



MINISTER FOR DEFENCE
THE HON DR BRENDAN NELSON MP

2 FEB 2006

Senator the Hon Paul Calvert
President of the Senate
Parliament House
CANBERRA ACT 2600

The Hon David Hawker MP
Speaker of the House of Representatives
Parliament House
CANBERRA ACT 2600

Paul *David*

Dear Mr ~~President~~ and Mr ~~Speaker~~

I hereby submit Portfolio Additional Estimates Statements in support of the 2005-06 Additional Estimates for the Department of Defence, the Defence Materiel Organisation and the Defence Housing Authority.

The statements provide detailed explanations and justifications of the proposed appropriations to Defence, the Defence Materiel Organisation and the Defence Housing Authority in Appropriation Bills (Nos. 3 and 4) 2005-06.

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

Yours sincerely



BRENDAN NELSON

Portfolio Additional Estimates Statements 2005-06

Letter of Transmittal	<i>i</i>
Table of Contents	<i>iii</i>
User Guide	<i>vi</i>

SECTION ONE – DEFENCE

CHAPTER ONE – OVERVIEW

Overview	3
Strategic Objectives and Environment	3
Force Structure.....	4
Overview of the 2005-06 Budget	4
Implementing the Defence White Paper	8
Organisational Structure	12

CHAPTER TWO – RESOURCING

2005-06 Additional Estimates Summary	17
2005-06 Budget Measures.....	20
Discretionary Grants.....	38
Purchaser-Provider Arrangements.....	39
Defence Materiel Organisation.....	39
Defence Housing Authority.....	39
Comcare.....	40
ComSuper.....	41

CHAPTER THREE – CAPITAL INVESTMENT PROGRAM

Overview	45
Defence Capability Plan.....	47
The Approved Major Capital Equipment Program	49
Capital Facilities Projects	50
Other Capital Purchases.....	62
Capital Receipts.....	63

CHAPTER FOUR – PEOPLE

Overview	67
Workforce Summary.....	69

CHAPTER FIVE – PLANNED OUTCOME PERFORMANCE

Defence Outcomes – Revised Estimates.....	77
Defence Outcome and Output Structure	78
Cost of Defence Outcomes.....	79
Net Cost of Defence Outcomes.....	83
Outcome One: Command of Operations	87
Outcome Two: Navy Capability	91
Outcome Three: Army Capability	96
Outcome Four: Air Force Capability	100
Outcome Five: Strategic Policy.....	103
Outcome Six: Intelligence.....	105
Outcome Seven: Superannuation and Housing Support Services for Current and Retired Defence Personnel	107
Table of Explanations of Significant Variations Across Defence Outcomes.....	110

CHAPTER SIX – MANAGEMENT REFORMS AND EFFICIENCIES

Progress of Financial Statements Remediation Plans.....	119
Delivering Internal Services.....	134
Portfolio Evaluations	138

CHAPTER SEVEN – BUDGETED FINANCIAL STATEMENTS

Budgeted Departmental Income Statement.....	141
Budgeted Departmental Balance Sheet	142
Budgeted Departmental Statement of Cash Flows.....	143
Departmental Statement of Changes in Equity – Summary of Movement..	144
Departmental Capital Budget Statement	145
Departmental Non-Financial Assets – Summary of Movement.....	146
Schedule of Budgeted Income and Expenses Administered on Behalf of the Government	147
Schedule of Budgeted Assets and Liabilities Administered on Behalf of the Government	148
Schedule of Budgeted Administered Cash Flows	149
Notes to the Budgeted Financial Statements.....	150

SECTION TWO – DEFENCE MATERIEL ORGANISATION

Chapter One: Overview	157
Challenges and Opportunities facing the Defence Materiel Organisation	157
Organisational Structure	157
Chapter Two: Resourcing	159
Chapter Three: Planned Outcome Performance	161
Summary of Outcome and Outputs	161
Performance and Evaluation Information for the Defence Materiel Organisation Outcome	163
Chapter Four: Governance and Materiel Reform	183
Chapter Five: People	184
Chapter Six: Budgeted Financial Statements	187
Analysis of Budgeted Financial Statements	187
Notes to the Financial Statements	193

SECTION THREE – DEFENCE HOUSING AUTHORITY

Overview	197
Mission	197
Overview	197
Outcome and Output Information	198
Budgeted Financial Statements	200
Budgeted Income Statement	201
Budgeted Balance Sheet	202
Budgeted Statement of Cash Flows	203
Capital Budget Statement	204
Non-Financial Assets – Summary of Movement	204

APPENDICES

List of Tables and Charts	207
Glossary	211
Acronyms and Abbreviations	219
Alphabetical Index	221

USER GUIDE

The purpose of the Defence Portfolio Additional Estimates Statements (PAES), like that of the Portfolio Budget Statements, is to inform Senators and Members of Parliament of the proposed allocation of resources to Government outcomes by agencies within the portfolio. Unlike the Portfolio Budget Statements, the PAES summarise only the *changes* in resourcing by outcome since the Budget, that is, they do not include complete resourcing information for the agency. The PAES include new measures, summarise the changes by Appropriation Bill, and, where relevant, by Special Appropriation and Special Account.

The PAES facilitate understanding of the proposed appropriations in Appropriation Bills (Nos. 3 and 4) 2005-06. 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 2005-06 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.

This document contains the portfolio additional estimates statements for the Defence Materiel Organisation, which equips and sustains the ADF through the acquisition of capital equipment assets and sustainment of these assets, and the Defence Housing Authority, which provides housing to meet Defence's requirements. The document does not address the Department of Veterans' Affairs, which is part of the Defence portfolio but for which statements are tabled separately.

How to read the Portfolio Additional Estimates Statements

The Defence Portfolio Additional Estimates Statements are presented in three sections, as outlined below:

Chapter Guide to the Defence Portfolio Additional Estimates Statements

SECTION ONE – DEFENCE

Chapter One – Overview

Chapter One provides an update of Defence's budget, Defence's strategic objectives and environment, the status of the Defence White Paper implementation and Defence's organisational structure.

Chapter Two – Resourcing	Chapter Two provides an update of Defence’s finances for 2005-06, including a revision of Defence’s budget and measures, and an update of Defence’s purchaser-provider arrangements.
Chapter Three – Capital Investment Program	Chapter Three provides an update of Defence’s capital budget including medium and major capital facilities projects, other capital purchases and capital receipts.
Chapter Four – People	Chapter Four provides an update on Defence’s personnel initiatives and workforce summary.
Chapter Five – Planned Outcome Performance	Chapter Five provides an update of the cost and performance targets for Defence’s outcomes and outputs.
Chapter Six – Management Reforms and Efficiencies	Chapter Six provides an update of the implementation of internal reforms and efficiencies.
Chapter Seven – Budgeted Financial Statements	Chapter Seven provides an update of Defence’s budgeted financial statements.
SECTION TWO – DEFENCE MATERIEL ORGANISATION	
Chapter One – Overview	The overview provides an update of the Defence Materiel Organisation’s (DMO’s) challenges and opportunities, and structure.
Chapter Two – Resourcing	The resourcing chapter provides an update on the DMO’s appropriations, cost recovery arrangements and purchaser-provider arrangements.
Chapter Three – Planned Outcome Performance	This chapter provides an update of the DMO’s Outcome and outputs, planned performance targets and planned evaluations.

Chapter Four – Governance and Materiel Reform	This chapter provides an update of the DMO’s reforms.
Chapter Five – People	This chapter provides an update of the DMO’s personnel initiatives and the organisation’s workforce overview.
Chapter Six – Budgeted Financial Statements	This chapter provides an update of the DMO’s budgeted financial statements.

SECTION THREE – DEFENCE HOUSING AUTHORITY

Overview	This overview provides an update of the Defence Housing Authority’s performance forecasts, outcome and output information.
Budgeted Financial Statements	This section provides an update of the Defence Housing Authority’s budgeted financial statements.

APPENDICES

The appendices provide a list of tables and charts, a glossary, acronyms and abbreviations, and an alphabetical index.

Styles and Conventions

The following notations may be used:

\$m	\$million
-	nil
..	not zero, but rounded to zero
AEST	Australian Eastern Standard Time
na	not applicable
NEC/nec	not elsewhere found
nfp	not for publication

Figures in tables and in the text may be rounded. Discrepancies in tables between totals and sums of components are due to rounding.

Inquiries

Should you have any inquiries regarding this publication, please contact:

Director
Statutory Reporting and Accountability
R1-2-C101
Department of Defence
CANBERRA ACT 2600

Telephone: (02) 6265 6277
Facsimile: (02) 6265 3496
Email: dsra@defence.gov.au

A copy of this document can be located on the Australian Government Budget website at www.budget.gov.au and the Defence website at: www.defence.gov.au/budget

References

Previous years' Defence portfolio budget statements, portfolio additional estimates statements and annual reports can be found at: www.defence.gov.au/budget

The Defence White Paper can be found at: www.defence.gov.au/whitepaper and the *Defence Update 2005* can be found at: www.defence.gov.au/update2005