

DEFENCE

CHAPTER TWO

RESULTS FOR GOVERNMENT AS DEFENCE'S CUSTOMER

PRICE OF GOVERNMENT OF DEFENCE OUTPUTS

OUTPUT 1 DEFENCE OPERATIONS

Australian Defence Force Operations

Australian Defence Force Exercise Program

OUTPUT 2 NAVY CAPABILITIES

OUTPUT 3 ARMY CAPABILITIES

OUTPUT 4 AIR FORCE CAPABILITIES

OUTPUT 5 STRATEGIC POLICY

Defence Cooperation

OUTPUT 6 INTELLIGENCE

PRICE TO GOVERNMENT OF DEFENCE OUTPUTS

As foreshadowed in the *Portfolio Budget Statements 2002-03* (pages 17 and 18), Defence implemented a new costing model to assist with the new statutory disclosure requirement to provide audited output costs from the end of 2001-02.

As part of this process, Defence performed an in-depth analysis of its existing output costing business principles in order to deliver auditable output information as part of the notes to the financial statements for the *Defence Annual Report 2001-02*.

Defence succeeded in producing output information that passed audit scrutiny and identified shortcomings in its previously-held output costing assumptions.

The improved methodology has now been applied to the original 2002-03 budget estimate. The table below presents a view of both the original and the adjusted price to Government position by output. While the change in methodology has resulted in a variation between the two budget estimate views by output, the overall Defence budget estimate remains unchanged.

Overall, the price to Government of Defence outputs in 2002-03 has increased by \$102.3m or 0.6 per cent (also refer to line one of table 1.1) as shown in table 2.1 below.

Table 2.1: Price to Government of Defence Outputs

	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Output 1: Defence Operations	1,151,398	839,597	795,164	(44,433)
Output 2: Navy Capabilities	5,797,040	5,730,784	5,740,228	9,444
Output 3: Army Capabilities	5,192,113	5,611,839	5,567,975	(43,864)
Output 4: Air Force Capabilities	5,477,102	5,474,562	5,663,933	189,371
Output 5: Strategic Policy	175,900	229,309	212,793	(16,516)
Output 6: Intelligence	441,798	349,260	357,532	8,272
Total Price for Outputs	18,235,351	18,235,351	18,337,625	102,274

Table 2.2: Price to Government of Defence Outputs and Sub-Outputs⁽¹⁾

Price to Government	Total \$'000
OUTPUT 1 - DEFENCE OPERATIONS	
1.1 Command of Operations	404,977
1.2 ADF Military Operations and Exercises	373,625
1.3 Contribution to National Support Tasks	16,563
Total Output 1	795,164
OUTPUT 2 - NAVY CAPABILITIES	
2.1 Major Surface Combatant Operations	2,472,793
2.2 Naval Aviation Operations	647,495
2.3 Patrol Boat Operations	287,590
2.4 Submarine Operations	899,232
2.5 Afloat Support	243,183
2.6 Mine Warfare	580,271
2.7 Amphibious Lift	422,090
2.8 Hydrographic and Oceanographic Operations	187,575
Total Output 2	5,740,228
OUTPUT 3 - ARMY CAPABILITIES	
3.1 Special Forces Operations	487,898
3.2 Mechanised Operations	958,189
3.3 Light Infantry Operations	1,123,804
3.4 Army Aviation Operations	537,736
3.5 Ground Based Air Defence	114,410
3.6 Combat Support Operations	401,523
3.7 Regional Surveillance	120,470
3.8 Operational Logistic Support to Land Forces	471,004
3.9 Motorised Infantry Operations	694,722
3.10 Protective Operations	658,219
Total Output 3	5,567,975
OUTPUT 4 – AIR FORCE CAPABILITIES	
4.1 Air Strike/Reconnaissance	776,328
4.2 Tactical Fighter Operations	2,008,878
4.3 Strategic Surveillance	485,434
4.4 Maritime Patrol Aircraft Operations	790,183
4.5 Airlift	1,209,030
4.6 Combat Support of Air Operations	394,081
Total Output 4	5,663,933
OUTPUT 5 – STRATEGIC POLICY	
5.1 Strategic and International Policy, Activities and Engagement	170,798
5.2 Military Strategy and Command	41,994
Total Output 5	212,793
OUTPUT 6 - INTELLIGENCE	
Total Output 6	357,532
TOTAL PRICE OF OUTPUTS	18,337,625

Note

- Totals may not add due to rounding.

Table 2.3: Total Defence Outcome

Price of Outputs to Defence	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Operating Expenses				
Employees	5,874,644	5,874,644	5,922,712	48,068
Suppliers	4,675,891	4,675,891	4,748,766	72,875
Grants	1,370	1,370	1,370	-
Depreciation and amortisation	2,782,814	2,782,814	2,677,813	(105,001)
Write down of assets	100,000	100,000	620,000	520,000
Other expenses	31,643	31,643	31,644	1
Total Operating expenses	13,466,362	13,466,362	14,002,305	535,943
Capital Use Charge	5,056,094	5,056,094	5,056,094	-
Total Cost of Output	18,522,456	18,522,456	19,058,399	535,943
<i>Less:</i> Own-source Revenue ⁽¹⁾	287,105	287,105	720,774	433,669
Price to Government for Outputs	18,235,351	18,235,351	18,337,625	102,274

Note

1. 'Own source revenue' includes 'assets now recognised'.

OUTPUT ONE: DEFENCE OPERATIONS

Defence conducts joint and combined operations and exercises to achieve the Government's strategic objectives. This includes the conduct of military campaigns, operations and other activities, the provision of emergency and non-emergency support to the Government and the Australian community, overseas deployments and representations, and various joint and combined exercises involving the three Services and allied or regional military forces.

Defence maintains its command capability by developing strategic plans and operational-level guidance to support successful ADF operations. Principally, this is the responsibility of the Commander Australian Theatre.

Planned Performance

The planned performance for Output One is as reported in the *Portfolio Budget Statements 2002-03*.

Key Risks

Key risks and limitations are as reported in the *Portfolio Budget Statements 2002-03*.

Strategic Initiatives

Strategic initiatives are as reported in the *Portfolio Budget Statements 2002-03*.

Budgeted Price to the Government

Table 2.4: Budgeted Price of Output One – Defence Operations

	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Operating Expenses				
Employees	444,958	314,190	311,159	(3,031)
Suppliers	408,540	359,863	366,287	6,424
Grants	36	21	6	(15)
Depreciation and amortisation	101,717	65,599	35,687	(29,912)
Write down of assets	3,755	8,032	15,259	7,227
Other expenses	867	728	732	4
Total Operating expenses	959,873	748,433	729,130	(19,303)
Capital Use Charge	206,265	125,897	125,897	-
Total Cost of Output	1,166,138	874,330	855,027	(19,303)
<i>Less:</i> Own-source Revenue ⁽¹⁾	14,740	34,733	59,863	25,130
Price to Government for Output One	1,151,398	839,597	795,164	(44,433)

Note

1. 'Own source revenue' includes 'assets now recognised'.

Significant Variations

The revised price for Output One is \$795m, or \$44m less than the adjusted budget estimates. This decrease is due predominantly to technical accounting adjustments, including an increase in own source revenue – assets not recognised and a increase in the write down of assets.

The \$29.9m downward adjustment in depreciation and amortisation reflects the Output One share of reduced Defence departmental depreciation requirements arising from an internal review.

AUSTRALIAN DEFENCE FORCE OPERATIONS

The following operations involving the ADF are either new or have a revised date since the publication of the *Portfolio Budget Statements 2002-03*.

Table 2.5 (new): ADF National Support Operations

Operation	Objective
Bali Assist Commenced 2002 Forces ADF	To provide aero-medical evacuation support to Australians and authorised foreign nationals from Bali to Darwin and to be prepared to assist with evacuation operations as required.

Table 2.6 (revised): ADF Surveillance and Regional Operations

Operation	Objective
Celesta Planned Forces ADF	Conduct of surface fisheries patrols in the Heard Island-McDonald Island Exclusive Economic Zone. This operation is yet to commence.
Estes⁽¹⁾ Commenced 1980 Forces Navy	To conduct surface patrols in Bass Strait.

Note

1. Operation Estes was erroneously omitted from the *Portfolio Budget Statements 2002-03*.

AUSTRALIAN DEFENCE FORCE EXERCISE PROGRAM

The following joint ADF exercises and combined exercises with the defence forces of other countries are either new, cancelled, postponed or have a revised date since the publication of the *Portfolio Budget Statements 2002-03*.

New Exercises

Northern Shield 2003, Tandem Thrust 03, Air Warrior 11 03, Lumbas 02, Pacific Joint Fleet Exercise 03-2, and Vigilant Shield 03.

Cancelled Exercises

Day Anchor 02, Platypus Moon 02, Red Snake 02, IADS ADEX 03, Night Kiwi 02, Ocean Protector, Tamex 02-3, Haringaroo 02-2 and Croix Du Sud 2003.

Exercises with a Revised Name in 2002-03

Night Leopard 02 has been renamed Star Leopard 02 and PAC JTFEX 03-1 Phase 1 and Phase 2 have been renamed Comptuex 03-1.

Exercises with a Revised Date in 2002-03

Minor War Vessel Concentration 03, Vital Prospect 03, Chapel Gold 02, Night Lion 02, Helicon Luk 02, Night Falcon 02, Croix Du Sud 2002, Taa Nok In Sii 02-2, Tamex 02-4, Tasmanex 03 and Western Pacific Naval Symposium MCMX 03.

Exercises Rescheduled to 2003-04

Pacific Reserve 03 has been rescheduled to July 2003 from April 2003.

The tables that follow outline the changes to the ADF exercise program.

Table 2.7 (revised): ADF Joint Exercises

Exercise	Forces	Objective
Day Anchor 02 June – July 2002 [Cancelled]	Navy, Army	To confirm Special Air Service Regiment capability by practising special recovery operations.
Platypus Moon 02 July 2002 [Cancelled]	Navy, Army	To practise and develop launch and recovery techniques from submarines by conducting static multi-swimmer release training and developing procedures for Special Force operations from submarines.
Red Snake 02 September 2002 [Cancelled]	Navy, Army, Air Force	To evaluate commando capabilities by undertaking a strike exercise employing air and sea insertion techniques.
Minor War Vessel Concentration 03 February 2003 [Revised date]	Navy, Army	To ensure that the patrol boat, hydrographic and amphibious (minor war vessel) Force Element Groups maintain the minimum level of capability by undertaking high-intensity collective harbour and sea training and exercising Special Force insertion techniques.
Northern Shield 2003 May 2003 [New]	Headquarters Northern Command	To exercise Headquarters Northern Command and the Operational Coordination Committee in the joint planning and conduct of operations within the Northern Command area of operations.
Vital Prospect 03 June 2003 [Revised date]	Navy, Army, Air Force	To practise the Deployable Joint Force Headquarters staff in the methods, procedures, planning and conduct of joint and combined operations through participation in a command post exercise.

Table 2.8 (revised): Combined ADF/United States Exercises

Exercise	Australian Forces	Objective
Tandem Thrust 03 April – May 2003 <i>[New]</i>	Air Force	To exercise combined forces and maintain interoperability between the RAAF and United States forces by practising short-warning combined operations.
Air Warrior 11 03 June 2003 <i>[New]</i>	Air Force	To train airlift and ground force crews to meet operational preparedness requirements and to practice short notice tactical operations and interoperability with United States forces in combat airlift exercises.

Table 2.9 (revised): Combined ADF/Five Power Defence Arrangements Exercises

Exercise	Australian Forces	Participating Countries	Objective
IADS ADEX 03 April 2003 <i>[Cancelled]</i>	Navy, Air Force	Malaysia, Singapore, New Zealand, United Kingdom	To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint and combined maritime exercise.

Table 2.10 (revised): Combined ADF/New Zealand Exercises

Exercise	Australian Forces	Objective
Night Kiwi 02 November 2002 <i>[Cancelled]</i>	Army, Air Force	To maintain interoperability between Australian and New Zealand Special Forces by conducting combined special operations training and a mutual exchange of information relating to developments in special operations techniques and equipment.
Ocean Protector February 2003 <i>[Cancelled]</i>	Navy, Air Force	To maintain the RAN fleet operational capability as a workup to exercise Tasmanex by demonstrating proficiency in core skills, standards and safety across all facets of maritime warfare and operations.

Table 2.11 (revised): Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Chapel Gold 02 July 2002 <i>[Revised date]</i>	Army	Thailand	To further develop interoperability between the Australian and Royal Thai armies by practising individual skills and fieldcraft in a tropical environment, and to gain a working knowledge of the Royal Thai Army operational, logistic and administrative procedures.
Tamex 02-3 July – September 2002 <i>[Cancelled]</i>	Navy, Air Force	United States, New Zealand	To enhance interoperability with the New Zealand Defence Force or the United States Navy by practising combined anti-submarine warfare and anti-submarine surveillance operations.
Night Lion 02 August 2002 <i>[Revised date]</i>	Army	Singapore	To develop an understanding of, and limited interoperability with, Singapore Special Forces by deploying a commando force element to undertake the mutual exchange of ideas and developments in special operations techniques and equipment and expand the Australian Special Forces understanding of the language, culture and geography of Singapore.
Lumbas 02 October 2002 <i>[New]</i>	Navy	Philippines	To develop interoperability between the RAN and Philippine Navy in coordinated and combined maritime patrol operations and to maintain RAN proficiency, standards and safety.

Exercise	Australian Forces	Participating Countries	Objective
Haringaroo 02-2 October 2002 <i>[Cancelled]</i>	Army	Malaysia	To enhance interoperability between the Australian Army and the Malaysian Armed Forces at the tactical level by practising skills and field craft in a tropical environment.
Croix Du Sud 2002 November 2002 <i>[Revised date]</i>	Navy, Army, Air Force	New Zealand, France	To maintain relations and enhance interoperability between the Australian, New Zealand and French defence forces by conducting a joint and combined exercise practising evacuation operations (Service-assisted and Service-protected evacuation operations) in a non-permissive environment.
Night Falcon 02 November 2002 <i>[Revised date]</i>	Army, Air Force	Papua new Guinea	To enhance and maintain Special Force skills by practising the deployment of a Special Air Service Regiment force element and conducting unilateral war-roles training and limited non-Special Forces bilateral training with the Papua New Guinea Defence Force in a challenging location in Papua New Guinea.
Helicon Luk 02 November 2002 <i>[Revised date]</i>	Army	Papua New Guinea	To train and qualify aircrew in high-density altitude training operations by conducting long over-water flights, navigating and operating in mountainous terrain and familiarising aircrew with tropical operating conditions.
Star Leopard 02 November 2002 <i>[Revised name]</i>	Army	Brunei	To develop rapport and maintain contact between the Australian and Brunei Special Forces through ongoing war-roles training and practising combined Special Forces insertion techniques, facilitating the development of Australian Special Forces knowledge and familiarity with the language, culture and geography of Brunei.
Comptuex 03-1 November 2002 <i>[Revised name]</i>	Air Force	United States, Canada,	Combined maritime warfare exercise with United States Commander-in-Chief Pacific Fleet forces, to practise combined warfare operations with an undersea warfare focus and to maintain operational preparedness training requirements for RAAF.
Taa Nok In Sii 02-2 December 2002 <i>[Revised date]</i>	Air Force	Thailand	To develop interoperability between the Royal Thai Navy and the RAAF by conducting surveillance training and developing operating procedures for combined operations.
Tamex 02-4 December 2002 <i>[Revised date]</i>	Navy Air Force	United States, New Zealand	To enhance interoperability with New Zealand defence forces or the United States Navy by practising combined anti-submarine warfare and anti-submarine surveillance operations.
Pacific Joint Fleet Exercise 03-2 January – February 2003 <i>[New]</i>	Air Force	United States, Canada	To maintain RAAF interoperability with United States and Canadian forces by conducting undersea warfare operations as part of a combined task force.
Tasmanex 03 February 2003 <i>[Revised date]</i>	Navy, Air Force	France, New Zealand	To develop relations between the Australian, New Zealand and French defence forces by conducting maritime surveillance, anti-submarine warfare, maritime interception operations and naval control of shipping procedures.
Croix Du Sud 2003 February – May 2003 <i>[Cancelled]</i>	Navy, Army, Air Force	France, New Zealand, Tonga	To maintain relations and enhance interoperability between the Australian, New Zealand, French and Tongan defence forces by conducting a joint and combined exercise practising evacuation operations (Services-assisted and Service-protected evacuation operations) in a non-permissive environment.

Exercise	Australian Forces	Participating Countries	Objective
Western Pacific Naval Symposium MCMX 03 May - June 2003 <i>[Revised date]</i>	Navy	Malaysia, Singapore, United States, United Kingdom, New Zealand, Thailand, Philippines	To conduct multilateral mine countermeasures operations by practising the clearing of mines in the Singapore Straits with divers and mine countermeasures vessels.
Vigilant Shield 03 June 2003 <i>[New]</i>	Navy, Army, Air Force	United States, United Kingdom, Canada	To develop and validate the capability to lead or participate in the conduct of intelligence operations in support of a combined or coalition deployed force.

OUTPUT TWO: NAVY CAPABILITIES

The Navy provides maritime forces that contribute to the defence of Australia, contribute to the security of Australia's immediate region, support wider interests and international engagement, and conduct national tasks. This is achieved by providing maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, collection and evaluation of maritime intelligence, and escort duties. National tasks include maritime surveillance and response within Australia's exclusive economic zone in support of Coastwatch, hydrographic, oceanographic and meteorological support operations, border protection, distribution of humanitarian aid, and maritime search and rescue.

Planned Performance

The planned performance for Output Two is as reported in the *Portfolio Budget Statements 2002-03*.

Force Structure

The Navy's force structure is as reported in the *Portfolio Budget Statements 2002-03* except for the additional performance information below.

Surface Combatants - The fourth Anzac-class frigate, HMAS *Stuart*, was commissioned in August 2002. A fifth Anzac-class frigate will be delivered in 2003, with all eight vessels expected to be in service by 2006.

Vessel Type	Number	Budget Estimate	Revised Estimate
Guided missile frigates	6	1,233 FMC ⁽¹⁾ days	1,233 FMC days
Frigates	4	813 FMC days	813 FMC days

Note

1. Full Mission Capability (FMC) refers to a unit's ability to operate in accordance with its designed capability. Target FMC days are determined for each Force Element Group by aggregating total days for each unit in commission (365 x number of units) less all days when the units are programmed to be in major maintenance, leave periods or conducting initial operational training work-up.

Naval Aviation - The Navy's aviation capability will be enhanced by the introduction of 11 Super Seasprite helicopters in 2004-05. The Super Seasprite helicopters will be optimised to support Anzac-class frigates but will also be able to operate from the guided missile frigates. Naval Aviation also operates the Kalkara aerial target system which is used to support Navy and Air Force training.

Aircraft Type	Number	Budget Estimate (hrs)	Revised Estimate (hrs)
Seahawks	16	4,600	4,600
Sea Kings	7	2,000	2,000
Squirrels	12 ⁽¹⁾	4,000	4,000
Kalkaras	13 ⁽²⁾	39 presentations ⁽³⁾	39 presentations

Notes

1. The *Portfolio Budget Statements 2002-03* erroneously reported a squadron of 13 Squirrel helicopters. One Squirrel aircraft is held in attrition and is not part of the training force.
2. One Kalkara was lost in September 2002 during a training flight in the West Australian Exercise Area.
3. Presentations refer to the number of instances during which the system is used as a target in training exercises.

Patrol Boats

Vessel Type	Number	Budget Estimate	Revised Estimate
Patrol boats	15	2,709 FMC days	2,709 FMC days

Submarine

Vessel Type	Number	Budget Estimate	Revised Estimate
Submarines	6	606 FMC days ⁽¹⁾	500 FMC days ⁽²⁾

Notes

1. HMA Ships *Collins* and *Farncomb* will undertake full-cycle docking this year. HMAS *Rankin* is to be commissioned in 2003.
2. The reduction of FMC days is due largely to an extension of HMAS *Waller's* major maintenance period and a requirement to undergo additional inspections in Adelaide.

Afloat Support

Vessel Type	Number	Budget Estimate	Revised Estimate
Oil tanker	1	343 FMC days	343 FMC days
Replenishment ship	1	294 FMC days	294 FMC days

Mine Warfare and Clearance Diving

Vessel Type	Number	Budget Estimate	Revised Estimate
Coastal mine hunters	6	700 FMC days	700 FMC days
Auxillary mine sweepers ⁽¹⁾	2	195 FMC days	195 FMC days
Clearance diving teams	2	646 FMC days	646 FMC days

Note

1. MSA *Brolga* has been removed from the operational force and is now utilised in a limited, non-seagoing training role.

Amphibious

Vessel Type	Number	Budget Estimate	Revised Estimate
Heavy lift ship	1	266 FMC days	266 FMC days
Amphibious landing ships	2	568 FMC days	568 FMC days
Landing craft heavy	6	1,171 FMC days	1,171 FMC days

Hydrographic

Vessel/Aircraft/Unit/Chart Production	Number	Budget Estimate	Revised Estimate
Hydrographic ships	2	531 FMC days	531 FMC days
Survey motor launches	4	926 FMC days	926 FMC days
Laser airborne depth sounding aircraft	1	<ul style="list-style-type: none"> 900 hours for surveying; 38 hours for ferrying spread over 208 FMC days 	<ul style="list-style-type: none"> 900 hours for surveying; 38 hours for ferrying spread over 208 FMC days
Hydrographic office detached survey unit	1	<ul style="list-style-type: none"> Availability 300 days; Planned deployments 169 days 	<ul style="list-style-type: none"> Availability 300 days; Planned deployments 169 days
Chart production:			
• New Charts/Editions		62	62
• New Charts/Diagrams for RAN use		32	32
• Electronic Nautical Chart Cells		44	44

Key Risks and Limitations

Key risks and limitations are as reported in the *Portfolio Budget Statements 2002-03* except for the following revisions.

Personnel

The shortage of uniformed personnel, particularly in some employment categories, continues to be one of the key risks to the delivery of Navy capability. While strategies aimed at improving recruitment and retention have been successful and uniformed strength has been increasing since May 2001, on current trends it will take longer than desired before full strength is achieved. The high operational tempo has not yet had any negative effect on retention.

Operations and Reconstitution of Forces on Completion

Commitment to a high level of concurrent operations presents a continuing challenge to the Navy to maintain a sustainable capability. Some individual and collective skills continue to erode as a result of commitments to ongoing operations.

Air Warfare Capability

The Navy's ability to conduct air warfare operations is limited with the current force structure. The reduction in fast-jet support to the Navy caused by the withdrawal of the Royal New Zealand Air Force A4 Skyhawk Squadron, based at Nowra, New South Wales, has also affected current warfare skills. This shortfall will be partly rectified when the Air Force Hawk aircraft is fully on line.

Strategic Initiatives

Strategic initiatives are as reported in the *Portfolio Budget Statements 2002-03* except for the following revisions.

Personnel

Recruitment and retention of personnel continues to improve in response to specific strategies. Strategies have been refined to target more specifically the employment categories with the most significant shortfalls, including maximising trainee throughput. The reduction of the uniformed workforce requirement continues, in particular the civilianising of positions which need not be filled by uniformed personnel. In the short term, priority continues to be given to crewing operational units and specifically those units involved in operational activities.

Operations and Reconstitution of Forces on Completion

A plan is currently being developed for the process of reconstituting the full range of Navy capabilities on completion of operations. Force elements returning from operations will undergo a period of reconstitution to restore capability and preparedness, having allowed for leave, maintenance, reconfiguration, training and work-up. During the reconstitution phase, capability may be placed at a lower state of readiness.

Budgeted Price to the Government

Table 2.12: Budgeted Price of Output Two – Navy Capabilities

	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Operating Expenses				
Employees	1,518,528	1,383,986	1,391,953	7,967
Suppliers	1,369,150	1,294,484	1,318,393	23,909
Grants	63	155	136	(19)
Depreciation and amortisation	1,032,266	991,731	886,701	(105,030)
Write down of assets	27,896	16,161	203,859	187,698
Other expenses	6,872	6,611	6,600	(11)
Total Operating expenses	3,954,775	3,693,128	3,807,642	114,514
Capital Use Charge	1,939,246	2,086,144	2,086,144	-
Total Cost of Output	5,894,021	5,779,272	5,893,786	114,514
Less: Own-source Revenue⁽¹⁾	96,981	48,488	153,558	105,070
Price to Government for Output Two	5,797,040	5,730,784	5,740,228	9,444

Note

1. 'Own source revenue' includes 'assets now recognised'.

Significant Variations

A major asset substantiation exercise in 2001-02 resulted in significant recognition of both write offs and assets first found. While this work is substantially complete, there will be some residual impact on the operating statement in 2002-03 and the increase over the budget estimate reflects this. Write down of assets expenses has also increased, reflecting the fact that specialist military equipment, property plant and equipment and inventory are written down in the ordinary course of Defence business.

Defence has undertaken extensive internal reviews of both military and civilian expenses. The results of these reviews are the significant contributors for the \$22.9m decrease in military employees and \$30.8m increase in civilian employees.

The \$105m downwards adjustment in depreciation and amortisation reflects the Output Two share of reduced Defence departmental depreciation requirements arising from an internal review.

The significant contributor to the \$23.9m increase in suppliers expense was price indexation.

OUTPUT THREE: ARMY CAPABILITIES

The Army provides land force capabilities that contribute to the defence of Australia and the security of Australia's immediate neighbourhood. The Army also supports wider national interests and assists in peacetime national tasks, including counter-terrorist and chemical, biological, radiological nuclear and explosive incident response operations.

Army capabilities provide the capacity to defeat incursions on, or to recapture, Australian territory, seize or protect forward-operating bases, conduct surveillance and reconnaissance operations, conduct special operations, conduct special recovery, counter-terrorist and combat search and rescue operations, provide Service-assisted and Service-protected evacuation, provide command, control, communications and information to support tasks, provide operational-level sustainment of land-based operations and provide humanitarian assistance.

Planned Performance

The planned performance for Output Three is as reported in the *Portfolio Budget Statements 2002-03*.

Force Structure

The Army's force structure is as reported in the *Portfolio Budget Statements 2002-03* except for the additional performance information below.

Army Aviation

Table 2.13: Flying Hours Rate of Effort for 2002-03

Aircraft Type and Quantity	Budget Estimate (hrs)	Revised Estimate (hrs)
36 Black Hawk	8,600	8,600
1 Black Hawk Simulator	2,275	2,275
42 Kiowa	12,848	12,848
25 Iroquois	5,055	5,055
6 Chinook	1,270	1,270
2 Twin Otter	1,200	1,200
3 King Air	2,000	2,000

Key Risks and Limitations

Key risks and limitations are as reported in the *Portfolio Budget Statements 2002-03*.

Strategic Initiatives

Strategic initiatives are as reported in the *Portfolio Budget Statements 2002-03*.

Logistics

Studies are under way to review stockholdings of ammunition. The results of the study will be submitted for Army internal consideration in December 2002.

Budgeted Price to the Government

Table 2.14: Budgeted Price of Output Three – Army Capabilities

	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Operating Expenses				
Employees	2,315,689	2,605,939	2,602,271	(3,668)
Suppliers	1,353,906	1,393,226	1,428,597	35,371
Grants	363	801	767	(34)
Depreciation and amortisation	568,613	657,264	578,050	(79,214)
Write down of assets	34,549	55,337	188,503	133,166
Other expenses	16,110	16,885	16,892	7
Total Operating expenses	4,289,230	4,729,452	4,815,080	85,628
Capital Use Charge	976,751	1,013,747	1,013,747	-
Total Cost of Output	5,265,981	5,743,199	5,828,827	85,628
<i>Less: Own-source Revenue⁽¹⁾</i>	73,868	131,360	260,852	129,492
Price to Government for Output Three	5,192,113	5,611,839	5,567,975	(43,864)

Note

1. 'Own source revenue' includes 'assets now recognised'.

Significant Variations

Following an internal review of employee expenses a number of adjustments have been made to the employee expense accounts to reflect revised requirements for variations in employee numbers and provision account requirements.

Suppliers expenses variations reflect increased requirements relating mainly to facilities operations and other general expenses.

A major asset substantiation exercise in 2001-02 resulted in significant recognition of both write offs and assets first found. While this work is substantially complete, there will be some residual impact on the operating statement in 2002-03 and the increase over the budget estimate reflects this. Write down of assets expenses has also increased, reflecting the fact that specialist military equipment, property plant and equipment and inventory are written down in the ordinary course of Defence business.

The \$79m downwards adjustment in depreciation and amortisation reflects the Output Three share of reduced Defence departmental depreciation requirements arising from an internal review.

OUTPUT FOUR: AIR FORCE CAPABILITIES

Air Force maintains flexible and adaptable capabilities to contribute to Australia's capacity to defend Australia, the security of Australia's immediate neighbourhood, support wider interests and peacetime national tasks.

The Air Force provides the capability for offensive and defensive air combat and airspace control, tactical and strategic airlift (including air-to-air refuelling) and maritime patrol and surveillance (including anti-submarine and anti-surface activities). Its capabilities also include precision strike operations, wide-area surveillance and combat support for air operations. Peacetime activities include maritime surveillance of Australian and regional exclusive economic zones, assistance to the civil community, search and rescue assistance, aeromedical evacuations and VIP transport operations.

Planned Performance

The planned performance for Output Four is as reported in the *Portfolio Budget Statements 2002-03*.

Force Structure

The Air Force's force structure is as reported in the *Portfolio Budget Statements 2002-03* except for the additional performance information below.

Air Combat

Aircraft Type	Number	Budget Estimate (hrs)	Revised Estimate (hrs)
F-111C	17		
RF-111C	4	2,600	2,600
F-111G	14		
F/A-18	71	12,500	12,500
Hawk 127	33	9,000	7,100
PC-9/A(F)	4	1,030	1,030

The reduction in flying hours of the Hawk 127 is a result of a lower than expected aircraft availability rate provided under the commercial support contract. Measures have been installed to remediate the shortfall.

Maritime Patrol

Aircraft Type	Number	Budget Estimate (hrs)	Revised Estimate (hrs)
P-3C	22	8,800	9,600

The increase in P-3C hours is the result of increased tasking, primarily associated with Operations Relex and Slipper.

Airlift

Aircraft Type	Number	Budget Estimate (hrs)	Revised Estimate (hrs)
C-130	24	14,000	14,000
B707	4	2,150	2,150
DHC-4 (Caribou)	14	5,080	5,080
Boeing 737 (BBJ)	2	1,200	1,200
CL604 (Challenger)	3	2,100	2,100
F900 ⁽¹⁾	3	1,000	1,000

Note

1. All F900 aircraft will be out of service by December 2002.

Key Risks and Limitations

Key risks and limitations are as reported in the *Portfolio Budget Statements 2002-03*.

Strategic Initiatives

Strategic initiatives are as reported in the *Portfolio Budget Statements 2002-03*.

Budgeted Price to the Government

Table 2.15: Budgeted Price of Output Four – Air Force Capabilities

	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Operating Expenses				
Employees	1,338,746	1,310,175	1,344,537	34,362
Suppliers	1,298,578	1,396,737	1,402,320	5,583
Grants	452	428	390	(38)
Depreciation and amortisation	993,017	1,002,280	1,132,538	130,258
Write down of assets	31,573	21,567	210,409	188,842
Other expenses	7,287	7,024	7,019	(5)
Total Operating expenses	3,669,653	3,738,211	4,097,213	359,002
Capital Use Charge	1,894,728	1,801,486	1,801,486	-
Total Cost of Output	5,564,381	5,539,697	5,898,699	359,002
<i>Less:</i> Own-source Revenue ⁽¹⁾	87,279	65,135	234,766	169,631
Price to Government for Output Four	5,477,102	5,474,562	5,663,933	189,371

Note

1. 'Own source revenue' includes 'assets now recognised'.

Significant Variations

The revised price for Output Four is \$5,664m, which is \$189m more than the adjusted budget estimate. The major portion of this relates to technical accounting adjustments, including an increase in write down of assets and increased revenue from assets now recognised.

Depreciation expense has also increased (\$130m) as a result of the componentisation of significant Air Force assets undertaken in 2001-02, resulting in shorter useful lives of some components. The civilian employee expense, especially in service-provider Groups, has also increased due to increased staffing numbers and planned civilianisation of positions.

OUTPUT FIVE: STRATEGIC POLICY

Defence provides timely and responsive strategic policy advice to the Government to enable it to make sound judgements on, and to respond to, Australia's strategic circumstances, and on specific security issues as they arise. Defence also applies strategic policy guidance to assist the development of recommendations to the Government on force structure, capability development, preparedness of ADF elements, international relationship management, and operational matters as they arise.

Defence also manages the Defence Cooperation Program as an integral part of its approach to international engagement.

Planned Performance

The planned performance for Output Five is as reported in the *Portfolio Budget Statements 2002-03*. In addition, the horrific events in Bali on 12 October 2002 have reinforced the importance of regional countries working together to combat terrorism.

The February 2002 memorandum of understanding between the Republic of Indonesia and the Government of Australia on combating international terrorism, which includes enhanced counter-terrorism cooperation between Defence officials, provides the framework for the joint investigation and intelligence team investigating the Bali attack. Memorandums of understanding have also been concluded with Malaysia and Thailand.

Key Risks and Limitations

Key risks and limitations are as reported in the *Portfolio Budget Statements 2002-03*.

Strategic Initiatives

Strategic initiatives are as reported in the *Portfolio Budget Statements 2002-03*.

Budgeted Price to the Government

Table 2.16: Budgeted Price of Output Five – Strategic Policy

	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Operating Expenses				
Employees	88,853	105,659	103,799	(1,860)
Suppliers	82,979	110,922	107,242	(3,680)
Grants	303	(12)	7	19
Depreciation and amortisation	7,051	14,554	3,454	(11,100)
Write down of assets	1,604	(237)	405	642
Other expenses	181	123	126	3
Total Operating expenses	180,971	231,009	215,033	(15,976)
Capital Use Charge	2,708	2,528	2,528	-
Total Cost of Output	183,679	233,537	217,561	(15,976)
<i>Less:</i> Own-source Revenue ⁽¹⁾	7,779	4,228	4,768	540
Price to Government for Output Five	175,900	229,309	212,793	(16,516)

Note

1. 'Own source revenue' includes 'assets now recognised'.

Significant Variations

The variation of -\$16.5m from the adjusted budget estimate to the revised estimate reflects the adjustments to attribution rules in the period and changes to the resource mix within several Groups. Two specific impacts on the revised estimate are the further refinement of Defence Science and Technology Organisation attribution rules for Output Five (-\$9.2m) and reduced Defence departmental depreciation requirements arising from an internal review (-\$9.0m).

Defence Cooperation

The revised estimate for the Defence Cooperation Program is \$66.7m, an increase of \$4.2m. This includes funding for the life-extension program for the Pacific patrol boats, which will extend the life of the program to 2027. Funding has also been provided as part of the re-engagement of the defence relationship with Fiji following the lifting of Australian Government sanctions in October 2001. There has been an increase in the level of reciprocal training activities with India and Pakistan, an increase in ADF attendance at the Indonesian Staff College and the establishment of a training and development adviser to the Indonesian Navy. The decrease in the support provided to the Solomon Islands is due to a delay in defence re-engagement with that nation.

Table 2.17: Defence Cooperation Funding

	Budget Estimate \$m	Revised Estimate \$m	Variation \$m
Papua New Guinea	9.731	9.731	0.000
South Pacific			
Vanuatu	1.623	1.623	0.000
Solomon Islands	1.214	0.502	-0.712
Tonga	1.619	1.619	0.000
Western Samoa	0.493	0.493	0.000
Cook Islands	0.407	0.407	0.000
Fiji	1.195	1.995	0.800
Marshall Islands	0.760	0.760	0.000
Federated States of Micronesia	0.793	0.793	0.000
Tuvalu	0.782	0.782	0.000
Kiribati	0.836	0.836	0.000
Palau	0.740	0.740	0.000
Multilateral General Assistance	7.674	10.636	2.962
Total	18.136	21.186	3.050
South East Asia			
Singapore	0.530	0.530	0.000
Philippines	3.944	3.944	0.000
Thailand	5.300	5.300	0.000
Malaysia	5.287	5.287	0.000
Indonesia	4.745	5.155	0.410
East Timor	6.590	6.590	0.000
Vietnam	2.447	2.447	0.000
Cambodia and Laos	1.000	1.000	0.000
Brunei	0.120	0.120	0.000
Total	29.963	30.373	0.410
Other Regional Activities	4.622	5.362	0.740
Total	62.452	66.652	4.200

OUTPUT SIX: INTELLIGENCE

Defence provides intelligence collection and analysis to support the planning and conduct of ADF operations, Defence policy making and planning, capability development, and wider Government decision making.

Planned Performance

The planned performance for Output Six is as reported in the *Portfolio Budget Statements 2002-03* except for the following amendment.

The requirements for intelligence support created by the high tempo of ADF operations, support to counter-terrorism and associated heightened government needs for intelligence and information security advice, are placing continued pressure on intelligence collection and analysis resources. This is being addressed, in the short term, through reallocation of resources and priorities, and by the recruitment of additional civilian personnel.

Key Risks and Limitations

Key risks and limitations are as reported in the *Portfolio Budget Statements 2002-03*.

Strategic Initiatives

Strategic initiatives are as reported in the *Portfolio Budget Statement 2002-03*.

Budgeted Price to the Government

Table 2.18: Budgeted Price of Output Six – Intelligence

	Published Budget Estimate 2002-03 \$'000	Adjusted Budget Estimate 2002-03 \$'000	Revised Estimate 2002-03 \$'000	Variation (Adjusted Budget Estimate to Revised Estimate) \$'000
Operating Expenses				
Employees	167,870	154,695	168,993	14,298
Suppliers	162,738	120,659	125,927	5,268
Grants	153	(23)	64	87
Depreciation and amortisation	80,150	51,386	41,383	(10,003)
Write down of assets	623	(860)	1,565	2,425
Other expenses	326	272	275	3
Total Operating expenses	411,860	326,129	338,207	12,078
Capital Use Charge	36,396	26,292	26,292	-
Total Cost of Output	448,256	352,421	364,499	12,078
<i>Less:</i> Own-source Revenue ⁽¹⁾	6,458	3,161	6,967	3,806
Price to Government for Output Six	441,798	349,260	357,532	8,272

Note

1. 'Own source revenue' includes 'assets now recognised'.

Significant Variations

Overall, the budgeted price of Output Six has increased by \$8.3m. This is due largely to a greater proportion of the costs of the Defence Science and Technology Organisation being attributed to the Output.

The variations to own-source revenue to the Output and write down of assets are the residual effects of a portfolio-level, major asset substantiation exercise in 2001-02. The \$10 m decrease in the budget estimate for depreciation and amortisation reflects the Output Six share of reduced departmental depreciation requirements arising from an internal review process.