

# **DEFENCE**

## **SECTION ONE**

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## OVERVIEW

### THE DEFENCE OUTCOME

The Government's Defence outcome remains:

*The defence of Australia and its national interests.*

The five strategic objectives detailed in the *Portfolio Budget Statements 2001-02* remain unchanged, as do the major combat elements of the force structure.

#### Current Operations

The Australian Defence Force (ADF) currently is conducting operations in East Timor, Bougainville, the Solomon Islands, the Middle East and in Afghanistan and other locations associated with Australia's contribution in support of the United States military response to international terrorism. Currently, approximately 2,700 ADF personnel, three major fleet units and a landing craft, four F/A-18 fighter aircraft, various transport aircraft and helicopters are deployed to these operations. There are ongoing surveillance operations in the north of Australia, as well as a separate operation for the ADF's support to the whole-of-Government approach to deter unauthorised boat arrivals, which has involved up to ten RAN vessels and four P-3C maritime patrol aircraft in conjunction with Customs vessels and aircraft. ADF personnel are also contributing to international operations in Sierra Leone, Eritrea, Bosnia, Mozambique, Sinai and Lebanon. In addition, the ADF undertakes tasks in conjunction with other Commonwealth and state agencies, including disaster relief in Australia. The tempo of operations will not slow significantly in the foreseeable future, and Defence must be able to manage this high tempo and concurrency of demand.

### KEY RISKS AND PLANNED MITIGATION

The information in the *Portfolio Budget Statements 2001-02* identified the two key areas of risk as being major discontinuity in our strategic environment and personnel shortages. The response to terrorism following events in the United States on 11 September 2001 has already had a significant impact on Defence's operational tempo. Personnel shortages remain a concern.

### OUTPUTS

Defence delivers to the Government the six outputs outlined in the *Portfolio Budget Statements 2001-02*.

## IMPLEMENTING THE DEFENCE WHITE PAPER

The White Paper - *Defence 2000 – Our Future Defence Force* - sets out the Government's strategic objectives for Defence for the next ten years. The accompanying *Defence Capability Plan* sets out the planned new major investment proposals needed over the decade to improve Defence capabilities.

There has been a significant increase in the operational commitments of the ADF since the 2001-02 Budget. These include the Australian contribution to coalition operations in Afghanistan, extension of patrol and interdiction activities on Australia's northern borders, and enhancing security for Defence personnel and facilities. This increase in operational activity has resulted in significant additional costs for Defence.

The Government has reorganised the net additional cost of current operations. Notwithstanding this, there are likely to be some impacts on Defence capability in the near and medium term due to the need to reschedule some planned maintenance and upgrade programs.

## ORGANISATIONAL STRUCTURE

The organisational structure is as reported in the *Portfolio Budget Statements 2001-02*, and is shown in the chart overleaf. The chart contains the changes in ministerial representation following the general election in November 2001.

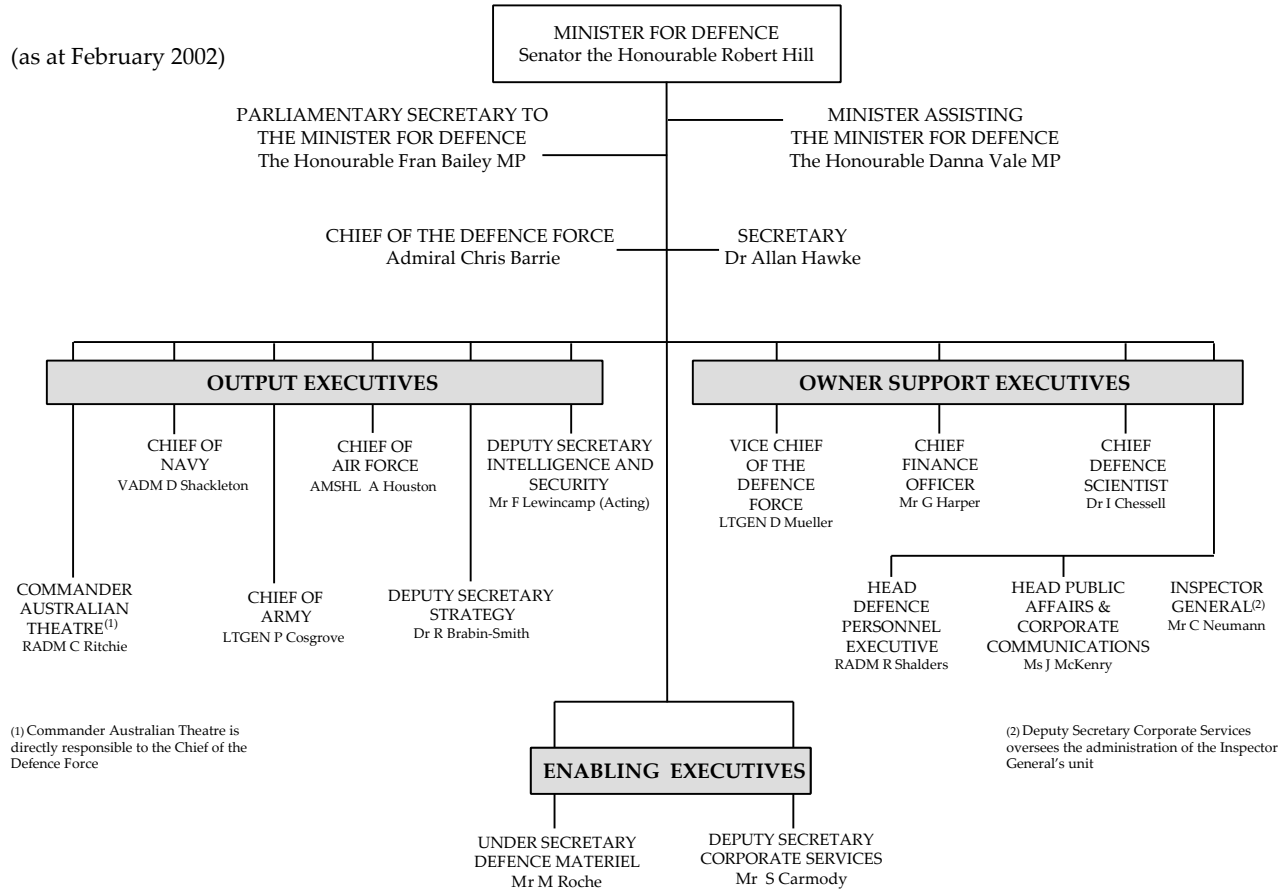
### SENIOR EXECUTIVE CHANGES

Air Marshal Angus Houston became Chief of Air Force in June 2001 following the retirement of Air Marshal Errol McCormack. Mr Shane Carmody became Deputy Secretary Security and Intelligence on 1 July 2001 following the departure of Mr Martin Brady. Rear Admiral Chris Ritchie replaced Air Vice Marshal Robert Treloar as Commander Australian Theatre, and Rear Admiral Russ Shalders replaced Major General Simon Willis as Head Defence Personnel Executive in August 2001.

Mr Jeff Whalan, Deputy Secretary Corporate Services, leaves Defence on 13 February 2002 to take up a deputy secretary position in the Department of Prime Minister and Cabinet. Mr Shane Carmody, currently Deputy Secretary Intelligence and Security, will transfer to the position on 18 February 2002. Pending permanent filling of the Deputy Secretary Intelligence and Security position, it will be temporarily filled, firstly, by Mr Frank Lewincamp, Director Defence Intelligence Organisation, and then by Mr Ron Bonighton, Director Defence Signals Directorate. Mr Lewincamp will commence acting in the position from 18 February 2002.

# ORGANISATIONAL CHART

(as at February 2002)



(1) Commander Australian Theatre is directly responsible to the Chief of the Defence Force

(2) Deputy Secretary Corporate Services oversees the administration of the Inspector General's unit

# RESOURCING

## SUMMARY OF 2001-02 ADDITIONAL ESTIMATES

### Overview

Defence's revised estimate for total resourcing in 2001-02 is \$21,390m. This comprises funding from the Government for outputs of \$17,859m and own-source revenue of \$278m, an equity injection from the Government of \$754m, and capital receipts of \$199m, as well as \$2,300m to be administered by Defence on behalf of the Government.

Overall departmental funding for Defence from the Government for 2001-02 (\$18,613m) has increased by \$1,087m from the budget estimates (\$17,526m). This increase consists of net funding for new measures (\$343m), price and foreign exchange growth in this financial year (\$257m), and recouping of funding for costs incurred last financial year (\$487m).

This increase comes on top of increased funding Defence was provided in the 2001-02 Budget, and the 2002-05 forward estimates, to address a number of specific priorities detailed in the White Paper. The White Paper provides the most specific long-term funding commitment for Defence in over 25 years. Overall, it will inject additional funding of \$27.8b (2001-02 Additional Estimates prices) to the Defence budget over the decade from 2001-02. This is equivalent to an increase of, on average, more than 3 per cent per annum in real terms over that period. The Defence budget increased by \$512m in 2001-02 and \$1,042m in 2002-03 to enable Defence to commence the implementation of the Defence Capability Plan detailed in the White Paper.

The Government also agreed to Defence's retaining, from 2004-05, \$425m per annum (in 2001-02 Additional Estimates prices) currently used in generating and maintaining the existing force levels raised for the deployment to East Timor. This will ensure that Defence can fully establish and maintain the Government's commitment to an Army with six full-time battalions.

Together with the White Paper initiatives, this represents a commitment to an increase in Defence funding, over the next decade, of more than \$32.7 billion. This amount is not based on an arbitrary formula, but rather it represents the funds associated with specific capability commitments.

### Summary of Planned Financial Performance

Defence's budgeted financial statements are provided at *Section Three* of these *Portfolio Additional Estimates Statements*. The statements provide details over the budget and forward estimates period, together with comparative details of the 2000-01 result and the 2001-02 budget estimates published in the *Portfolio Budget Statements 2001-02*.

Total government funding for 2001-02 (excluding administered items) is expected to increase by \$1,087m as a result of:

- \$343m in net new funding for new initiatives directed by the Government since the Budget:
  - continued peace monitoring activities in Bougainville (\$10m), security and other support for the deferred Commonwealth Heads of Government Meeting (\$8m), and an enhanced security posture of the Defence organisation following last September's terrorism attacks on the United States (\$27m);
  - assistance for the reform of the Papua New Guinea Defence Force (\$20m);
  - the conduct of operations to protect Australia's northern and western borders from unauthorised arrivals (\$19m) and to contribute to the international coalition fighting terrorism (\$320m); and
  - the permanent establishment of a counter-terrorist capability following last September's terrorism attacks on the United States (\$23m) and improvements to communications functionality (\$10m); offset by;
  - reductions for rental of accommodation that was to be sold and leased back, but which has now been delayed (-\$16m), the transfer of Emergency Management Australia to the Attorney General's Department (-\$7m) and the transfer of Federation Fund money for projects originally expected to be undertaken by Defence (-\$3m); and
  - a net reduction in other spending (-\$68m).
- indexation to meet movements in price growth (\$156m) and the impact on Defence's overseas purchases of movements in Australia's currency exchange rate (\$101m) since the development of the budget estimates; and
- funding which will be used to pay creditors and restore the depletion of working capital reserves resulting from costs which were incurred last year:
  - funding from the Government originally expected last financial year (\$169m);
  - proceeds from the sale of the Melbourne and Sydney Plaza buildings sold on Defence's behalf last financial year but not provided to Defence by the Department of Finance and Administration (\$79m); and
  - supplementation for the impact on Defence's overseas purchases of the movement in Australia's currency exchange rate (\$239m).

The total increase in funding has been applied through a \$343m increase in the price to the Government of Defence's outputs and a \$744m increase in equity injection. The respective classifications are determined according to movements in Defence's net operating expenses since the Budget, with capital injection a balancing item of remaining cash required by Defence during the year. As well as the above specific adjustments to Defence's costs for 2001-02, some minor reclassifications have occurred in spending types to better reflect financial results which emerged last financial year.

Detailed explanations of variations in operating performance from the previous 2001-02 Budget Estimate are set out in the notes to the budgeted financial statements.

Table 1.1 summarises Defence's overall resourcing in 2001-02 and over the 2002-05 forward estimates period and provides comparison between the previous and current budget estimates.

**Table 1.1: Total Estimated Defence Resourcing for 2001-02 and the Forward Estimates**

2000-01 Result	2001-02 Budget Estimate	2001-02 Revised Estimate	Variation	2002-03 Forward Estimate	2003-04 Forward Estimate	2004-05 Forward Estimate
\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000
<b>Revenue from Government for</b>						
17,113,920	17,515,619	17,859,244	2	17,700,714	18,237,740	19,080,509
408,710	324,568	277,591	14	288,163	299,285	310,549
17,522,630	17,840,187	18,136,835	2	17,988,877	18,537,025	19,391,058
Add Total Administered						
1,282,937	1,800,548	2,300,179	28	2,200,181	2,300,181	2,200,181
18,805,567	19,640,735	20,437,014	4	20,189,058	20,837,206	21,591,239
Add Capital Funding (departmental):						
93,522	10,564	754,175		882,610	990,404	1,056,269
87,142	1,099,047	198,914	-82	868,814	230,852	252,312
18,986,231	20,750,346	21,390,103	3	21,940,482	22,058,462	22,899,820

**Note**

- To provide a better reflection of resourcing provided to Defence's activities, this calculation excludes revenues recognising adjustments to the value of existing non-financial assets. Gains from Sales of Assets have also been excluded from Other Revenue, as shown in Defence's financial statements, as this amount is included in Capital Receipts.

Of overall funding for Defence in 2001-02, \$4,844m is expected to be returned to the Government as a capital use charge and repayment of equity.

Defence funding is used to meet a variety of operating, investing and financing costs borne in delivering the Government's outputs. This includes utilising much of the increase in the Government's payment for outputs in 2001-02 to meet investments in specialist military equipment and other assets.

### Price of Defence's Outputs

The prices of Defence's six outputs are summarised in Table 1.2. Further details relating to the outputs can be found in Section Two of this document.

Since the Budget, there have been a number of adjustments across the prices to the Government of Defence's outputs. More information relating to the Government's adjustments to this appropriation can be found in the description of new measures later in this section and also in explanations of variations set out in the notes to the budgeted financial statements.

The prices of all outputs have been proportionately adjusted for new funding for the impact of movements in price growth and foreign exchange since the Budget (\$185m), the removal of Federation Fund (\$3m) and accommodation rental (\$16m) funding from Defence, and new funding for enhanced protective services for Defence's people and facilities (\$27m).

The remaining adjustments are primarily increases to Output 1 (Operations) for the new funding for deployments to deter unauthorised boat arrivals

(\$12m) and to fight terrorism (\$180m), continuing peace monitoring activities in Bougainville (\$10m), and support to the Commonwealth Heads of Government Meeting (\$8m). The price of Output 3 (Army Capabilities) has also been increased by \$6m for the operating costs associated with an enhanced counter-terrorist upgrade.

**Table 1.2: Price to Government of Defence's Outputs**

Output	Budget Estimate	Revised Estimate
	2001-02 \$'000	2001-02 \$'000
1. Defence Operations	947,081	1,155,578
2. Navy Capabilities	5,652,445	5,683,643
3. Army Capabilities	5,028,680	5,070,193
4. Air Force Capabilities	5,331,184	5,360,690
5. Strategic Policy	171,162	192,281
6. Intelligence	385,067	396,858
<b>Total Price to Government</b>	<b>17,515,619</b>	<b>17,859,244</b>

### ADF Contributions to United Nations Operations in East Timor

Total resourcing for East Timor is not expected to change from the \$657m (updated for price indexation) estimated at Budget. Resourcing of \$602m and \$565m is expected to be directed to this activity in 2002-03 and 2003-04 respectively.

### Appropriations

The appropriations from the Government for Defence in 2001-02 total \$22,158m. This funding is summarised in Table 1.3.

**Table 1.3: Total Appropriations for the Department of Defence for 2001-02**

	Total \$'000
<b>Departmental Outputs</b>	
Receipts from Independent Sources	1,236,628
Appropriation Acts No. 1 and 3 <sup>(1)</sup>	17,866,603
<b>Capital Injection</b>	
Appropriation Acts No. 2 and 4	754,175
<b>Administered Expenses</b>	
Appropriation Acts No. 1 and 3	179
Special Appropriations	2,300,000
<b>Total Funding Net of Departmental Equity Injections</b>	<b>22,157,585</b>

#### Note

1. Appropriation for Outputs include an amount of \$7.5m for emergency management. As this function has been transferred to the Attorney General (with the effective appropriation to Defence to be reduced to give effect to the changes in Administrative Arrangements), the amount has not been included in Defence's own estimates of appropriation revenue for 2001-02.

Receipts from Independent Sources in Table 1.3 include receipts from customers (including goods and services tax), GST input tax credits recovered from the Australian Taxation Office, and proceeds from the sale of property, plant and equipment. Direct comparisons to Table 1.1, therefore, cannot be made.

## 2001-02 ADDITIONAL ESTIMATES MEASURES

Table 1.4 sets out new measures relating to Defence in the 2001-02 Additional Estimates. An explanation of each measure listed follows the table.

**Table 1.4: Summary of New Measures**

Measure	Measure Estimate 2001-02 \$m	Forward Estimate 2002-03 \$m	Forward Estimate 2003-04 \$m	Forward Estimate 2004-05 \$m
Federation Fund	-2.5	-	-	-
Re-phasing of Capital Return to the Government	-561.8	561.8	-	-
Lease-back of Sold Accommodation	-16.0	-	-	-
Peace Monitoring Group in Bougainville	10.0	-	-	-
Improved Communications Functionality	9.8	43.6	23.3	30.3
New Operations	339.0	-	-	-
Enhanced Domestic Security	31.0	-	-	-
Papua New Guinea Defence Rebuilding Program	20.0	-	-	-
Increased Defence Security	27.0	-	-	-
Military Superannuation - <i>Departmental</i>	3.0	3.0	3.0	3.0
Military Superannuation - <i>Administered</i>	148.0	9.0	9.0	10.0

### Federation Fund

\$2.5m of funding provided to Defence has now been transferred to the Department of the Environment and Heritage for the St Paul's Project (the transfer was implemented through an adjustment to appropriations for the two departments).

A further \$2.5m of Defence's existing funding was diverted to two new projects within Defence. A grant of \$0.5m was provided to convert the submarine, the former HMAS *Otama*, into a maritime museum. A further \$2m will be used for heritage restoration at the Portsea Quarantine Station.

### Re-phasing of Capital Return to the Government

Defence was scheduled to make a return of capital to the Government in 2001-02 from the sale of property assets. The process for identifying and readying properties for sale is continuing, and includes efforts to resolve land planning and remediation issues. As a result of these delays and ongoing examination of relevant issues, \$561.8m of asset sales to be returned to the Government is now expected to occur in 2002-03.

### Lease-back of Sold Accommodation

Delays in disposal action for a number of accommodation properties (see above) have led to a decrease in the requirement for Defence to meet lease costs for properties planned to be sold and leased back.

### **Peace Monitoring Group in Bougainville**

The Government has committed to a continuing Defence presence in Bougainville to assist in the peace monitoring process.

### **Improved Communications Functionality**

Additional funding (\$9.8m in 2001-02) has been provided to Defence to assist in enhancing communications functionality.

### **New Operations**

Defence will absorb most of the costs of new operations the Government has directed since the Budget by scaling back planned or exercises and training to develop and maintain capability. New funding, for specific additional costs that cannot be readily absorbed, has been provided to conduct surveillance and interception operations to protect Australia's northern and western borders from unauthorised boat arrivals (\$19m) and to contribute to the international coalition fighting terrorism (\$320m).

These amounts include \$12m in operating expenses and \$6m in new capital acquisitions related to the deployments to deter unauthorised boat arrivals. A further \$180m and \$140m in new operating and capital costs respectively have been funded for Defence's deployment of ground, maritime and air elements to assist United States-led anti-terrorism operations.

The Government will consider funding issues for 2002-03 in the context of the emerging scope, length and intensity of these operations.

### **Enhanced Domestic Security**

The Government has committed to an enhanced counter-terrorist capability following last September's terrorist attacks on the United States.

The Government will consider options for 2002-03 for this enhanced capability.

Defence will provide further security and other support to the Commonwealth Heads of Government Meeting in March 2002. While most of these costs will be absorbed from existing activities to maintain capability, additional funding of \$8m has been provided to meet those new costs which cannot be readily absorbed.

### **Papua New Guinea Defence Rebuilding Program**

The Government has provided \$20m in assistance to the commencement of a Papua New Guinea Defence Rebuilding Program. The Program will include initiatives to reform and downsize the Papua New Guinea Defence Force, development of an effective personnel management database, improving financial management practices, and increasing joint Papua New Guinea Defence Force/ADF activities.

Defence has met this new initiative through internal reprioritisation of spending.

### **Increased Defence Security**

Defence's own security posture has increased because of the heightened state of security globally since the terrorism attacks of September last year. It has implemented measures to enhance protection of personnel and facilities in more than 800 premises in 377 locations – in Australia and overseas.

The Government will consider funding options for 2002-03.

### **Military Superannuation**

The biannual indexation of military superannuation has been introduced. As a result, there has been an \$18m increase in notional interest and forecast pension payments (*administered* expenses) and increases in employer contributions (*departmental* expenses). The initiative has also resulted in a \$140m increase in outstanding liability (*administered* expense).

## DISCRETIONARY GRANTS

**Table 1.5: Discretionary Grants**

Title of Grant Program	Budget Estimate 2001-02 \$'000	Revised Estimate 2001-02 \$'000	Variation \$'000
Army Military History Research Grants Scheme	50	50	-
Defence Family Support Funding Program	1,250	1,350	100
Grant to the Royal United Services Institute of Australia	75	75	-
Centenary of Federation Grant	-	500	500
<b>Total</b>	<b>1,375</b>	<b>1,975</b>	<b>600</b>

The information provided in the *Portfolio Budget Statements 2001-02* remains unchanged with the exceptions of an increase in the Defence Family Support Funding Program and a one-off Centenary of Federation Grant.

### **Defence Family Support Funding Program**

This program provides funds to support projects and services initiated by Defence families. It is also available to existing groups in the community composed of, or benefiting, Defence families. The \$100,000 increase is for the commencement of the Defence Family Financial Emergency Fund (see page 89 for more detail).

### **Centenary of Federation Grant**

This grant provides one-off assistance for the establishment of the Naval Memorial Park in Hastings, Victoria.

# PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEFENCE HOUSING AUTHORITY

## CONTROL ARRANGEMENTS

The Defence Housing Authority is a statutory authority responsible, through its board, to the Minister for Finance and Administration and the Minister for Defence. It was established in 1987, commencing operations on 1 January 1988, and provides a range of customer services formerly delivered by Defence.

The authority's activities are overseen by a board comprising:

Chairman	Mr P E Jollie AM;
Managing Director	Mr K T Lyon;
Commercial Director	Mr T R O'Brien;
Commercial Director	Mr J D O'Grady;
Commercial Director	Ms H Ryan;
Commercial Director	Ms B Boezeman;
ADF representative	Rear Admiral R Shalders CSC, RAN;
ADF representative	Rear Admiral B L Adams AM RAN;
ADF representative	Major General P F Leahy AM;
ADF representative	Air Vice Marshal C Spence AM;
Department of Defence representative	Mr L Bennett; and
Service families representative	Mrs J Swann.

## RESOURCING

The 2001-02 revised estimate for the purchase of services from the Defence Housing Authority is \$338.67m. The budget estimate has been reduced by \$40.93m as a result of the incorrect inclusion in the *Portfolio Budget Statements 2001-02* of rent allowance payments made by Defence to ADF members where Defence Housing Authority houses are not available together with a reduction in the Defence housing requirement.

The revised estimate now includes the cost for delivery of other services (housing allocations and removals) provided by the Defence Housing Authority.