of budgeted financial statements

Revisions to the budgeted financial statements for the DMO since *Portfolio Budget Statements 2013-14* are presented in this section.

Income Statement

Analysis of the comprehensive income statement (Table 94) show a difference of \$339.3m between the revised estimate for 2013-14 of \$9,474.1m, and the 2012-13 actual expenses of \$9,134.8m. This difference is a result of supplementation of foreign exchange movements and increased sustainment activity, partially offset by reduced activity relating to capital investment.

There has been a decrease in DMO's total estimated income for 2013-14 of \$184.9m since the *Portfolio Budget Statement 2013-14* largely as a result of the following:

- reduction in payments required from Defence for approved major projects of \$444.1m in large part reflecting the accelerated outcome achieved in 2012-13
- a reduction by Defence of the estimated value of projects to be approved and transferred to the DMO for delivery during the remainder of 2013-14 of \$168.6m
- a net decrease in sustainment funding of \$132.3m reflecting customer demand and requirements
- a reduction to estimates for directly appropriated workforce and operating expenses of \$35.4m due to minor functional transfers to Defence.

These decreases were offset by:

- an increase in estimates due to foreign exchange rate movements of \$350.7m
- other net increases to approved major projects of \$255.5m largely representing reprogramming from future years into 2013-14 and new projects.

Balance Sheet

The balance sheet has been updated to reflect the 2012-13 audited financial statements and adjustments to the income statement as described above.

Statement of Cash Flows

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

3.2.3 Administered Budgeted Financial Statements Tables

Table 100: Schedule of Budgeted Income and Expenses Administered on Behalf of Government (for the period ended 30 June)

	2012-13 Actual Result \$'000	2013-14 Revised Budget \$'000	2014-15 Forward Estimate \$'000	2015-16 Forward Estimate \$'000	2016-17 Forward Estimate \$'000
INCOME ADMINISTERED ON BEHALF OF GOVERNMENT					
Revenue					
Non-taxation					
Interest	85	250	250	250	250
Foreign exchange gains	189	-	-	-	-
Total Non-taxation	274	250	250	250	250
Total Revenues administered on behalf of Government	274	250	250	250	250

Table 101: Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government (as at 30 June)

	2012-13 Actual Result \$'000	2013-14 Revised Budget \$'000	2014-15 Forward Estimate \$'000	2015-16 Forward Estimate \$'000	2016-17 Forward Estimate \$'000
ASSETS ADMINISTERED ON BEHALF OF GOVERNMENT					
Financial assets					
Receivables	2,059	2,059	2,059	2,059	2,059
Total Financial assets	2,059	2,059	2,059	2,059	2,059
Total Assets administered on behalf of Government	2,059	2,059	2,059	2,059	2,059

Table 102: Schedule of Budgeted Administered Cash Flows (for the period ended 30 June)

	2012-13 Actual Result \$'000	2013-14 Revised Budget \$'000	2014-15 Forward Estimate \$'000	2015-16 Forward Estimate \$'000	2016-17 Forward Estimate \$'000
OPERATING ACTIVITIES					
Cash received					
Interest	1,799	250	250	250	250
Total Cash received	1,799	250	250	250	250
Net cash from or (used by) operating activities	1,799	250	250	250	250
Net increase (decrease) in cash held and cash equivalents held	1,799	250	250	250	250
Cash and cash equivalents at the beginning of reporting period	-	-	-	-	-
Cash to the Official Public Account for:					
- Transfers to other entities (Finance - Whole of Government)	1,799	250	250	250	250
Cash and cash equivalents at end of reporting period	-	-	-	-	-

3.2.4 Notes to the Financial Statements

The notes on the budgeted financial statements (income, balance sheet, cash flows and capital budget statement) remain as reported in the *Portfolio Budget Statements 2013-14*.