

DEFENCE

CHAPTER TWO RESULTS FOR GOVERNMENT AS DEFENCE'S CUSTOMER

COST OF DEFENCE OUTCOMES

OUTCOME ONE COMMAND OF OPERATIONS

OUTCOME TWO NAVY CAPABILITY

OUTCOME THREE ARMY CAPABILITY

OUTCOME FOUR AIR FORCE CAPABILITY

OUTCOME FIVE STRATEGIC POLICY

OUTCOME SIX INTELLIGENCE

**OUTCOME SEVEN SUPERANNUATION AND
HOUSING SUPPORT
SERVICES FOR CURRENT
AND RETIRED DEFENCE
PERSONNEL**

COST OF DEFENCE OUTCOMES

Cost of Defence Outcomes

Table 2a: Cost of Defence Outcomes

	Budget Estimate 2003-04 ⁽¹⁾	Adjusted Budget Estimate 2003-04 ⁽¹⁾	Revised Estimate 2003-04	Variation ⁽²⁾	Variation
	\$'000	\$'000	\$'000	\$'000	%
Departmental Outcomes					
Outcome One					
Command of Operations	845,403	681,483	705,578	24,095	3.5
Outcome Two					
Navy Capability	4,087,689	4,087,689	4,027,285	-60,404	-1.5
Outcome Three					
Army Capability	4,845,019	4,845,019	4,885,945	40,926	0.8
Outcome Four					
Air Force Capability	4,003,694	4,003,694	4,207,085	203,391	5.1
Outcome Five					
Strategic Policy	213,429	213,429	213,198	-231	-0.1
Outcome Six					
Intelligence	403,085	403,085	412,967	9,882	2.5
Total Cost of Defence Outcomes	14,398,319	14,234,399	14,452,057	217,658	1.5
Administered Expenses					
Outcome Seven					
Superannuation and Housing Support Services for Current and Retired Defence Personnel	2,236,481	2,236,481	2,228,600	-7,881	-0.4

Notes

- The Budget Estimate included an estimate of the reimbursement of the 2002-03 operating expenses for Operations Bastille/Falconer (\$153.8m) and Bel Isi II (\$10.1m) of \$163.9m. To reflect the true cost to the Government in 2003-04 of Outcome One, an 'Adjusted Budget' column has been added to delete the \$163.9m in order to facilitate like-for-like comparisons.
- The variation of Cost of Defence outcomes of \$217.7m (represented in Table 2a) differs from the variation of Defence Appropriations of \$181.2m (represented in Table 1.9) by the amount of \$36.4m. This \$36.4m difference is made up of the downward revision (- \$40.9m) of the reimbursement of 2002-03 Operations Bastille/Falconer from \$153.8m to \$112.9m, and the upward revision (+\$4.5m) of the reimbursement of 2002-03 Bel Isi II from \$10.1m to \$14.6m.

Table 2b: Total Cost of Defence Outcomes

	Budget Estimate 2003-04 ⁽¹⁾	Adjusted Budget Estimate 2003-04 ⁽¹⁾	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	\$'000	%
Operating expenses					
Employees - Military	5,298,139	5,233,722	5,211,106	-22,616	-0.4
Employees - Civilian	1,341,583	1,341,583	1,333,548	-8,035	-0.6
Sub total employees	6,639,722	6,575,305	6,544,654	-30,651	-0.5
Suppliers Expense	4,130,081	4,030,578	4,319,857	289,279	7.2
Inventory Consumption	949,031	949,031	959,270	10,239	1.1
Sub total suppliers	5,079,112	4,979,609	5,279,127	299,518	6.0
Depreciation and amortisation	2,826,637	2,826,637	2,826,654	17	-
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	378,000	378,000	378,000	-	-
Revenue from sale of assets ⁽²⁾	-	-	306,384	306,384	-
Other (includes borrowing cost expense and grants)	33,793	33,793	32,413	-1,380	-4.1
Total operating expenses from ordinary activities	14,957,264	14,793,344	15,367,232	573,888	3.9
Revenues					
Assets now recognised	-278,000	-278,000	-278,000	-	-
Value of assets sold ⁽²⁾	-	-	-306,384	-306,384	-
Other	-280,945	-280,945	-330,791	-49,846	17.7
Total Own Source Revenues	-558,945	-558,945	-915,175	-356,230	-63.7
Total Cost of Defence Outcomes	14,398,319	14,234,399	14,452,057	217,658	1.5

Notes

1. The Budget Estimate included an estimate of the reimbursement of the 2002-03 operating expenses for Operations Bastille/Falconer (\$153.8m) and Bel Isi II (\$10.1m) of \$163.9m. To reflect the true cost to the government in 2003-04 of Outcome One, an 'Adjusted Budget' column has been added to delete the \$163.9m in order to facilitate like-for-like comparisons.
2. The Minister for Finance requires Defence to separately disclose both the value of assets sold and the revenue proceeds.

Table 2c: Group contribution to Defence Outcomes⁽¹⁾

	Outcome One Command of Operations	Outcome Two Navy Capability	Outcome Three Army Capability	Outcome Four Air Force Capability	Outcome Five Strategic Policy	Outcome Six Intelligence	Total Defence Outcomes⁽²⁾
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Headquarters Australian Theatre	137.2	0.0	0.0	0.0	0.0	0.0	137.2
Navy	31.3	1,245.8	0.0	0.0	0.0	8.9	1,286.0
Army	90.3	0.0	2,279.2	0.0	0.0	0.0	2,369.5
Air Force	38.3	9.0	20.2	1,308.9	9.3	3.1	1,388.7
Defence Material Organisation	206.8	1,907.5	893.9	1,809.3	8.1	15.6	4,841.3
Corporate Services and Infrastructure Group	118.4	562.1	1,087.6	733.3	24.5	54.3	2,580.1
Defence Personnel Executive	32.6	151.3	296.4	172.4	16.9	32.5	702.1
Intelligence	7.8	8.5	15.2	8.7	0.5	270.7	311.4
Strategic Policy	0.3	0.4	0.4	0.4	134.6	0.3	136.5
Defence Science and Technology Organisation	33.7	73.6	49.5	95.8	18.9	20.9	292.4
Vice Chief of the Defence Force	2.6	12.6	16.9	14.3	2.2	1.9	50.6
Chief Finance Officer ⁽³⁾	8.0	81.0	157.5	81.5	4.3	5.2	337.6
Chief Information Officer	1.3	6.2	8.4	7.0	1.1	1.0	25.0
Secretary/Chief of the Defence Force	0.2	1.1	1.5	1.2	0.2	0.2	4.4
Public Affairs and Corporate Communication	0.8	3.2	4.3	3.6	0.5	0.5	12.8
Inspector General	0.6	2.8	3.7	3.2	0.5	0.4	11.2
Portfolio	-4.6	-37.7	51.0	-32.4	-8.3	-2.6	-34.6
TOTAL⁽⁴⁾	705.6	4,027.5	4,885.5	4,207.3	213.2	413.0	14,452.1

Notes

1. Group contribution to Defence Outcomes excludes the reimbursement of 2002-03 costs relating to Operations Bastille/Falconer (\$112.9m) and Bel Isi II (\$14.6m) of \$127.5m. Table 1.9 represents total revenue from Government.
2. Total Defence outcomes equals the revised estimate of cost to Government for outcomes as shown in Table 2b.
3. Chief Finance Officer Group centrally manages Defence's Fringe Benefits Tax (FBT). The revised FBT estimate for 2003-04 is \$310.4m.
4. Table does not completely reconcile to Table 2a due to rounding.

Defence Outcome and Output Structure

OUTCOME One – Command of Operations in Defence of Australia and its Interests

OUTPUTS

- 1.1 Command of Operations
- 1.2 Defence Force Military Operations and Exercises
- 1.3 Contribution to National Support Tasks

OUTCOME Two – Navy Capability for the Defence of Australia and its Interests

OUTPUTS

- 2.1 Capability for Major Surface Combatant Operations
- 2.2 Capability for Naval Aviation Operations
- 2.3 Capability for Patrol Boat Operations
- 2.4 Capability for Submarine Operations
- 2.5 Capability for Afloat Support
- 2.6 Capability for Mine Warfare
- 2.7 Capability for Amphibious Lift
- 2.8 Capability for Hydrographic and Oceanographic Operations

OUTCOME Three – Army Capability for the Defence of Australia and its Interests

OUTPUTS

- 3.1 Capability for Special Forces Operations
- 3.2 Capability for Mechanised Operations
- 3.3 Capability for Light Infantry Operations
- 3.4 Capability for Army Aviation Operations
- 3.5 Capability for Ground Based Air Defence
- 3.6 Capability for Combat Support Operations
- 3.7 Capability for Regional Surveillance
- 3.8 Capability for Operational Logistic Support to Land Forces
- 3.9 Capability for Motorised Infantry Operations
- 3.10 Capability for Protective Operations

OUTCOME Four – Air Force Capability for the Defence of Australia and its Interests

OUTPUTS

- 4.1 Capability for Air Combat
- 4.2 Capability for Combat Support of Air Operations
- 4.3 Capability for Strategic Surveillance
- 4.4 Capability for Maritime Patrol Aircraft
- 4.5 Capability for Airlift

OUTCOME Five – Strategic Policy for the Defence of Australia and its Interests

OUTPUTS

- 5.1 Strategic and International Policy, Activities and Engagement
- 5.2 Military Strategy and Strategic Operations

OUTCOME Six – Intelligence for the Defence of Australia and its Interests

OUTPUT

- 6.1 Intelligence

OUTCOME Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

OUTPUT

- 7.1 Superannuation and Housing Support Services for Current and Retired Defence Personnel

OUTCOME ONE: COMMAND OF OPERATIONS

Performance information is as reported in the *Portfolio Budget Statements 2003-04* except for the revisions to operations and exercises in Outputs 1.2 and 1.3.

Net Cost of Outcome One

The revised cost of Outcome One is \$24.1m more than the adjusted budget estimate, representing an increase of 3.5 per cent, as detailed in Table 2.1.1.

Table 2.1.1: Net Cost of Outcome One

	Budget Estimate 2003-04 ⁽¹⁾	Adjusted Budget Estimate 2003-04 ⁽¹⁾	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	\$'000	%
Operating expenses					
Employees - Military	295,704	231,287	198,035	-33,252	-14.4
Employees - Civilian	88,975	88,975	75,336	-13,639	-15.3
Sub total employees	384,680	320,262	273,371	-46,891	-14.6
Suppliers Expense	364,349	264,846	396,131	131,285	49.6
Inventory Consumption	82,554	82,554	51,688	-30,866	-37.4
Sub total suppliers	446,903	347,400	447,819	100,419	28.9
Depreciation and amortisation	57,600	57,600	70,811	13,211	22.9
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	18,023	18,023	11,170	-6,853	-38.0
Revenue from sale of assets ⁽²⁾	-	-	9,314	9,314	-
Other (includes borrowing cost expense and grants)	884	884	1,590	706	79.9
Total operating expenses from ordinary activities	908,091	744,171	814,075	69,904	9.4
Revenues					
Assets now recognised	-16,124	-16,124	-8,426	7,698	-47.7
Value of assets sold ⁽²⁾	-	-	-9,314	-9,314	-
Other	-46,564	-46,564	-90,757	-44,193	94.9
Total Own Source Revenues	-62,688	-62,688	-108,497	-45,809	73.1
Net Cost of Outcome One	845,403	681,483	705,578	24,095	3.5

Notes

- The Budget Estimate included an estimate of the reimbursement of the 2002-03 operating expenses for Operations Bastille/Falconer (\$153.8m) and Bel Isi II (\$10.1m) of \$163.9m. To reflect the true cost to the government in 2003-04 of Outcome One, an 'Adjusted Budget' column has been added to delete the \$163.9m in order to facilitate like-for-like comparisons.
- The Minister for Finance requires Defence to separately disclose both the value of assets sold and the revenue proceeds.

Explanation of Significant Variations

The major variations to Outcome One are due to:

- a net decrease in the military employee expenses (-\$33.3m) due to:
 - the revised Operation Citadel drawdown strategy (-\$39.1m), of which \$27.6m was returned to the Government and \$11.5m was re-categorised to suppliers expense to align estimates with the revised cost of the operation;
 - additional funding provided by price parameters (+\$0.5m); and
 - a refinement in costs attributed to Outcome One by Defence Groups to better reflect the attribution of expenses across all outcomes (+\$5.3m).
- a net decrease in the civilian employee expenses (-\$13.6m) due to:
 - the harvesting of savings as part of the civilian staffing reduction program (-\$0.5m);
 - additional funding provided by price movements (+\$0.4m); and
 - a refinement in costs attributed to Outcome One by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$13.5m).
- a net increase in the suppliers expense (+\$131.3m) due to:
 - Operation Anode (+\$63.3m);
 - re-categorisation of inventory consumption (+\$19.4m) and military employees (+\$11.5m) funding to suppliers expenses as a result of the revised force extraction and equipment remediation cost estimates for Operation Citadel (+\$30.9m);
 - Operation Bastille/Falconer/Catalyst (+\$58.1m);
 - Operation Bel Isi II (+\$5.0m);
 - a refinement of cost attribution in Outcome One and Outcome Three to better reflect the attribution of expenses for Special Operations Command (-\$23.4m);
 - additional funding provided by price movements (+\$1.3m); and
 - a refinement in costs attributed to Outcome One by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$3.9m).
- a net decrease in the inventory consumption (-\$30.9m) due to:
 - a transfer to suppliers to reflect refined force extraction and remediation cost estimates for Operation Citadel (-\$19.4m); and
 - a refinement in costs attributed to Outcome One by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$11.5m).

- a net increase in depreciation to reflect a move from a generic to a more outcome specific attribution of costs (+\$13.2m); and
- an increase in other revenue (-\$44.2m) mainly due to:
 - revised accounting treatment of the fuel excise rebate (-\$43.0m);
 - sales of fuel to foreign forces, mainly in relation to Exercise Crocodile 03 (-\$7.2m); and
 - a refinement in costs attributed to Outcome One by Defence Groups to better reflect the attribution of other revenue across all outcomes (+\$6.0m).

Breakdown of Outcome One by Output

Table 2.1.2 provides a summary of the variations in Outcome One by output.

Table 2.1.2: Breakdown of Outcome One by Output

	Budget Estimate 2003-04	Adjusted Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	\$'000	%
Output 1.1 – Command of Operations	408,959	408,959	425,614	16,655	4.1
Output 1.2 – Defence Force Military Operations and Exercises	418,433	254,513	271,734	17,221	6.8
Output 1.3 – Contribution to National Support Tasks	18,011	18,011	8,229	-9,782	-54.3
Net Cost of Outcome One	845,403	681,483	705,578	24,095	3.5

Explanation of Significant Variations

The decrease in total cost of \$24.1m is explained in financial terms in Table 2.1.2. The variations between outputs within Outcome One reflect the improved reporting of costs as Defence progressively moves budgets to lower levels. Specifically, many variations relate to the Corporate Services and Infrastructure Group apportioning costs across the outputs using a revised methodology.

Output 1.3 – Contribution to National Support Tasks

- The variation in Output 1.3 is due to a reduction in the estimated cost of the ADF's contribution to national support tasks. The cost of the support effort is difficult to predict due to the uncertain nature of tasks. These tasks include public events of significance, search and rescue responses and support to the civil surveillance program.

OUTPUT STRUCTURE

Output 1.2 – Defence Force Military Operations and Exercises

ADF Operations

The following military operations are either new or have ceased since the publication of the *Portfolio Budget Statements 2003-04*.

Table 2.1.3: Contributing to the Security of the Immediate Neighbourhood

Operation	Objective
Anode Commenced July 2003 Forces: ADF	To support the coalition police forces in restoring the rule of law in the Solomon Islands.
Bel Isi II Commenced 1998 Ceased August 2003 Forces: ADF	To support the regional Peace Monitoring Group in monitoring and report on the maintenance of the cease-fire in Bougainville by contributing command and planning staff, and specialist medical, logistic, communications and transport capabilities.

Table 2.1.4: Supporting Wider Interests

Operation	Objective
Palate⁽¹⁾ Commenced April 2003 Forces: Army	ADF support to the United Nations Assistance Mission in Afghanistan.
Falconer Commenced March 2003 Ceased July 2003 Forces: ADF	ADF contribution to the United States-led coalition operation against Iraq.
Catalyst Commenced July 2003 Forces: ADF	ADF contribution in support of the rehabilitation of Iraq.

Note

1. Operation Palate was erroneously omitted from the *Portfolio Budget Statements 2003-04*.

Australian Defence Force Exercise Program

The following joint ADF exercises and combined exercises with the defence forces of other countries are either new, cancelled, or have had a revised date since the publication of the *Portfolio Budget Statements 2003-04*.

New Exercises

Equateur 03, Night Leopard 03, Pacific Protector 03, Northern Trilogy 04, Pacific Reach 04, Southern Tiger 04, Tempest Express-6.

Cancelled Exercises

Red Flag 03-4, Star Tiger 03, Taa Nok In Sii 03-2.

Exercises With a Revised Name

IADS Adex has been renamed Bersama Shield 04.

Exercises With a Revised Date

Wyvern Primo 03, Pacific Bond 03, Night Falcon 03, Tamex 03-3, Pacific Airlift Rally 03, Croix Du Sud 04, Tasman Exchange 03, Vital Launch 04, Vital Prospect 04, Tamex 04-2.

The following tables outline the changes to the ADF exercise program.

Table 2.1.5: ADF Joint Exercises

Exercise	Forces	Objective
Vital Launch 04 March 2004 <i>[Revised date]</i>	ADF	To practise Deployable Joint Force Headquarters and Component staff in the methods, procedures, planning and conduct of joint operations through participation in the joint military appreciation process.
Northern Trilogy 04 May 2004 <i>[New]</i>	ADF	To exercise Headquarters Northern Command in providing support to a consequence management incident which involves chemical, biological or radiological material.

Table 2.1.6: Combined ADF and United States Exercises

Exercise	Australian Forces	Objective
Pacific Bond 03 July – August 2003 <i>[Revised date]</i>	Army	To further enhance interoperability between the Australian Army and the United States Army by conducting a field training exercises.

Table 2.1.7: Combined ADF and Five Power Defence Arrangements Exercises

Exercise	Australian Forces	Participating Countries	Objective
Bersama Shield 04 ⁽¹⁾ May 2004 <i>[Revised name]</i>	Navy, Air Force	Malaysia, New Zealand, Singapore, United Kingdom	To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint/combined maritime exercise.

Note

1. Exercise IADS Adex was erroneously omitted from the *Portfolio Budget Statements 2003-04*. The exercise has since been renamed.

Table 2.1.8: Combined ADF and New Zealand Exercises

Exercise	Australian Forces	Objective
Wyvern Primo 03 June – September 2003 <i>[Revised date]</i>	Army	To exercise Australian crisis management machinery in the resolution of an offshore hostage incident.
Tasman Exchange 03 March – April 2004 <i>[Revised date]</i>	Army	To further develop interoperability between the Australian and New Zealand armies by conducting a field training exercise.
Vital Prospect 04 May 2004 <i>[Revised date]</i>	ADF	To practise Deployable Joint Force Headquarters and Component staff in the methods, procedures, planning and conduct of joint operations through participation in the joint military appreciation process.

Table 2.1.9: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Red Flag 03-4 August 2003 <i>[Cancelled]</i>	Air Force	Belgium, Brazil, Canada, France, Germany, Israel, Singapore, Spain, Thailand, Turkey, United Kingdom, United States	To conduct a long-range deployment and participate in a multinational large force employment exercise.
Tamex 03-3 August 2003 <i>[Revised date]</i>	Navy, Air Force	New Zealand, United States	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the Royal New Zealand Air Force or the United States Navy.
Pacific Protector 03 September 2003 <i>[New]</i>	Navy	Japan, United States, France	To practise international efforts for constraining trade in weapons of mass destruction.
Pacific Airlift Rally 03 September 2003 <i>[Revised date]</i>	Air Force	Bangladesh, Brunei, Canada, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Philippines, Papua New Guinea, Republic of Korea, Singapore, Thailand, United States, Vietnam, Russia, Sri Lanka	To enhance regional engagement and coalition airlift development through a military airlift symposium and command post exercise to exchange humanitarian airlift, air/land and airdrop delivery techniques for specific regional aircraft.
Equateur 03 October 2003 <i>[New]</i>	ADF	France, New Zealand, Tonga	To conduct operational-level planning for a non-combatant evacuation operation in a permissive environment.
Night Falcon 03 October – November 2003 <i>[Revised date]</i>	Special Forces	Papua New Guinea	To practise regional deployment of an SAS troop and to conduct war roles training and non-special forces training with the Papua New Guinea Defence Force.
Night Leopard 03 November – December 2003 <i>[New]</i>	Special Forces	Brunei	To conduct bilateral special forces war roles training with Royal Brunei Armed Forces Special Combat Squadron.
Star Tiger 03 November – December 2003 <i>[Cancelled]</i>	Special Forces	Malaysia	To develop interoperability between the Malaysian Special Forces and Australian Commando Regiment by conducting special forces training.
Taa Nok In Sii 03-2 November – December 2003 <i>[Cancelled]</i>	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and Royal Australian Air Force surveillance procedures.
Southern Tiger 04 March 2004 <i>[New]</i>	Army	Malaysia	To enhance interoperability between the Australian and Malaysian armies at the tactical level.

Exercise	Australian Forces	Participating Countries	Objective
Tempest Express-6 March 2004 <i>[New]</i>	ADF	Canada, Fiji, France, India, Indonesia, Japan, Malaysia, Mauritius, New Zealand, Philippines, Papua New Guinea, Singapore, Solomon Islands, Thailand, Tonga, United Kingdom, United States, Vanuatu, Bangladesh, China, Korea, Madagascar, Maldives, Nepal, Russia, Sri Lanka, United Nations	To practise activation of a Joint Task Force and transition to an Australian-led coalition task force in a crisis action planning environment.
Tamex 04-2 May 2004 <i>[Revised date]</i>	Navy, Air Force	New Zealand, United States	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the Royal New Zealand Air Force or the United States Navy.
Croix Du Sud 04 June 2004 <i>[Revised date]</i>	ADF	France, New Zealand, Tonga	To improve interoperability with France, New Zealand and Tonga in a combined maritime training exercise.
Pacific Reach 04 April – May 2004 <i>[New]</i>	Navy	Malaysia, Singapore, United Kingdom, United States	To test and evaluate the effectiveness of participating nations' submarine escape and rescue vehicles, systems and organisations.

Output 1.3 - Contribution to National Support Tasks

ADF Operations

The following national support tasks involving the ADF have occurred since the publication of the *Portfolio Budget Statements 2003-04*.

Table 2.1.10: Peacetime National Tasks

Operation	Objective
Gemsbok August - October 2003	ADF support to Coastwatch and Australian Fisheries Management Authority led, and Republic of South Africa assisted, apprehension of the foreign fishing vessel <i>Viarsa 1</i> in the Southern Ocean.
Scrummage September – November 2003	ADF support to the Rugby World Cup.
Miata October 2003	ADF support to the President of the United States' visit to Australia.
Fluent October 2003	ADF support to the President of the People's Republic of China's visit to Australia.

OUTCOME TWO: NAVY CAPABILITY

Performance information is as reported in the *Portfolio Budget Statements 2003-04* except for revisions to Outputs 2.1, 2.5, 2.7 and 2.8.

Net Cost of Outcome Two

The revised cost of Outcome Two is \$60.4m lower than the adjusted budget estimate, representing a decrease of 1.5 per cent, as detailed in Table 2.2.1.

Table 2.2.1: Net Cost of Outcome Two

	Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	%
Operating expenses				
Employees - Military	1,238,483	1,218,212	-20,271	-1.6
Employees - Civilian	325,435	327,166	1,731	0.5
Sub total employees	1,563,918	1,545,378	-18,540	-1.2
Suppliers Expense	1,203,374	1,287,263	83,889	7.0
Inventory Consumption	239,729	229,139	-10,590	-4.4
Sub total suppliers	1,443,103	1,516,402	73,299	5.1
Depreciation and amortisation	1,059,648	983,445	-76,203	-7.2
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	144,028	137,167	-6,861	-4.8
Revenue from sale of assets ⁽¹⁾	-	80,119	80,119	-
Other (includes borrowing cost expense and grants)	6,933	7,058	125	1.8
Total operating expenses from ordinary activities	4,217,630	4,269,569	51,939	1.2
Revenues				
Assets now recognised	-84,578	-103,167	-18,589	22.0
Value of assets sold ⁽¹⁾	-	-80,119	-80,119	-
Other	-45,363	-58,998	-13,635	30.1
Total Own Source Revenues	-129,941	-242,284	-112,343	86.5
Net Cost of Outcome Two	4,087,689	4,027,284	-60,405	-1.5

Note

- The Minister for Finance requires Defence to separately disclose both the value of assets sold and the revenue proceeds.

Explanation of Significant Variations

The major variations to Outcome Two are due to:

- a net decrease in the military employee expenses (-\$20.3m) as a result of:
 - additional funding provided for price parameters (+\$6.2m);
 - a refinement of the budget estimates for salary arrears payment (+\$8.6m);

- an increase in the service allowance (+\$11.3m) resulting from a Defence Force Remuneration Tribunal decision;
- a reduction in rations funding (-\$2.0m);
- ongoing refinement in costs of the workforce following a zero-based budget review and a refinement of the estimate for fringe benefits tax (-\$12.0m); and
- a refinement in costs attributed to Outcome Two by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$32.4m).
- a net increase in the civilian employee expenses (+\$1.7m) as a result of:
 - additional funding provided by price parameters (+\$1.6m);
 - savings as part of the civilian reduction program (-\$2.4m); and
 - a refinement in costs attributed to Outcome Two by Defence Groups to better reflect the attribution of expenses across all outcomes (+\$2.5m).
- a net increase in the suppliers expense (+\$83.9m) mainly due to:
 - additional funding provided by price parameters (+\$6.0m);
 - ADF explosive ordnance contract service funding (+\$8.4m);
 - supplementation provided by the Government for the operating lease of properties sold in 2002-03 under the sale and lease-back program (+\$6.5m);
 - increase in cost by internal support organisations (+\$5.7m);
 - supplementation from the Government for an increase in Defence's insurance policy premium (Comcover) (+\$3.9m);
 - transfer of travel rebate to revenue (+\$3.1m);
 - increased property disposal costs (+\$2.1m);
 - additional science and technology support to Seahawk mid-life upgrade (+\$1.5m); and
 - a net variation in the logistics funding including changes in the mix of logistics support funding together with a refinement in costs attributed to Outcome Two by Defence Groups to better reflect the attribution of expenses across all outcomes (+\$46.7m).
- a net decrease in the inventory consumption (-\$10.6m) as a result of a refinement in costs attributed to Outcome Two to better reflect the attribution of expenses across all outcomes;
- a net decrease in the depreciation expense (-\$76.2m), as a result of:
 - an increase in depreciation expense following a baseline review of assets holdings, including an offset to take account of property sales and changed accounting policy for administrative assets (+\$12.0m);

- a decrease in depreciation expense due to the finalisation of the 2002-03 outcome, revised assets deliveries, write offs and assets now recognised (-\$6.0m);
- revised delivery of assets from projects (-\$35.5m); and
- a refinement in costs attributed to Outcome Two by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$46.7m).
- a net decrease in the write down of assets (-\$6.9m) as a result of:
 - a change in accounting policies from administrative assets (increase in reporting threshold from \$1,000 to \$2,000 and no grouping) has necessitated a budget to cover the write down of those assets no longer part of the balance sheet (+\$8.8m); and
 - a refinement in costs attributed to Outcome Two by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$15.7m).
- a net increase in assets now recognised (-\$18.6m) as a result of:
 - work to migrate administrative assets onto the ROMAN assets module, an increase in reported assets is now expected (-\$3.9m); and
 - a refinement in costs attributed to Outcome Two by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$14.7m).
- a net increase in other revenue (-\$13.6m) as a result of:
 - transfer of travel rebate to revenue from suppliers expenses (-\$3.1m); and
 - a refinement in revenue attributed to Outcome Two by Defence Groups to better reflect the attribution of revenue across all outcomes (-\$10.5m).

Breakdown of Outcome Two by Output

Table 2.2.2 provides a summary of the variations in Outcome Two by output.

Table 2.2.2: Breakdown of Outcome Two by Output

	Budget Estimate 2003-04 \$'000	Revised Estimate 2003-04 \$'000	Variation \$'000	Variation %
Output 2.1 – Capability for Major Surface Combatant Operations	1,487,315	1,259,181	-228,134	-15.3
Output 2.2 – Capability for Naval Aviation Operations	472,472	455,231	-17,241	-3.6
Output 2.3 – Capability for Patrol Boat Operations	260,599	278,328	17,729	6.8
Output 2.4 – Capability for Submarine Operations	773,777	850,903	77,126	10.0
Output 2.5 – Capability for Afloat Support	215,090	210,692	-4,398	-2.0
Output 2.6 – Capability for Mine Warfare	333,790	384,060	50,270	15.1
Output 2.7 – Capability for Amphibious Lift	366,429	344,098	-22,331	-6.1
Output 2.8 – Capability for Hydrographic and Oceanographic Operations	178,219	244,793	66,574	37.4
Net Cost of Outcome Two	4,087,689	4,027,284	-60,405	-1.5

Explanation of Significant Variations

The decrease in total cost of \$60.4m is explained in financial terms in Table 2.2.2.

The variations between outputs within Outcome Two reflect the improved reporting of costs as Defence progressively moves budgets to lower levels. Specifically, many variations relate to the Corporate Service and Infrastructure Group apportioning costs across the outputs using a revised methodology.

Output 2.4 – Submarines

The increase in Output 2.4 is due to the funding for the full cycle docking of submarines being distributed across all outputs in the *Portfolio Budget Statements 2003-04*, now correctly being reflected against the output in this document.

OUTPUT STRUCTURE

Output 2.1 – Capability for Major Surface Combatant Operations

The major surface combatant force consists of six guided missile frigates and five Anzac-class frigates. A sixth Anzac-class frigate will be commissioned in June 2004.

Output 2.5 – Capability for Afloat Support

Table 2.2.3: Performance Targets for Output 2.5 – Capability for Afloat Support

Performance Targets			
Vessel Type	Number	Budget Estimate	Revised Estimate
Oil tanker	1	310 URD ⁽¹⁾	0 URD ⁽²⁾

Notes

1. Unit Ready Days (URD) are the number of days that a force element is available for tasking, by the Maritime Commander, within planned readiness requirements.
2. HMAS *Westralia* required rectification of a defect to its propulsion system in May 2003. While removed from service, a number of main engine and drive train defects were also identified. Following comprehensive technical assessment, the repair time will now extend to mid-2004.

Output 2.7 – Capability for Amphibious Lift

Table 2.2.4: Performance Targets for Output 2.7 – Capability for Amphibious Lift

Performance Targets			
Vessel Type	Number	Budget Estimate	Revised Estimate
Amphibious landing ships	2	568 URD	483 URD ⁽¹⁾

Note

1. HMAS *Kanimbla* underwent intermediate docking and extended maintenance from September 2003 to January 2004.

Output 2.8 – Capability for Hydrographic and Oceanographic Operations

Table 2.2.5: Performance Targets for Output 2.8 – Capability for Hydrographic and Oceanographic Operations

Performance Targets			
Vessel/Aircraft/Unit/ Chart Production	Number	Budget Estimate	Revised Estimate
Hydrographic ships	2	732 URD	629 URD ⁽¹⁾
Survey motor launches	4	1,464 URD	1,459 URD ⁽²⁾
Hydrographic office detached survey unit	1	Availability 300 days Planned deployments 169 days	Availability 365 days ⁽³⁾ Planned deployments 169 days

Notes

1. The hydrographic ships' URD total has been reduced due to extended maintenance periods to rectify defects associated with diesel generators and the hydrographic survey system.
2. The survey motor launches' URD total has been reduced due to a planned maintenance period being extended when it was thought that asbestos had been discovered in the launch. Tests later confirmed the material was not asbestos.
3. Program changes have precluded the hydrographic office detached survey unit deploying to Antarctica. Planned deployments remain at 169 days as substitute deployments have been programmed. Availability has increased to 365 days (the Antarctica deployment reduces availability due to the remoteness of the location).

OUTCOME THREE: ARMY CAPABILITY

Performance information is as reported in the *Portfolio Budget Statements 2003-04* except for revisions to Output 3.4.

Net Cost of Outcome Three

The revised cost of Outcome Three is \$40.9m more than the budget estimate, representing an increase of 0.8 per cent as detailed in Table 2.3.1.

Table 2.3.1: Net Cost of Outcome Three

	Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	%
Operating expenses				
Employees - Military	2,474,189	2,420,226	-53,963	-2.2
Employees - Civilian	417,449	396,716	-20,733	-5.0
Sub total employees	2,891,638	2,816,942	-74,696	-2.6
Suppliers Expense	1,135,299	1,148,072	12,773	1.1
Inventory Consumption	335,613	374,764	39,151	11.7
Sub total suppliers	1,470,911	1,522,836	51,925	3.5
Depreciation and amortisation	608,881	597,642	-11,239	-1.8
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	85,890	72,878	-13,012	-15.1
Revenue from sale of assets ⁽¹⁾	-	129,570	129,570	-
Other (includes borrowing cost expense and grants)	17,617	13,526	-4,091	-23.2
Total operating expenses from ordinary activities	5,074,937	5,153,394	78,458	1.5
Revenues				
Assets now recognised	-78,964	-51,395	27,569	-34.9
Value of assets sold ⁽¹⁾	-	-129,570	-129,570	-
Other	-150,954	-86,484	64,470	-42.7
Total Own Source Revenues	-229,918	-267,449	-37,531	16.3
Net Cost of Outcome Three	4,845,019	4,885,945	40,926	0.8

Note

- The Minister for Finance requires Defence to separately disclose both the value of assets sold and the revenue proceeds.

Explanation of Significant Variations

The major variations to Outcome Three are due to:

- A net decrease in the military employee expenses (-\$54.0m) due to:
 - additional funding provided for price parameters (+\$12.4m);
 - a refinement of the budget estimates for salary arrears payments (+\$25.6m);

- an increase in the service allowance (\$24.9m) resulting from a Defence Force Remuneration Tribunal decision;
- ongoing refinement to the cost of the workforce following a zero-based budget review and a refinement of the estimate for fringe benefits tax (-\$44.4m); and
- a refinement in costs attributed to Outcome Three by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$72.5m).
- a net decrease in the civilian employee expenses (-\$20.7m) due to:
 - additional funding provided for price parameters (+\$1.9m);
 - savings as part of the civilian reduction program (-\$2.8m); and
 - a refinement in costs attributed to Outcome Three by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$19.8m).
- a net increase in the suppliers expense (+\$12.8m) due to:
 - additional funding provided for price parameters (+\$8.0m);
 - refinement of cost attribution in Outcome One and Outcome Three to better reflect the attribution of expenses for Special Operations Command (+\$23.4m); and
 - other net variations for the Comcover premium and lease costs associated with the sale and lease-back program, together with a refinement in costs attributed to Outcome Three by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$18.6m).
- a net increase in the inventory consumption due to adjustment to the estimates to better match consumption rates with the Army's activity levels (+\$39.2m);
- a net decrease in the depreciation expense (-\$11.2m) due to a refinement of attribution rules to reflect a move from a generic to a more outcome specific attribution of costs; and
- a net decrease in other revenue (+\$64.5m) due to a refinement in costs attributed to Outcome Three to better reflect the attribution of other revenue across all outcomes.

Breakdown of Outcome Three by Output

Table 2.3.2 provides a summary of the variations in Outcome Three by output.

Table 2.3.2: Breakdown of Outcome Three by Output

	Budget Estimate 2003-04 \$'000	Revised Estimate 2003-04 \$'000	Variation \$'000	Variation %
Output 3.1 – Capability for Special Forces Operations	445,118	306,793	-138,325	-31.1
Output 3.2 – Capability for Mechanised Operations	800,591	796,432	-4,159	-0.5
Output 3.3 – Capability for Light Infantry Operations	1,020,185	966,902	-53,283	-5.2
Output 3.4 – Capability for Army Aviation Operations	449,568	540,495	90,927	20.2
Output 3.5 – Capability for Ground Based Air Defence	92,956	176,175	83,219	89.5
Output 3.6 – Capability for Combat Support Operations	407,921	468,588	60,667	14.9
Output 3.7 – Capability for Regional Surveillance	86,750	147,368	60,618	69.9
Output 3.8 – Capability for Operational Logistic Support to Land Forces	433,401	488,775	55,374	12.8
Output 3.9 – Capability for Motorised Infantry Operations	573,759	539,158	-34,601	-6.0
Output 3.10 – Capability for Protective Operations	534,769	455,259	-79,510	-14.9
Net Cost of Outcome Three	4,845,019	4,885,945	40,926	0.8

Output Explanations for Significant Variations

The increase in total cost of \$40.9m is explained in financial terms in Table 2.3.2. The large variations between outputs within Outcome Three reflect the improved reporting of costs as Defence progressively moves budget to lower levels. Specifically, many variations relate to Corporate Services and Infrastructure Group apportioning costs across the outputs using a revised methodology.

Output 3.1 – Special Forces

The supplementation from the Government for the establishment of Special Operations Command, Tactical Assault Group (East) and the Incident Responses Regiment is reflected in the revised total cost of Output 3.1. The reduction between the budget and the revised estimate reflects a correction to the attribution of support costs to Output 3.1 in the budget, rather than a reduced level of funding to Special Forces.

Output 3.4 – Capability for Army Aviation Operations

Table 2.3.3: Flying Hours Rate of Effort for 2003-04

Aircraft Quantity and Type	Budget Estimate (hours)	Revised Estimate (hours)
36 S-70A9 Black Hawk	8,600	8,200
1 Black Hawk Simulator	2,275	2,395
25 UH-1H Iroquois	4,980	4,640
6 Ch-47D Chinook	1,270	1,170

OUTCOME FOUR: AIR FORCE CAPABILITY

Performance information is as reported in the *Portfolio Budget Statements 2003-04* except for a revision to Output 4.4.

Net Cost of Outcome Four

The revised cost of Outcome Four is \$203.4m more than the budget estimate, representing a increase of 5.1 per cent, as detailed in Table 2.4.1.

Table 2.4.1: Net Cost of Outcome Four

	Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	%
Operating expenses				
Employees - Military	1,173,467	1,229,780	56,313	4.8
Employees - Civilian	333,135	356,945	23,810	7.1
Sub total employees	1,506,602	1,586,725	80,123	5.3
Suppliers Expense	1,176,755	1,224,612	47,857	4.1
Inventory Consumption	290,134	303,066	12,932	4.5
Sub total suppliers	1,466,889	1,527,678	60,789	4.1
Depreciation and amortisation	1,008,500	1,114,935	106,435	10.6
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	129,117	154,311	25,194	19.5
Revenue from sale of assets ⁽¹⁾	-	79,629	79,629	-
Other (includes borrowing cost expense and grants)	7,606	9,005	1,399	18.4
Total operating expenses from ordinary activities	4,118,713	4,472,283	353,570	8.6
Revenues				
Assets now recognised	-96,542	-113,133	-16,591	17.2
Value of assets sold ⁽¹⁾	-	-79,629	-79,629	-
Other	-18,477	-72,436	-53,959	292.0
Total Own Source Revenues	-115,020	-265,198	-150,178	130.6
Net Cost of Outcome Four	4,003,694	4,207,085	203,391	5.1

Note

- The Minister for Finance requires Defence to separately disclose both the value of assets sold and the revenue proceeds.

Explanation of Significant Variations

The major variations to Outcome Four are due to:

- a net increase in the military employees expenses (+\$56.3m) as a result of:
 - additional funding provided for price parameters (+\$6.1m);
 - a refinement of the budget estimates for salary arrears payments (+\$8.1m);

- an increase in the service allowance (+\$18.4m) resulting from a Defence Force Remuneration Tribunal decision;
- ongoing refinement to the cost of the workforce following a zero-based budget review and a refinement of the estimate for fringe benefits tax (-\$7.6m); and
- a refinement in costs attributed to Outcome Four by Defence Groups to better reflect the attribution of expenses across all outcomes (+\$31.3m).
- a net increase in the civilian employee expenses (+\$23.8m) as a result of:
 - additional funding provided for price parameters (+\$1.9m);
 - increases in civilian personnel supporting Outcome Four (+\$5.3m);
 - savings as part of the civilian reduction program (-\$2.6m); and
 - a refinement in costs attributed to Outcome Four by Defence Groups to better reflect the attribution of expenses across all outcomes (+\$19.2m).
- a net increase in the suppliers expense (+\$47.9m) as a result of:
 - additional funding provided for price parameters (+\$8.1m);
 - a net variation in the logistics funding including changes in the mix of the logistics support funding (+\$42.9m);
 - a contribution to the administrative savings program from the non-capability suppliers expenses, including a reduction in the professional service providers(-\$7.9m);
 - a change in the accounting treatment of the Qantas travel rebate (+\$4.1m);
 - an increase in facilities costs including project costs, sale and lease-back expenses and increased property disposal costs (+\$17.1m);
 - supplementation from the Government for an increase in Defence's insurance policy premium (Comcover) (+\$2.6m); and
 - a refinement in costs attributed to Outcome Four by Defence Groups to better reflect the attribution of expenses across all outcomes (-\$19.0m).
- a net increase in the inventory consumption (+\$12.9m) as a result of operations;
- a net increase in the depreciation and amortisation expenses (+\$106.4m) as a result of:
 - an adjustment to the asset base for assets under construction, asset write downs and other adjustments (-\$39.7m);

- improved alignment of budget and expected result net of a change in asset holdings due to a variation in accounting treatment for administrative assets and a re-calculation of property assets following recent sales (+\$13.0m); and
- a refinement in costs attributed to Outcome Four by Defence Groups to better reflect the attribution of expenses across all outcomes (+\$133.1m).
- a net increase in the allocation for write down of assets attributed to Outcome Four as a result of a change in the asset base and improved alignment of the budget and expected result (+\$25.2m);
- a net increase in the allocation for assets now recognised attributed to Outcome Four due to a change in asset base and improved alignment of budget and expected result (-\$16.6m); and
- an increase in other revenues (+\$54.0m) as a result of:
 - increases in other minor revenues (+\$7.5m), including for the revised accounting treatment of the Qantas rebate; and
 - a refinement in costs attributed to Outcome Four by Defence Groups to better reflect the attribution of other revenue across all outcomes (+\$46.5m).

Breakdown of Outcome Four by Output

Table 2.4.2 provides a summary of the variations in Outcome Four by output.

Table 2.4.2: Breakdown of Outcome Four by Output

	Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	%
Output 4.1 – Capability for Air Combat	1,779,583	1,886,750	107,167	6.0
Output 4.2 – Capability for Combat Support of Air Operations	423,662	453,134	29,472	7.0
Output 4.3 – Capability for Strategic Surveillance	369,154	473,002	103,848	28.1
Output 4.4 – Capability for Maritime Patrol Aircraft	535,451	496,781	-38,670	-7.2
Output 4.5 – Capability for Airlift	895,843	897,418	1,575	0.2
Net Cost of Outcome Four	4,003,694	4,207,085	203,391	5.1

Explanation of Significant Variations

The increase in total cost of \$203.4m is explained in financial terms in Table 2.4.2. The variations between outputs within Outcome Four reflect the improved reporting of costs as Defence progressively moves budgets to lower levels. Specifically, many variations related to Corporate Services and Infrastructure Group apportioning costs across the outputs using a revised methodology.

Output 4.4 – Capability for Maritime Patrol Aircraft

Table 2.4.3: Maritime Patrol

Aircraft	Budget Estimate (Number)	Revised Estimate (Number)	Budget Estimate (hours)	Revised Estimate (hours)
Orion	22 (19 x P-3C/AP-3C and 3 x TAP-3)	19 x P-3C/AP-3C ⁽¹⁾	9,100	9,000

Note

1. The three P-3 derivative training aircraft (TAP-3) have been retired from service.

OUTCOME FIVE: STRATEGIC POLICY

The performance information is as reported in the *Portfolio Budget Statements 2003-04*.

Net Cost of Outcome Five

The revised cost of Outcome Five is \$0.2m lower than the budget estimate, representing a decrease of 0.1 per cent as detailed in Table 2.5.1.

Table 2.5.1: Net Cost of Outcome Five

	Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	%
Operating expenses				
Employees - Military	63,686	71,482	7,796	12.2
Employees - Civilian	39,005	39,210	205	0.5
Sub total employees	102,691	110,692	8,001	7.8
Suppliers Expense	111,861	110,085	-1,776	-1.6
Inventory Consumption	408	180	-228	-55.9
Sub total suppliers	112,269	110,265	-2,004	-1.8
Depreciation and amortisation	9,583	4,511	-5,072	-52.9
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	106	1,415	1,309	1,234.5
Revenue from sale of assets ⁽¹⁾	-	245	245	-
Other (includes borrowing cost expense and grants)	275	368	93	33.8
Total operating expenses from ordinary activities	224,925	227,496	2,571	1.1
Revenues				
Assets now recognised	-119	-1,109	-990	832.2
Value of assets sold ⁽¹⁾	-	-245	-245	-
Other	-11,377	-12,943	-1,566	13.8
Total Own Source Revenues	-11,495	-14,297	-2,802	24.4
Net Cost of Outcome Five	213,429	213,198	-231	-0.1

Note

- The Minister for Finance requires Defence to separately disclose both the value of assets sold and the revenue proceeds.

Key Risks and Limitations

Key risks and limitations are as reported in the *Portfolio Budget Statements 2003-04* except for:

- managing core priorities at times of increased operational tempo, such as during the war against terrorism, ADF activities in Iraq or the Solomon Islands.

Explanation of Significant Variations

The major variations to Outcome Five are due to:

- a net increase in the military employee expenses (+\$7.8m) reflecting:
 - additional funding provided for price parameters (+\$0.3m); and
 - a refinement in costs attributed to Outcome Five by Defence Groups to better reflect the attribution of expenses across all outcomes (+\$7.5m).
- a net increase in the civilian employee expenses (+\$0.2m), which has been offset by the Strategy outcome’s share of the harvesting of savings as part of the civilian staffing reduction program (-\$0.3m);
- a net decrease in depreciation to reflect a move from a generic to a more outcome specific attribution of costs (-\$5.1m);
- a net increase in the write down of asset expenses to reflect the ongoing work to refine Defence’s asset holdings and valuations (+\$1.3m); and
- a net increase in other revenue (+\$1.6m) due to changes in the treatment of Qantas travel rebates which are now classified as receipts, rather than being netted-off operating expenses; together with other minor variations.

Breakdown of Outcome Five by Output

Table 2.5.2 provides a summary of the variations in Outcome Five by output.

Table 2.5.2: Breakdown of Outcome Five by Output

	Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	%
Output 5.1 – Capability for Strategic and International Policy, Activities and Engagement	170,465	169,186	-1,279	-0.8
Output 5.2 – Capability for Military Strategy and Strategic Operations	42,964	44,012	1,048	2.4
Net Cost of Outcome Five	213,429	213,198	-231	-0.1

OUTCOME SIX: INTELLIGENCE

Performance information is as reported in the *Portfolio Budget Statements 2003-04*.

Net Cost of Outcome Six

The revised cost of Outcome Six is \$9.9m higher than the budget estimate, representing an increase of 2.5 per cent, as detailed in Table 2.6.1.

Table 2.6.1: Net Cost of Outcome Six⁽¹⁾

	Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
	\$'000	\$'000	\$'000	%
Operating expenses				
Employees - Military	52,609	73,371	20,762	39.5
Employees - Civilian	137,583	138,175	592	0.4
Sub total employees	190,192	211,546	21,354	11.2
Suppliers Expense	138,446	153,694	15,248	11.0
Inventory Consumption	593	432	-161	-27.2
Sub total suppliers	139,038	154,126	15,088	10.9
Depreciation and amortisation	82,425	55,311	-27,114	-32.9
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	836	1,059	223	26.7
Revenue from sale of assets ⁽²⁾	-	7,506	7,506	-
Other (includes borrowing cost expense and grants)	477	866	389	81.6
Total operating expenses from ordinary activities	412,969	430,414	17,446	4.2
Revenues				
Assets now recognised	-1,673	-769	904	-54.0
Value of assets sold ⁽²⁾	-	-7,506	-7,506	-
Other	-8,210	-9,172	-962	11.7
Total Own Source Revenues	-9,884	-17,447	-7,563	76.5
Net Cost of Outcome Six	403,085	412,967	9,882	2.5

Notes

- Outcome Six has only one output, Output 6.1 – Intelligence and therefore is not represented in a separate table.
- The Minister for Finance requires Defence to separately disclose both the value of assets sold and the revenue proceeds.

Explanation of Significant Variations

The major variations to Outcome Six are due to:

- an increase in the military employee expenses (+\$20.8m) reflecting:
 - additional funding provided for price parameters (+\$0.3m); and

- a refinement in costs attributed to Outcome Six by Defence Groups to better reflect the attribution of expenses across all Groups (+\$20.5m).
- a net increase in the civilian employee expenses (+\$0.6m), which has been offset by the Intelligence outcome's share of the harvesting of savings as part of the civilian staffing reduction program (-\$0.9m);
- a increase in the suppliers expense (+\$15.2m) due to additional funding provided for price parameters (+\$0.9m), and increases in the Intelligence outcome's share of Comcare costs and operating leases costs associated with the sale and lease-back of Defence assets, and a refinement in costs attributed to Outcome Six by Defence Groups to better reflect the attribution of expenses across all Groups (+\$14.3m); and
- a net decrease in depreciation to reflect a move from a generic to a more outcome specific attribution of costs (-\$27.1m).

OUTCOME SEVEN: SUPERANNUATION AND HOUSING SUPPORT SERVICES FOR CURRENT AND RETIRED DEFENCE PERSONNEL

Performance information is as reported in the *Portfolio Budget Statements 2003-04*.

Table 2.7.1: Revenues Administered on Behalf of the Government

2002-03 Result		Budget Estimate 2003-04	Revised Estimate 2003-04	Variation	Variation
\$'000		\$'000	\$'000	\$'000	%
1,114	Interest				
373,525	Housing Dividends	205,400	354,100	148,700	72.4
551,849	Military Superannuation Contributions Foreign Government and the United Nations reimbursements for East Timor	607,683	557,683	-50,000	-8.2
59,285	Assets now recognised – Retention	23,000	23,000	-	-
56,918	Benefit Prepayments				
1,042,691	Total revenues administered on behalf of Government	836,083	934,783	98,700	11.8

Significant Variations - Revenue

Revenue administered on behalf of the Government is estimated to increase by \$98.7m to \$934,783m, representing an increase of 11.8 per cent from the 2003-04 budget allocation. The major variation is due to a combined effect of an increase in Defence Housing Authority dividend of \$148,700 and a decrease in military superannuation contributions of \$50m. This is due to an adjustment to the estimates to bring them in line with the 2002-03 actual outcome (\$20m) and to reflect a change in the accounting policy. Military Superannuation Benefits Scheme revenue is now treated as equity rather than non-taxation revenue (-\$30m).

Table 2.7.2: Expenses Administered on Behalf of the Government

2002-03 Result		Budget Estimate 2003-04 \$'000	Revised Estimate 2003-04 \$'000	Variation \$'000	Variation %
2,477,497	Military Superannuation Benefits	2,200,000	2,200,000	-	-
21,162	Retention Benefits	30,600	21,200	-9,400	-30.7
7,394	Housing Subsidies	5,700	7,400	1,700	29.8
84,239	Write down of assets (United Nations and Intercompany Receivables)				
4,365	Other	181		-181	-100.0
2,594,657	Total expenses administered on behalf of Government	2,236,481	2,228,600	-7,881	-0.4

Significant Variations - Expenses

Expenses administered on behalf of the Government are estimated to decrease by \$7.9m from \$2,236.5m to \$2,228.6m. This decrease is due to the combined effect of a decrease in retention benefits (\$9.4m) and an adjustment to the housing subsidies estimates to bring them in line with the 2002-03 actual outcome (\$1.7m).