

# **DEFENCE**

## **CHAPTER ONE**

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## OVERVIEW

### CHANGES TO OUTCOME AND OUTPUT STRUCTURE

In 2002-03 and previous years, Defence had only one outcome: *The defence of Australia and its national interests*. The Government has decided that, from 2003-04, Defence is to have seven outcomes and 30 outputs. The increase in outcomes is a combination of elevating to outcome status the current set of six capability-focused outputs funded through departmental appropriations, and the adoption of a new outcome that relates to the management of administered appropriations. The new outcomes are:

1. Command of Operations in Defence of Australia and its Interests.
2. Navy Capability for the Defence of Australia and its Interests.
3. Army Capability for the Defence of Australia and its Interests.
4. Air Force Capability for the Defence of Australia and its Interests.
5. Strategic Policy for the Defence of Australia and its Interests.
6. Intelligence for the Defence of Australia and its Interests.
7. Superannuation and Housing Support Services for Current and Retired Defence Personnel.

The seventh outcome covers activities which are not directly connected to the delivery of the capability outcomes and outputs. It encompasses, primarily, superannuation payments for current and former Australian Defence Force (ADF) personnel, and also includes the housing subsidy provided under the *Defence Force (Home Loans Assistance) Act 1990*.

Below these outcomes, there are 30 outputs. The first six outcomes have twenty-nine departmental outputs, which were previously classed as sub-outputs, and the seventh outcome has one administered output.

Details of the new structure are shown overleaf, including a comparison between the new and old structures.

**Table 1.1: Comparison between New and Old Outcome and Output Structures**

<b>New Structure</b> <b>Outcome/Output</b>	<b>Old Structure</b> <b>Output/Sub-output</b>
<p><b>1. Command of Operations in Defence of Australia and its Interests</b></p> <p>1.1 Command of Operations</p> <p>1.2 Defence Force Military Operations and Exercises</p> <p>1.3 Contribution to National Support Tasks</p> <p><b>2. Navy Capability for the Defence of Australia and its Interests</b></p> <p>2.1 Capability for Major Surface Combatant Operations</p> <p>2.2 Capability for Naval Aviation Operations</p> <p>2.3 Capability for Patrol Boat Operations</p> <p>2.4 Capability for Submarine Operations</p> <p>2.5 Capability for Afloat Support</p> <p>2.6 Capability for Mine Warfare</p> <p>2.7 Capability for Amphibious Lift</p> <p>2.8 Capability for Hydrographic and Oceanographic Operations</p> <p><b>3. Army Capability for the Defence of Australia and its Interests</b></p> <p>3.1 Capability for Special Forces Operations</p> <p>3.2 Capability for Mechanised Operations</p> <p>3.3 Capability for Light Infantry Operations</p> <p>3.4 Capability for Army Aviation Operations</p> <p>3.5 Capability for Ground Based Air Defence</p> <p>3.6 Capability for Combat Support Operations</p> <p>3.7 Capability for Regional Surveillance</p> <p>3.8 Capability for Operational Logistic Support to Land Forces</p> <p>3.9 Capability for Motorised Infantry Operations</p> <p>3.10 Capability for Protective Operations</p> <p><b>4. Air Force Capability for the Defence of Australia and its Interests</b></p> <p>4.1 Capability for Air Combat</p> <p>4.2 Capability for Combat Support of Air Operations</p> <p>4.3 Capability for Strategic Surveillance</p> <p>4.4 Capability for Maritime Patrol Aircraft</p> <p>4.5 Capability for Airlift</p> <p><b>5. Strategic Policy for the Defence of Australia and its Interests</b></p> <p>5.1 Strategic and International Policy, Activities and Engagement</p> <p>5.2 Military Strategy and Strategic Operations</p> <p><b>6. Intelligence for the Defence of Australia and its Interests</b></p> <p>6.1 Intelligence</p> <p><b>7. Superannuation and Housing Support Services for Current and Retired Defence Personnel</b></p> <p>7.1 Superannuation and Housing Support Services for Current and Retired Defence Personnel</p>	<p><b>1. Defence Operations</b></p> <p>1.1 <i>Command of Operations</i></p> <p>1.2 <i>Australian Defence Force Military Operations and Exercises</i></p> <p>1.3 <i>Contribution to National Support Tasks</i></p> <p><b>2. Navy Capabilities</b></p> <p>2.1 <i>Major Surface Combatant Operations</i></p> <p>2.2 <i>Naval Aviation Operations</i></p> <p>2.3 <i>Patrol Boat Operations</i></p> <p>2.4 <i>Submarine Operations</i></p> <p>2.5 <i>Afloat Support</i></p> <p>2.6 <i>Mine Warfare</i></p> <p>2.7 <i>Amphibious Lift</i></p> <p>2.8 <i>Hydrographic and Oceanographic Operations</i></p> <p><b>3. Army Capabilities</b></p> <p>3.1 <i>Special Forces Operations</i></p> <p>3.2 <i>Mechanised Operations</i></p> <p>3.3 <i>Light Infantry Operations</i></p> <p>3.4 <i>Army Aviation Operations</i></p> <p>3.5 <i>Ground Based Air Defence</i></p> <p>3.6 <i>Combat Support Operations</i></p> <p>3.7 <i>Regional Surveillance</i></p> <p>3.8 <i>Operational Logistic Support and Land Forces</i></p> <p>3.9 <i>Motorised Infantry Operations</i></p> <p>3.10 <i>Protective Operations</i></p> <p><b>4. Air Force Capabilities</b></p> <p>4.1 <i>Air Strike / Reconnaissance</i></p> <p>4.2 <i>Tactical Fighter Operations</i></p> <p>4.3 <i>Strategic Surveillance</i></p> <p>4.4 <i>Maritime Patrol Aircraft Operations</i></p> <p>4.5 <i>Airlift</i></p> <p>4.6 <i>Combat Support of Air Operations</i></p> <p><b>5. Strategic Policy</b></p> <p>5.1 <i>Strategic and International Policy, Activities and Engagement</i></p> <p>5.2 <i>Military Strategy and Command</i></p> <p><b>6. Intelligence</b></p>

## Strategic Objectives

The strategic principles set out in *Defence 2000 – Our Future Defence Force* (the Defence White Paper) remain a valid framework for addressing Australia's defence policy.

The Defence White Paper set out five strategic objectives for Defence. These are:

- ensuring the defence of Australia and its direct approaches;
- fostering the security of Australia's immediate neighbourhood;
- promoting stability and cooperation in South-East Asia;
- supporting strategic stability in the wider Asia-Pacific region; and
- supporting global security.

The Government continues to pursue these objectives by:

- maintaining the capabilities needed to meet the strategic objectives;
- maintaining Australia's military alliance with the United States; and
- maintaining close defence relationships with countries in the nearer region and further afield in the Asia-Pacific in order to promote strategic stability/interoperability and transparency of intentions in the countries in the greater Asia-Pacific region.

The four strategic tasks for Defence, which guide the development of defence capabilities, remain:

- to be capable of defending Australian territory from any credible attack, without relying on help from the combat forces of any other country;
- to have Defence forces able to make a major contribution to the security of our immediate neighbourhood;
- to be able to contribute effectively to international coalitions of forces to meet crises beyond Australia's immediate neighbourhood where Australia's interests are engaged; and
- to undertake regular or occasional peacetime national tasks.

The training and skill levels of the ADF will be suitable for providing the nucleus for an Australian-led coalition force, or for providing a commitment to coalition forces. The ADF will be able to operate in the maritime, air and land environments both separately and jointly. Finally, Defence will be able to provide a range of peacetime contributions, including in relation to the security of Australia's territorial borders.

The ADF will be sufficiently flexible to undertake some simultaneous operations in widely separated areas in defence of Australia.

## Changing Strategic Environment

Since the Defence White Paper was released, the strategic landscape has changed. In particular, terrorism and the spread of weapons of mass destruction have assumed new prominence, and some adverse trends in our immediate neighbourhood have continued.

## Overview

*Australia's National Security: A Defence Update 2003*, released in February 2003, reviewed Australia's strategic security environment, addressed these changes and highlighted the following issues:

- As a consequence of globalisation, Australia's region is more exposed to world events than it was.
- The terrorist attacks in the United States and Bali, and the arrests of terrorists in Singapore and elsewhere in South-East Asia, demonstrate the increased reach of terrorism.
- Militant extremists in South-East Asia are no longer focused exclusively on local issues and are prepared to take up the Al Qaida cause.
- The United States is determined to respond to terrorism and rogue states' weapons of mass destruction ambitions.
- In South-East Asia and the South Pacific, political weakness and governance issues pose major challenges, as do issues surrounding people movements, organised crime and illegal fishing.
- Less strategic certainty means that our emphasis must be on ensuring the flexibility and adaptability to answer the unexpected as much as the expected.

For the present, the prospect of a conventional military attack on Australian territory has diminished because of the stabilising effect of United States determination and willingness to act, the reduction in major power tensions affecting Australia, and the deterrent effect of the United States-Australia alliance flowing from United States primacy.

The challenges for the ADF in this new environment include the need to be able to respond to:

- the increased threat of transnational terrorism and the spread of weapons of mass destruction;
- a growing requirement to participate in coalition operations, particularly with niche capabilities, raising issues of interoperability, readiness and sustainability;
- a greater likelihood of ADF involvement in operations other than war; and
- the growth in scale of non-military threats (illegal immigration, illegal fishing, drug smuggling) requiring ADF involvement.

## Force Structure

To deliver outputs to the Government in order to achieve the six capability requirements and the strategic objectives contained in the Defence White Paper, the ADF is maintaining a force structure with the following major combat elements:

- a surface combatant force of six guided missile frigates and five Anzac-class frigates (rising to eight by 2006), together with onboard helicopters;
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships and one heavy landing ship;

- a mine hunter force comprising six coastal mine hunters and a hydrographic force comprising two hydrographic ships;
- an afloat support force comprising one oil tanker and one replenishment ship;
- six Army battalions at 90 days readiness or less, supported by a range of armour, aviation, engineer, fire support, logistics and transport assets, and a number of lower-readiness units able to provide personnel for sustainment and rotation;
- a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
- three Regional Surveillance Units;
- an Incident Response Regiment and special forces consisting of the Special Air Service Regiment, a high-readiness commando battalion and a reserve commando battalion;
- an air combat force of three front-line F/A-18 squadrons and one operational F-111 squadron, supported by training squadrons, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements. Airborne early warning and control aircraft will be deployed from 2007 and operational air-to-air refuelling aircraft from about 2007;
- a maritime patrol force of two front-line P-3C Orion squadrons; and
- agencies responsible for intelligence collection and analysis.

The major combat elements are being progressively integrated and informed through a number of command, communications and intelligence systems.



## IMPLEMENTING THE DEFENCE WHITE PAPER

The Defence White Paper sets out the Government's long-term policy direction and capability enhancement framework for Defence.

The Government, particularly through the Defence Capability Plan, which is presented in the Defence White Paper and updated yearly, seeks to:

- enhance current capability to provide military options across a spectrum of military situations, including:
  - a self-reliant posture in the defence of Australia and its national interests;
  - contributing to the security of Australia's immediate neighbourhood (ranging from providing military assistance to participating in humanitarian/disaster relief operations in the region);
  - supporting wider interests internationally through military participation in coalition forces; and
  - peacetime national tasks (like counter-terrorism, coastal security, search and rescue, and disaster relief);
- improve the current readiness and sustainment of the ADF; and
- provide the necessary capability enhancements to enable the ADF to simultaneously undertake a major and minor deployment.

Consistent with the Defence White Paper's theme of needing to adapt to change, a review of Australia's strategic security environment, *Australia's National Security: A Defence Update*, was published in February 2003.

The update reaffirms the fundamentals of the Defence White Paper, while acknowledging that some re-balancing of capability and expenditure will be necessary to take account of changes in Australia's strategic environment. Challenges of the new environment outlined in the update require the ADF to be able to respond to:

- the increased threat of transnational terrorism and the spread of weapons of mass destruction;
- a growing requirement to participate in coalition operations (particularly with niche capabilities), raising issues of interoperability, readiness and sustainability;
- continuing ADF involvement in national tasks, including provision of domestic security support and responding to people and drug smuggling and illegal fishing.

The most significant Defence White Paper and Defence Capability Plan initiatives expected to be introduced or initiated in 2003-04, and other major milestones for 2003-04, are summarised in the following information. Additional detail on these initiatives can be found in the remaining chapters of the document.

## Initiatives to Improve Capability

### Land Forces Goal

The Government's aim remains the provision of land forces that can respond swiftly and effectively to any credible armed incursion on Australian territory, and to provide forces for more likely types of operations in our immediate neighbourhood. The emphasis is on providing a professional, well-trained, well-equipped force that is available for operations at short notice, and one that can be sustained over extended periods. This type of force will have the flexibility to contribute to operations other than conventional war, and to coalitions where necessary and appropriate.

Defence's ability to undertake these tasks will be enhanced in 2003-04 by a range of activities, including:

- continued development of the Special Operations Command, including the expansion of the special operations headquarters, and the establishment of a special operations service support company and an additional commando company;
- ongoing development of the second Tactical Assault Group, Incident Response Regiment and High Readiness Reserve elements to bolster the ADF's anti-terrorist capability; and
- acceptance of ground surveillance radars, and delivery of thermal surveillance and unattended ground sensor systems to enhance the ADF's surveillance capabilities.

In 2003-04, land forces' ability to undertake Defence White Paper tasks will be enhanced by activities including:

- progressing the acquisition of further self-protection equipment for helicopters and C-130 aircraft;
- contract award for additional Javelin direct fire guided weapons;
- completion of testing of the upgraded M113 armoured personnel carrier demonstration vehicle;
- completion of production reliability acceptance test for the Bushmaster infantry mobility vehicle; and
- continuing redevelopment of Lavarack Barracks (Townsville, Queensland), Oakey Base (Queensland), and the relocation of 1 Aviation Regiment (Darwin, Northern Territory).

To further enhance the ADF's land capabilities, Defence will present proposals to the Government in 2003-04 for:

- acquisition of a tactical unmanned aerial vehicle system;
- acquisition of new field vehicles and trailers; and
- acquisition of further bridging equipment.

## **Air Combat Goal**

The air combat goal remains the protection of Australia from air attack and control of its air approaches to ensure that the ADF can operate effectively against any hostile forces approaching Australia. The Government's aim is to maintain the air combat capability at a level at least comparable qualitatively to any in the region, and with a sufficient margin of superiority to provide an acceptable likelihood of success in combat. These forces should be large enough to provide a high level of confidence that we could defeat any credible air attack on Australia or in our approaches, and capable enough to provide options to deploy an air combat capability to support coalitions. They will also have the capacity to provide air defence and support for deployed ground and maritime forces in our immediate region.

Defence's ability to undertake these tasks will be enhanced in 2003-04 by a range of activities including:

- introducing into service upgraded radars in the F/A-18 Hornets; and
- introducing into service new medium and short range air-to-air missiles for the F/A-18 Hornets.

Defence's ability to achieve the Defence White Paper outcomes in future years will be enhanced in 2003-04 through a range of activities including:

- progressing the acquisition of the air-to-air refuelling project;
- redeveloping facilities at RAAF Townsville (Queensland) and RAAF Williamtown (New South Wales); and
- progressing a range of studies in support of the new air combat capability.

## **Maritime Forces Goal**

The primary goal for our maritime forces remains the maintenance of an assured capability to detect and attack any major surface ships and to impose substantial constraints on hostile submarine operations in our extended maritime approaches. It also includes the ability to support Australian forces deployed offshore and in coalition operations, to contribute to maritime security in the wider region, to protect Australian ports from sea mines, and support civil law enforcement and coastal surveillance operations.

Defence's ability to undertake these tasks will be enhanced in 2003-04 by activities including:

- delivery of additional Evolved SeaSparrow surface-to-air missiles;
- continued enhancements to Collins-class submarine platforms and sensors;
- delivery of a digital hydrographic database; and
- delivery of additional upgraded AP-3C Orion maritime patrol aircraft.

Defence's ability to achieve Defence White Paper outcomes in future years will be enhanced in 2003-04 through a range of activities including:

- selection of the patrol boat replacement;

## Overview

- continuation of the FFG upgrade program to enhance the war fighting capability of the guided missile frigates;
- progression of the project to fit a mine and obstacle avoidance sonar on Anzac-class frigates;
- initial installation of the Harpoon anti-ship missile system on an Anzac-class frigate;
- redevelopment of facilities at HMAS Albatross (Nowra, New South Wales) and RAAF Edinburgh (South Australia); and
- establishment of a naval ammunition facility at Eden, New South Wales.

### **Strike Goal**

The strike goal remains the ability to attack military targets within a wide radius of Australia, against credible levels of air defences, at an acceptably low level of risk to aircraft and crews. The Government expects that the strike capabilities developed for the defence of Australia would provide options to contribute to regional coalitions against more capable adversaries.

Defence's ability to achieve Defence White Paper outcomes in future years will be enhanced in 2003-04 by continuing the upgrade of engineering services at Amberley (Queensland).

### **Information Goal**

The information goal remains the positioning of the ADF to harness advances in information technology in ways that ensure that the ADF has timely, accurate and secure information to fully exploit individual and unit combat capabilities, and allow their employment in more flexible ways. This involves the development of intelligence, surveillance, communications and command, logistics and business systems.

Defence's ability to meet these goals will be enhanced in 2003-04 through a range of activities including delivery of elements of the battlefield command support system.

Defence's ability to achieve Defence White Paper outcomes in future years will be enhanced in 2003-04 through a range of activities including:

- enhancing specialist intelligence collection and analysis systems;
- awarding the contract for an air defence command and control system;
- deploying a surface wave radar for evaluation;
- continued development of the Defence Network Operations Centre (Canberra); and
- modernisation of Defence's high frequency communications system.

To further enhance Defence's future capabilities, proposals will be presented to the Government in 2003-04 for:

- further enhancements of the Jindalee Operational Radar Network; and
- acquisition of force-level electronic warfare systems.

## People Goal

The people goal is to ensure that the ADF has the right people with the right skills and experience to provide the capabilities we need to undertake complex military operations.

In 2003-04, Defence will continue pursuit of this goal through:

- implementing agreed recommendations of the *Strategic Workforce Planning Review*, including improved advice to the Government on high priority workforce risks to capability, and development of a comprehensive Defence workforce plan that addresses critical workforce shortfalls over the next 10 to 20 years;
- continued implementation of strategies to target current ADF workforce shortages, focusing on recruitment of personnel with specialist skills, university students and women;
- development of a new military compensation scheme;
- development of a whole-of-Defence strategic occupational health and safety plan;
- implementation of recommendations arising from the Australian National Audit Office audit of the retention of military personnel, including development of a personnel costing model and the commitment to continue managing post-deployment retention; and
- further enhancement of the ADF Cadets through programs aimed at improving access to uniforms and equipment, providing information and communication systems, addressing cadet accommodation compliance and functionality, providing equity, diversity and safety training and increasing indigenous participation.

## Initiatives to Improve Provision of Advice and Decision Making

The Government recognises that the strategic and business environment can change rapidly and, to ensure that Defence is positioned to respond in a timely fashion, continues to enhance Defence's decision-making and analytical capabilities.

In 2003-04, Defence will:

- align resourcing with strategic and capability priorities, particularly through the development of decision-support tools; and
- enhance its strategic and capability planning processes to enable more flexible and coordinated responses to changes in the strategic environment.

Defence is engaged in wide-ranging reform to its systems and management and business processes. A number of finance transformation projects have been commissioned to improve Defence's business processes and financial management arrangements. They will enhance transparency of information for decision making and accountability for results.

Notable among these projects in the next 12 months are:

- the development of decision-support tools that will provide information on the actual cost of defence force elements and products, and provide a single point of reference for key performance and resource information;
- further development of Defence's main personnel management information system (PMKeyS) to provide a more comprehensive reporting capability as well as the introduction of additional quality assurance functionality; and
- a more comprehensive approach to simple procurement, purchasing and the payment of accounts across Defence.

These finance transformation projects will be complemented by improvements in Defence's budgeting and financial reporting arrangements, building on important improvements in these areas in 2002-03. A comprehensive review of Defence's chart of accounts during 2003-04 will further improve reporting arrangements from 2004-05 onwards.

### **Initiatives to Get the Best Value for the Defence Dollar**

The Defence White Paper provides the long-term guidance needed to ensure that today's decisions are made with an appreciation of tomorrow's requirements.

In 2003-04, Defence will:

- build on Defence's early adoption of aspects of the Government's budget estimates and frameworks review, including the implementation of 'just-in-time' cash drawdown arrangements and the new outcome and output structure to support reporting to the Government and the Parliament;
- deliver further administrative savings and eliminate overlaps in business processes;
- continue its program of zero-based reviews of internal budget allocations; and
- improve performance measurement and management accountability.

### **Initiatives to Enhance Strategic Relationships**

Defence supports an extensive range of strategic relationships through continued involvement in multilateral security forums in the Asia-Pacific region, as well as bilateral defence and security relationships, including the United States Alliance.

In 2003-04, Defence will:

- maintain and build upon security relationships, especially in the Asia-Pacific region, including through a diverse range of cooperative defence activities and security dialogue;
- continue to support United Nations peacekeeping operations, particularly in East Timor;
- further develop Australia-United States defence cooperation, including through participation in coalition operations and enhancement of ADF interoperability with United States forces; and
- continue Australia's Pacific patrol boat program.

## **Initiatives for Science and Technology and Australian Industry**

Defence seeks to make the best use of technology and have the skills required to exploit it to advantage. A competitive industry base should support a technologically-advanced ADF.

In 2003-04, Defence will:

- continue its science and technology program to provide better support and advice to Defence, and contribute to national research priorities, including Safeguarding Australia;
- continue research, especially in transformational defence technologies, network-centric warfare, reducing the cost-of-ownership and operations, automation of the battlespace and support to current ADF platforms;
- enhance its research program for defence against terrorism, particularly chemical, biological, nuclear and radiological research;
- continue the Capability and Technology Demonstrator program to investigate how new, technology-driven capabilities can be introduced into wider ADF service;
- enhance links with industry, universities and other government research agencies to broaden its technical base;
- continue seeking opportunities through the acquisition and commercialisation mechanisms for technology transfer and long term business for Australian industry; and
- continue implementing the *Defence and Industry Strategic Policy Statement*.

## **Monitoring and Reporting**

Defence has established an internal mechanism to monitor and report upon the progress of initiatives outlined in the Defence White Paper. Defence reports progress in meeting Defence White Paper goals in the Defence Annual Report.



# ORGANISATIONAL STRUCTURE

## ORGANISATIONAL CHANGES

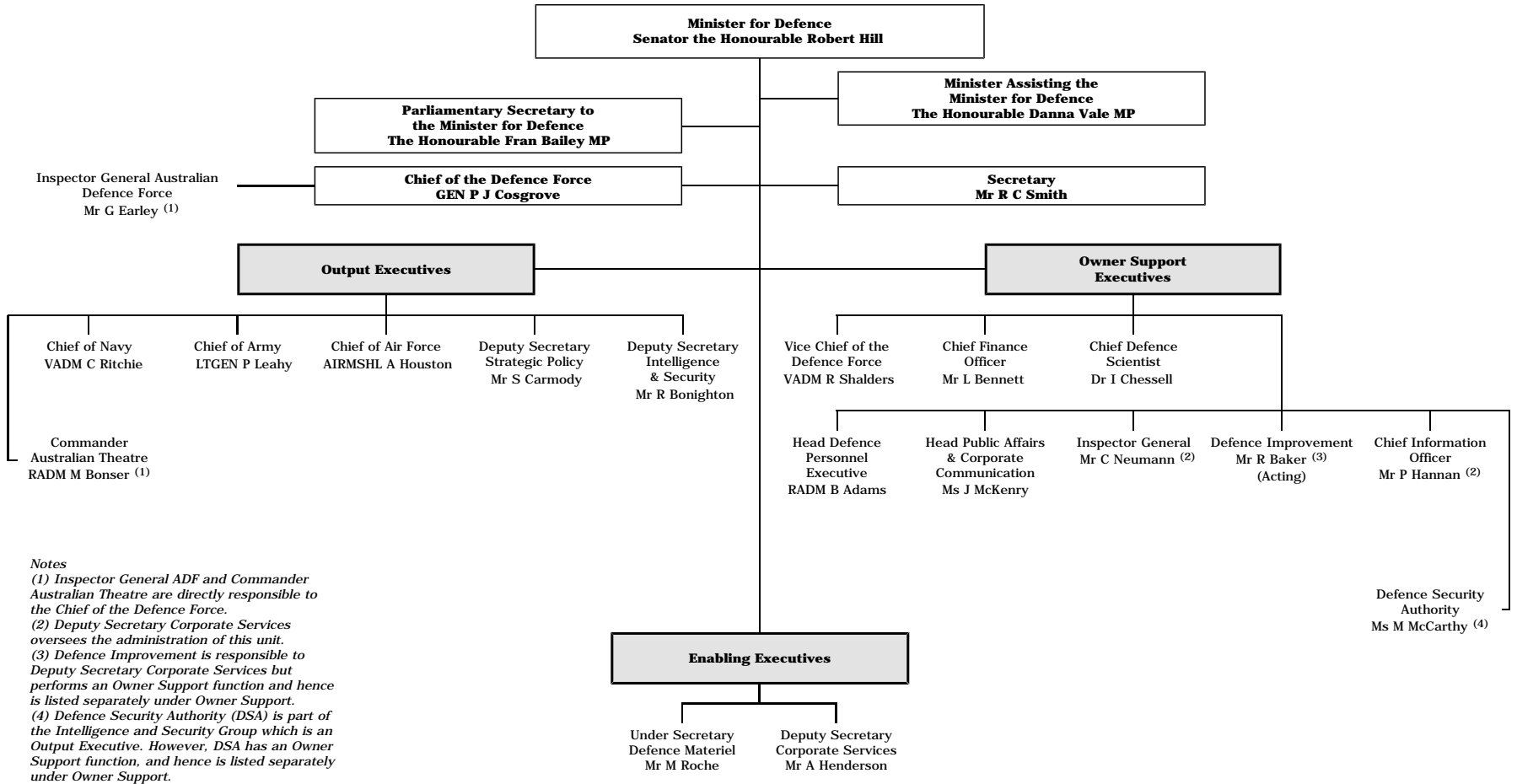
### Senior Executive Changes

Following the completion of the annual strategic review, Dr Richard Brabin-Smith, Deputy Secretary Annual Strategic Review, retired from Defence on 8 January 2003.

Mr Geoff Earley AM was appointed as the Inspector General of the ADF, effective from 13 January 2003. This appointment implements one of the principal recommendations arising from the report of the *Military Justice Audit*.

### Organisational Chart

The following chart depicts the structure of the organisation in May 2003.



# RESOURCING

## 2003-04 BUDGET SUMMARY

In the 2003-04 budget, the Government will increase funding on Defence by \$2.1b over the five years from 2002-03. This information can be found in Table 1.8.

Total resourcing available to Defence in 2003-04 is \$18,043m, comprising departmental funding of \$15,806m and a further \$2,236m for the administered appropriation.

Departmental funding comprises revenue from the Government for the price of outputs of \$14,398m; an equity injection of \$1,021m; own-source revenue of \$281m; and net capital receipts of \$106m. The total departmental funding line is Defence's headline figure, from which variations in the Defence budget are measured.

Departmental funding of \$15,806m in 2003-04 represents an increase of \$1,197m compared to the projected 2002-03 result, excluding the capital use charge component in the 2002-03 budget that has been discontinued from 1 July 2003. This comprises an increase in total revenue from Government of \$1,249m (see Table 1.4) and a net reduction in own-source revenue and net capital receipts of \$52m.

In addition to the \$249m of funds for Operations Bastille and Falconer for which Defence is to be reimbursed in 2003-04, new budget measures by the Government account for \$573m of the increase in departmental funding of \$1,197m. A further increase of \$424m representing the 2003-04 tranche of the Defence White Paper funding commitment has been provided by the Government. This is additional to the \$510m provided in 2001-02 and \$1,051m in 2002-03, bringing the total increase provided to date as part of the Defence White Paper commitment to \$1,475m in 2003-04. Total Defence resourcing is summarised in Table 1.2.

**Table 1.2: Total Defence Resourcing**

Serial No	2002-03 Projected Result \$'000	2003-04 Budget Estimate \$'000	2004-05 Forward Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000
<b>Departmental</b>					
	Revenue from Government for Price of				
1	18,230,325	14,398,319	14,816,839	14,553,171	15,154,819
2	995,201	1,020,524	778,580	1,295,154	1,653,214
3	19,225,526	<b>15,418,843</b>	<b>15,595,419</b>	<b>15,848,325</b>	<b>16,808,033</b>
4	330,316	280,945	280,209	285,816	291,444
5	109,482	106,484	66,480	40,000	40,000
6	439,798	387,429	346,689	325,816	331,444
7	19,665,324	<b>15,806,272</b>	<b>15,942,108</b>	<b>16,174,141</b>	<b>17,139,477</b>
	Real Year-on-Year per cent Growth <sup>(4)</sup>				
		4.7%	2.5%	1.5%	6.0%
<b>Administered</b>					
8	2,236,481	2,236,481	2,336,481	2,336,481	2,436,481
9	21,901,805	<b>18,042,753</b>	<b>18,278,589</b>	<b>18,510,622</b>	<b>19,575,958</b>

**Notes**

- 2002-03 revenue from Government for price of outputs includes \$5,056m associated with capital use charge revenue that has been discontinued from 2003-04.
- Own-source revenue excludes 'asset now recognised' revenue.
- Total own-source revenue of \$387.4m in 2003-04 includes resources received free of charge (\$2m) while this amount is excluded from total cash receipts in Table 1.10.
- The real year-on-year per cent growth excludes capital use charge of \$5,056m in 2002-03. Total departmental funding includes the reimbursement of \$248.6m for Operations Bastille and Falconer which were funded from Defence's cash reserves in 2002-03. To show the underlying real growth, the year-on-year per cent growth has been calculated by reducing the 2003-04 figure by \$248.6m and increasing 2002-03 by the same amount.

The administered appropriation of \$2,236m covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed by the Department of Finance and Administration (Commonwealth Superannuation) and the Defence Housing Authority (housing subsidies) on Defence's behalf.

## Defence White Paper Funding Base

Defence's departmental funding in 2003-04, and beyond, continues to be based primarily on the allocations approved by the Government in the context of the Defence White Paper. This funding totals \$27.2b over 10 years and represents the most specific long-term funding commitment for Defence for more than 25 years.

The additional Defence White Paper funding already provided has totalled \$1,561m in 2001-02 and 2002-03. The 2003-04 budget includes a further \$1,475m, and an additional \$7.5b is included in the forward estimates. The remaining additional funding, totalling \$16.7b, is to be provided over the final four years of the 10 year period to 2010-11. Defence has also received substantial additional funding in recent years as a consequence of the heightened security environment and the high operational tempo.

The primary focus of the Defence White Paper was on enhancing the future Defence force through the purchase of new equipment and the upgrade of existing equipment. Measures taken in the 2003-04 budget will address the cost of Operations Bastille and Falconer and the increasing costs of repair, maintenance, training and operating costs of the ADF's high operational tempo. In addition, the 2003-04 budget provides funding to accelerate the strength of the ADF towards the Defence White Paper target of about 54,000 personnel in order to meet current operational demands and the delivery into service of new equipment.

The following table shows the Defence White Paper funding commitment.

**Table 1.3: Defence White Paper Funding from 2001-02 to 2010-11**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
Previous Defence Funding from Government East Timor/Force Generation	12.5	12.6	13.3	13.2	12.9	13.2	13.3	13.6	13.8	14.1	<b>132.5</b>
Defence White Paper Increase <sup>(1)</sup>	0.7	0.5	0.6	0.4	0.5	0.5	0.5	0.5	0.5	0.5	<b>5.2</b>
Exchange Rate Impact – White Paper	0.5	1.0	1.5	2.0	2.4	3.1	3.5	3.6	4.4	5.2	<b>27.2</b>
<b>Sub-Total Defence Revenue <sup>(2)</sup></b>	<b>0.1</b>	<b>0.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.2</b>
Foreign Exchange Contingency <sup>(3)</sup>	<b>13.8</b>	<b>14.2</b>	<b>15.4</b>	<b>15.6</b>	<b>15.8</b>	<b>16.8</b>	<b>17.3</b>	<b>17.7</b>	<b>18.7</b>	<b>19.8</b>	<b>165.1</b>
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.4</b>
	<b>13.8</b>	<b>14.2</b>	<b>15.4</b>	<b>15.6</b>	<b>15.8</b>	<b>16.8</b>	<b>17.4</b>	<b>17.8</b>	<b>18.8</b>	<b>19.9</b>	<b>165.5</b>

### Notes

1. Defence White Paper allocations are in 2003-04 budget prices and outturned.
2. Cross references to Table 1.4: Defence Funding from Government.
3. Foreign exchange contingency held by the Department of Finance and Administration.

A summary of how Defence's funding allocations have varied by Government decisions since the release of the Defence White Paper is shown in Table 1.4.

**Table 1.4: Defence Revenue from Government<sup>(1)(2)(3)</sup>**

Serial No	Defence Funding Measures	2002-03	2003-04	Difference	2004-05	2005-06	2006-07
		Projected Result	Budget	2002-03 and 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
		\$m	\$m	\$m	\$m	\$m	\$m
<b>2000-01 Additional Estimates</b>							
	<b>Baseline</b>	<b>12,483.4</b>	<b>12,753.6</b>	<b>270.2</b>	<b>12,354.7</b>		
1	Defence White Paper Increase <sup>(4)</sup>	1,050.6	1,474.9	424.3	2,046.0		
2	Force Generation Funding	-	-	-	448.9		
3	Price, Exchange and Other Funding Adjustments	119.5	71.9	(47.6)	241.3		
<b>Post Defence White Paper Funding Base (Portfolio Budget Statements 2001-02)</b>							
		<b>13,653.5</b>	<b>14,300.4</b>	<b>646.9</b>	<b>15,090.8</b>		
<b>2001-02 Additional Estimates</b>							
4	Improved Communications Functionality	43.6	23.3	(20.3)	30.3		
5	Price, Exchange and Other Funding Adjustments	126.5	68.3	(58.1)	70.1		
<b>Portfolio Additional Estimates Statements 2001-02</b>							
		<b>13,823.5</b>	<b>14,392.0</b>	<b>568.5</b>	<b>15,191.1</b>		
<b>2002-03 Budget</b>							
6	Continuation of Defence White Paper Funding Increase <sup>(4)</sup>	-	-	-	-	2,352.5	
7	Continuation of Force Generation Funding	-	-	-	-	457.8	
8	Operation Relex	22.4	-	(22.4)	-	-	
9	International anti-terrorism (Operation Slipper)	198.9	(5.0)	(203.9)	-	-	
10	Tactical Assault Group	33.1	61.8	28.8	66.3	58.1	
11	Incident Response Regiment	18.5	32.2	13.7	39.4	28.9	
12	Operation Safebase	41.1	-	(41.1)	-	-	
13	Electronic Security	2.3	2.1	(0.2)	2.1	2.2	
14	Price, Exchange and Other Funding Adjustments	129.9	125.0	(4.9)	(31.3)	6.0	
<b>Portfolio Budget Statements 2002-03</b>							
		<b>14,269.7</b>	<b>14,608.1</b>	<b>338.4</b>	<b>15,267.7</b>	<b>15,608.5</b>	
<b>2002-03 Additional Estimates</b>							
15	Rapid acquisition of equipment and stores for contingency planning	123.8	-	(123.8)	-	-	
16	Price, Exchange and Other Funding Adjustments	103.3	28.2	(75.0)	(45.8)	(123.9)	
<b>Portfolio Additional Estimates Statements 2002-03</b>							
		<b>14,496.7</b>	<b>14,636.3</b>	<b>139.6</b>	<b>15,221.8</b>	<b>15,484.6</b>	
<b>2003-04 Budget Measures</b>							
17	Accelerated ADF Growth	-	49.8	49.8	36.5	16.5	-
18	Navy Personnel Retention Initiatives	-	-	-	-	-	-
19	Logistics Funding	-	244.3	244.3	285.5	284.9	229.0
20	Iraq - Funding for Operations	-	197.9	197.9	25.8	-	-
21	Coastal Surveillance	-	17.8	17.8	-	-	-
22	A Safer Australia	-	34.6	34.6	36.1	-	-
23	Special Operations Command	-	21.6	21.6	35.8	49.2	50.2
24	Special Purpose Aircraft Facilities	-	7.1	7.1	7.2	7.5	7.8
25	Continuation of Operation Bel Isi II	-	-	-	-	-	-
<b>Sub-Total</b>							
		<b>-</b>	<b>573.1</b>	<b>573.1</b>	<b>426.9</b>	<b>358.1</b>	<b>287.0</b>

Overview

Serial No	Defence Funding Measures	2002-03 Projected Result	2003-04 Budget	Difference 2002-03 and 2003-04	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
		\$m	\$m	\$m	\$m	\$m	\$m
<b>Other Adjustments:</b>							
26	Reimbursement for Iraq - Funding for Operations <sup>(5)</sup>	-	248.6	248.6	-	-	-
27	Reimbursement for Continuation of Operation Bel Isi II	-	10.1	10.1	-	-	-
28	Continuation of Defence White Paper Funding Increase <sup>(6)</sup>	-	-	-	-	-	3,101.9
29	Continuation of Force Generation Funding	-	-	-	-	-	467.0
30	East Timor Revised Estimate (Operation Citadel)	(95.4)	-	95.4	-	-	-
31	Return of Communication Project Savings	(11.9)	-	11.9	-	-	-
32	Rescheduling of the Capital Program <sup>(6)</sup>	-	(212.0)	(212.0)	(199.0)	(143.0)	(88.0)
33	Operating Leases - return of uncommitted funds	-	(8.5)	(8.5)	(8.5)	(8.4)	(8.3)
34	Increased CSS and PSS Employer Contribution Rates	-	19.7	19.7	19.7	19.7	19.7
35	Price, Exchange and Other Funding Adjustments	(220.0)	151.6	371.6	134.5	137.4	144.7
	<b>Sub-Total</b>	<b>(327.3)</b>	<b>209.4</b>	<b>536.7</b>	<b>(53.3)</b>	<b>5.6</b>	<b>3,639.9</b>
<b>Portfolio Budget Statements</b>							
	<b>2003-04</b>	<b>14,169.4</b>	<b>15,418.8</b>	<b>1,249.4</b>	<b>15,595.4</b>	<b>15,848.3</b>	<b>16,808.0</b>

**Notes**

1. Funding from Government is the sum of revenue for price of outputs and the equity injection.
2. The funding baseline at each published budget milestone reflects the Forward Estimates at that time.
3. Amounts are exclusive of capital use charge.
4. For consistency, the Defence White Paper funding figures in this table are on the same basis as in Table 1.3.
5. Funding in 2003-04 includes \$248.6m reimbursed to Defence for expenditure in 2002-03, which was drawn from Defence's cash reserves.
6. This adjustment is explained in the Capital budget section in Chapter 3.

The Defence White Paper provided for an average real increase in funding for Defence of about three per cent over the 10-year period commencing 2001-02. Table 1.2 shows that the Defence budget is increasing by more than three per cent on average over the forward estimates period, including 4.7 per cent in 2003-04. The increase in 2003-04 reflects the new funding measures including the cost of Operations Bastille and Falconer. The proposed level of Defence departmental funding in 2003-04 is about two per cent of gross domestic product.

## 2003-04 BUDGET MEASURES

New budget measures are set against the background of a changed strategic landscape, which has seen terrorism and the proliferation of weapons of mass destruction assume new prominence and the continuation of some adverse trends in our immediate neighbourhood. At the same time, there have been continuing increases in the tempo of operations, increased demands on major capabilities and pressures on essential training, maintenance and the reintegration of capabilities after operations. The budget measures announced by the Government, totalling \$573m in 2003-04, address these issues.

### Accelerated ADF Growth (Serial 17 in Table 1.4)

The Government has provided \$102.8m over three years to accelerate the strength of the ADF towards the Defence White Paper target of about 54,000 personnel. The additional funding includes \$49.8m in 2003-04 to capitalise on better-than-planned ADF recruitment outcomes and lower separation rates, particularly in the Army and Air Force.

The additional funding will sustain an increase in the size of the ADF by 786, in addition to the increases for Special Operations Command (139) and previously announced decisions for the Tactical Assault Group (77) and the Incident Response Regiment (87). This represents a total increase in the ADF in 2003-04 of 1,089 people, compared to the Defence White Paper planning base, which is shown in the table below.

**Table 1.5: Planned Growth in ADF Permanent Force Strength**

ADF Personnel	2003-04 Budget	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
<b>Approved Navy Average Funded Strength</b>	<b>13,000</b>	<b>13,133</b>	<b>13,264</b>	<b>13,396</b>
Army - Defence White Paper Planning Base	25,040	25,197	25,356	25,515
Tactical Assault Group	77	115	154	154
Incident Response Regiment	87	117	117	117
Special Operations Command	139 <sup>(1)</sup>	234	327	327
Accelerated ADF Growth	598	458	136	0
<b>Approved Army Average Funded Strength</b>	<b>25,941</b>	<b>26,121</b>	<b>26,090</b>	<b>26,113</b>
Air Force – Defence White Paper	13,212	13,269	13,325	13,383
Accelerated ADF Growth	188	106	115	0
<b>Approved Air Force Average Funded Strength</b>	<b>13,400</b>	<b>13,375</b>	<b>13,440</b>	<b>13,383</b>
Revised Approved ADF Strength	52,341	52,629	52,794	52,892
Defence White Paper Planning Base	51,252	51,599	51,945	52,294
<b>Increase</b>	<b>1,089</b>	<b>1,030</b>	<b>849</b>	<b>598</b>

#### Note

1. This figure does not include seven civilian positions which are reflected in Table 1.7.

### **Navy Personnel Retention Initiatives** (Serial 18 in Table 1.4)

The Navy is currently below the personnel strength target outlined in the Defence White Paper. While the ADF as a whole is achieving favourable recruitment outcomes, the Navy's separation rates remain high. To ensure that current capabilities are not adversely affected, the Government has agreed that Defence will spend \$40m from within existing funding allocation over the next four years to fund a number of initiatives aimed at increasing the Navy's personnel retention rates. This includes \$10m in 2003-04. The expenditure will support a program of Navy recruitment, retention, and training initiatives, including work practice rationalisation, a workforce structure review, and a streamlined training regime. These initiatives will be targeted at a number of employment groups experiencing critical shortages.

### **Logistics Funding** (Serial 19 in Table 1.4)

The changes in the strategic landscape have given rise to a higher operational tempo for the ADF, which has increased the cost of maintaining and operating existing defence assets beyond that envisaged in the Defence White Paper.

Consequently, the budget provides additional logistics funding of \$1,145.1m over five years (including \$101.4m provided in 2002-03 and funded from Defence's cash reserves) to enable the ADF to operate at current levels of operational tempo on a sustainable basis and meet preparedness requirements in the new strategic environment.

The new spending will augment logistics and support funding for a range of platforms and equipment, including:

- F/A-18 fighter aircraft fleet;
- C-130J Hercules transport aircraft;
- Collins-class submarines; and
- Army 'B-class' vehicles, including Land Rovers, Mack trucks and other transport vehicles.

The new spending will also fund a substantial increase in stocks of explosive ordnance, including that required for enhanced training for Army personnel.

### **Iraq - Funding for Operations Bastille and Falconer** (Serials 20 and 26)

The total net additional cost for Operations Bastille and Falconer is estimated at \$644.7m over three years, commencing 2002-03. Of this amount, \$123.8m was provided by the Government in the 2002-03 additional estimates to fund pre-deployment planning activities, including the contingency purchase of essential items of inventory and specialist military equipment. In addition, \$48.6m was funded in 2002-03 from Defence's cash reserves, without reimbursement, in respect of the deployment of the P-3C aircraft (\$36.1m), which have also been involved in the war against terrorism, and for the purchase of further essential items of inventory and specialist military equipment as part of pre-deployment planning activities (\$12.5m). A further \$248.6m in expenditure is planned to be incurred in 2002-03 from Defence's cash reserves, with the Government agreeing to reimburse Defence in 2003-04. New funding of \$197.9m and \$25.8m is provided in 2003-04 and

2004-05 respectively. The 2003-04 budget does not include funding for Operation Catalyst, the Defence contribution to stabilisation and recovery operations in Iraq. Defence will fund the deployments, and any additional costs will be reimbursed in the 2003-04 additional estimates. Details are shown in Table 1.6.

**Table 1.6: Net Additional Costs of Operations Bastille and Falconer**

	2002-03 Budget	2002-03 Additional Estimates	2002-03 Post Additional Estimates	2003-04 Budget	2004-05 Forward Estimate	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Rapid acquisition of equipment and stores for contingency planning – 2002-03 additional estimates	-	123.8	-	-	-	<b>123.8</b>
Operation Bastille/Falconer – Use of Defence's cash reserves in 2002-03 without reimbursement	-	-	48.6	-	-	<b>48.6</b>
Operation Bastille/Falconer – Use of Defence's cash reserves in 2002-03 with reimbursement in 2003-04	-	-	-	248.6	-	<b>248.6</b>
Operation Bastille/Falconer – 2003-04 budget estimates	-	-	-	197.9	25.8	<b>223.7</b>
<b>Total</b>	<b>-</b>	<b>123.8</b>	<b>48.6</b>	<b>446.5</b>	<b>25.8</b>	<b>644.7</b>

### **Coastal Surveillance - Operation Relex II** (Serial 21 in Table 1.4)

The Government has provided \$17.8m to enable the ADF to continue operations to deter unauthorised boat arrivals and strengthen Australia's borders. The last suspected illegal entry vessel arrived in Australian waters on 17 December 2001. While a strong ADF presence continues to assist in reducing the people smuggling threat, the current level of people smuggling activity no longer warrants the level of force previously deployed. Accordingly, the 2003-04 budget allocation reflects a reduced commitment to Operation Relex II, though contingency arrangements remain in place to reinforce the assigned force elements should the threat increase again. The funding of \$17.8m is additional to the \$18.7m provided in 2001-02 and \$22.3m in 2002-03 for the same purpose.

### **A Safer Australia - Operation Safebase** (Serial 22 in Table 1.4)

The Government has provided an additional \$70.7m over two years, including \$34.6m in 2003-04, to continue the enhanced protective security measures for Defence personnel and facilities (Operation Safebase). The funds will be applied mainly to increased guarding, patrolling and protective searches. The additional allocation of \$70.7m brings the Government's total commitment on enhanced protective security for Defence personnel and facilities to \$138.8m since the events of 11 September 2001.

### **Special Operations Command** (Serial 23 in Table 1.4)

The Government has provided \$156.8m over four years to fund the establishment of a new Special Operations Command. This additional funding includes \$21.6m in

2003-04 for the additional personnel and operating costs associated with this initiative. The costs of additional equipment and facilities will be met from within the Defence Capability Plan.

The establishment of the Special Operations Command will supplement Australia's existing special forces by an additional 334 combat and combat support personnel, including 146 personnel in 2003-04. The 146 positions also include seven civilian personnel.

**Table 1.7: Special Operations Command – Additional Capability**

Capability	Personnel	
	2003-04	Mature
Headquarters Special Operations Command	24	24
4RAR to increase in size by one commando company and related support company and logistics support elements	79	181
4RAR counter-terrorism company	12	12
SASR combat logistics and support	16	16
Combat Service Support Team	15	101
<b>Total</b>	<b>146</b>	<b>334</b>

The Special Operation's Command will comprise a joint headquarters, the Special Air Service Regiment, 4 Battalion Royal Australian Regiment (Commando), Tactical Assault Groups (East) and (West), 1 Commando Regiment, and the Incident Response Regiment. Based on lessons learned from the Afghanistan deployment of special forces, an integrated combat service support element of 101 personnel will be provided through the establishment of a combat service support team.

**Special Purpose Aircraft Facilities** (Serial 24 in Table 1.4)

The Government has allocated an additional \$29.6m over four years, including \$7.1m in 2003-04, to cover additional lease costs associated with the establishment of maintenance support facilities for the Special Purpose Aircraft at the Canberra International Airport. This will facilitate increased security measures to ensure the security of those aircraft and to protect VIP travellers.

**Continuation of the ADF contribution to the Bougainville Peace Monitoring Group** (Serial 25 in Table 1.4)

The Government has extended the duration of the ADF contribution to the Bougainville Peace Monitoring Group to the end of June 2003. The Peace Monitoring Group plays a critical role in the practical implementation of weapons disposal on Bougainville. Defence will meet the additional costs of \$10.1m associated with this extension by drawing down on its cash reserves in 2002-03 with reimbursement in 2003-04.

The full set of 2003-04 budget measures, and their impact on Defence outcomes and outputs, is shown in Table 1.8.

**Table 1.8: Summary of Measures Disclosed in the 2003-04 Budget**

	Defence Outcome	2002-03 Projected Result \$m	2003-04 Budget \$m	2004-05 Forward Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m	Total \$m
Iraq - Funding for Operations	1	297.2	197.9	25.8	-	-	520.9
Continuation of Operation Bel Isi II	1	10.1	-	-	-	-	10.1
Coastal Surveillance	1	-	17.8	-	-	-	17.8
Special Purpose Aircraft Facilities	Various	-	7.1	7.2	7.5	7.8	29.6
A Safer Australia	Various	-	34.6	36.1	-	-	70.7
Accelerated ADF Growth	3, 4	-	49.8	36.5	16.5	-	102.8
Navy Personnel Retention Initiatives	2	-	-	-	-	-	-
Special Operations Command	3	-	21.6	35.8	49.2	50.2	156.8
Logistics Funding	Various	101.4	244.3	285.5	284.9	229.0	1,145.1
<b>Total</b>		<b>408.7<sup>(1)</sup></b>	<b>573.1</b>	<b>426.9</b>	<b>358.1</b>	<b>287.0</b>	<b>2,053.8</b>

**Note**

1. This amount is funded from Defence cash reserves.

## Other Budget Adjustments

Defence has effected a number of other budget adjustments in addition to the new measures announced by the Government, including transfers and reprogramming. These adjustments are discussed below.

**Continuation of Defence White Paper Funding Increase** (Serial 1, 6 and 28 in Table 1.4)

A further increase of \$424m, representing the 2003-04 tranche of the Defence White Paper funding commitment, has been provided by the Government, which is in addition to the \$510m provided in 2001-02 and \$1,051m in 2002-03. This brings the total increase provided to date, as part of the Defence White Paper commitment, to \$1,475m in 2003-04.

**Continuation of Force Generation Funding** (Serial 29 in Table 1.4)

From 2004-05, Defence will retain \$415m (in 2000-01 prices) currently used to generate and maintain the existing force levels raised for the deployment to East Timor. This will ensure that Defence can maintain the Government's commitment to an Army with six full-time battalions and an enhanced combat support group in the Air Force.

**East Timor Drawdown Funding** (Serial 30 in Table 1.4)

In 2002-03, Defence returned \$95.4m to the Government as a result of Australia's reduced force commitments in East Timor (Operation Citadel).

**Return of Communication Project Savings** (Serial 31 in Table 1.4)

Defence identified cost savings amounting to \$11.9m associated with a communications network project for which Defence was fully supplemented. The \$11.9m has been returned to the Government.

**Operating Leases – Return of Uncommitted Funds** (Serial 33 in Table 1.4)

Defence is returning uncommitted operating funds to the Government of \$8.5m in 2003-04 from the sale and leaseback program. These funds were appropriated to Defence for lease costs for property sales that have not yet been finalised and are, at this stage, in excess of its current 2003-04 lease funding requirement. In future, funds will be provided to Defence on a case-by-case basis as properties are sold and leased back.

**Increased CSS and PSS Employer Contribution Rates** (Serial 34 in Table 1.4)

Defence has received supplementation of \$19.7m in 2003-04 for the impact of increases in the employer contribution rates for both the CSS and PSS schemes.

**Price, Exchange and Other Funding Adjustments** (Serial 35 in Table 1.4)

The budget contains other miscellaneous adjustments, including for price indexation, foreign exchange adjustments and other technical adjustments. These total \$152m in 2003-04.

## Use of Cash Reserves

In implementing the recommendations of the Government's budget estimates and framework review, Defence implemented a just-in-time cash drawdown system in February 2003. Defence's cash reserves are now held as a receivable by the Department of Finance and Administration and, rather than maintain large cash balances in its accounts, Defence will draw on these cash reserves to meet existing liabilities as they fall due in future years. Defence plans to have cash reserves totalling at least \$718m held as a receivable at the end of 2002-03, which the Government has agreed can be drawn down to meet existing employee and other liabilities as payment becomes due. Defence's employee liabilities are expected to be \$3,069m as at 30 June 2003, of which \$46.9m will be payable in 2003-04.

**Table 1.9: Use of Cash (Appropriation Receivable)**

2002-03	Use of Cash reserves	2003-04 Budget	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
\$m		\$m	\$m	\$m	\$m
718.415	Return of cash reserves to receivables held by Department of Finance and Administration	459.755	718.415	718.415	718.415
-	- Cash used to reduce employee liabilities <sup>(1)</sup>	(46.900)	(81.700)	(134.300)	(209.600)
(248.570)	Use of cash for Operation Bastille and returned from budget in 2003-04	248.570	-	-	-
(10.090)	Use cash reserve for Bougainville and returned from budget in 2003-04	10.090	-	-	-
200.000	\$200m Defence Capability Plan reprogramming <sup>(2)</sup>	200.000	200.000	200.000	200.000
-	- Planned increase in cash to meet future liabilities	42.540	185.907	185.907	185.907
-	- Transfer from the Department of Foreign Affairs and Trade for employee liabilities of Locally Engaged Staff	0.059	0.059	0.059	0.059
46.320	Retention of property sales proceeds <sup>(3)</sup>	46.320	46.320	46.320	46.320
<b>706.075</b>	<b>Sub-total: Appropriation Receivables</b>	<b>960.434</b>	<b>1,069.001</b>	<b>1,016.401</b>	<b>941.101</b>

### Notes

1. Defence has been given approval to use its cash reserves to meet existing employee liabilities in future years, commencing in 2003-04.
2. Defence will retain \$200m in Defence Capability Plan reprogramming funds in the cash reserve - its usage in 2004-05 is subject to Government consideration in the 2004-05 budget.
3. Defence will seek approval to use retained property sale proceeds in 2003-04.

## Appropriations

The total appropriations for Defence in the 2003-04 budget are \$15,418.8m. The following table shows the total appropriations for Defence for 2003-04 split across the seven Government outcomes, by administered expenses, price of output appropriation and departmental equity injection.

**Table 1.10: Appropriations and Other Revenue**

Outcome	Departmental (Price of Outputs) (\$'000)				Administered (\$'000)			(\$'000) Total Appropriations (I=E+H)	
	(A) Bill No 1	(B) Special Approps	(C=A+B) Total	(D) Receipts <sup>(1)</sup>	(E=C+D) Price of Outputs	(F) Annual Approps	(G) Special Approps		(H=F+G) Total Approps
<b>Outcome 1:</b> Command of Operations	845,403	-	845,403	52,699	898,102				<b>898,102</b>
<b>Outcome 2:</b> Navy Capability	4,087,689	-	4,087,689	75,025	4,162,714				<b>4,162,714</b>
<b>Outcome 3:</b> Army Capability	4,845,019	-	4,845,019	186,113	5,031,132				<b>5,031,132</b>
<b>Outcome 4:</b> Air Force Capability	4,003,694	-	4,003,694	47,531	4,051,225				<b>4,051,225</b>
<b>Outcome 5:</b> Strategic Policy	213,429	-	213,429	12,926	226,355				<b>226,355</b>
<b>Outcome 6:</b> Intelligence	403,085	-	403,085	11,135	414,220				<b>414,220</b>
<b>Outcome 7:</b> Administered						181	2,236,300	2,236,481	<b>2,236,481</b>
<b>Total (Serial 1, Table 1.2)</b>	<b>14,398,319</b>		<b>14,398,319</b>	<b>385,429</b>	<b>14,783,748</b>	<b>181</b>	<b>2,236,300</b>	<b>2,236,481</b>	<b>17,020,229</b>
									Departmental Capital (equity injection)(Serial 2, Table 1.2)
									Administered Capital
									Total Appropriations
									<b>1,020,524</b>
									-
									<b>18,040,753</b>

**Note**

1. Receipts comprise the sale of goods and services (\$239m), cash receipts from other revenue (\$40m), and net proceeds from the sale of property, plant and equipment (\$106m), as set out in the budgeted cash flows statement, with GST receipts from customers being excluded.

## Methods of Presenting the Defence Budget

The Defence budget is presented using three methods. All three methods are consistent and are used for different purposes.

### Method 1: Defence Resourcing

The Defence resourcing method excludes administered appropriations, which are administered on Defence's behalf by other organisations. This method includes total funding appropriated by the Government to Defence plus net capital receipts and own-source revenue. It is based on Australian accounting standards (accrual basis). Method 1 is used in the Defence Portfolio Budget Statements and also in the Commonwealth Budget Paper 4 (Appropriation Bills).

The Defence resourcing method is derived as follows:

	2003-04 \$m	Reference
Appropriation from Government for price of outputs	14,398	Table 1.2, Serial 1
Appropriation for equity injection	1,021	Table 1.2, Serial 2
Own-source revenue	281	Table 1.2, Serial 4
Net capital receipts	106	Table 1.2, Serial 5
<b>Total Department Resourcing</b>	<b>15,806</b>	<b>Table 1.2, Serial 7</b>

Method 1 is commonly used to measure movements in Defence's funding allocations relative to the previously agreed budget and forward estimates allocations.

### Method 2: Underlying Cash Balance Impact

Method 2 is the sum of Defence cash flows from operating activities and net capital investment, including both departmental and administered expenditure, and is used by the Treasury to describe the Defence budget in underlying cash impact terms. It is a measure of spending rather than resourcing, and is an estimate of the net impact of Defence spending on the whole-of-Government cash balance. This number is derived on an Australian Bureau of Statistics government finance statistics cash operating payments basis, adjusted for net proceeds of asset sales returned to the Government.

A figure of \$15.04b is used in the Treasury budget overview and the Treasurer's budget speech and is derived as follows:

	2003-04 \$m	Reference
Underlying funding <sup>(1)</sup>	12,424	Department of Finance and Administration
Operation Relex	18	Table 1.4, Serial 21
Special Purpose Aircraft Facilities	7	Table 1.4, Serial 24
Operation Safebase	35	Table 1.4, Serial 22
Accelerated Growth of ADF Personnel	50	Table 1.4, Serial 17
Special Operations Command	22	Table 1.4, Serial 23
Logistics Funding	244	Table 1.4, Serial 19
Operation Citadel (East Timor)	565	Table 1.3
Operations Bastille and Falconer	198	Table 1.4, Serial 20
White Paper Funding	1,478	Table 1.3
<b>Total Defence Funding</b>	<b>15,040</b>	<b>Treasury, Budget Overview and Treasurer's Budget Speech</b>

#### Note

1. This is an underlying cash figure derived by the Department of Finance and Administration.

The important distinction between methods 1 and 2 is that the latter approach describes estimates of spending in a cash sense, rather than appropriations from the Government which include funding for accrual items such as depreciation.

### Method 3: Defence Function

Method 3 includes only expenses that have a direct impact on the fiscal balance and excludes superannuation, which is recorded in the superannuation function. This method is derived using the Government finance statistics accrual expense approach and is used in Statement 6 of Commonwealth Budget Paper No. 1. It also includes investment in specialist military equipment but excludes depreciation of specialist military equipment and intra-government flows such as fringe benefits tax payments to the Australian Taxation Office. It is derived as follows.

	<b>2003-04</b>	
	<b>\$m</b>	<b>Reference</b>
Total Departmental Expenses	14,793	Table 3.1, Total Expenses + Borrowing costs
Administered Expenses	31	Table 2.7.2, Retention Benefits + Other
Investment in specialised military equipment	3,470	Department of Finance and Administration
Specialised military equipment depreciation	(2,179)	Table 3.5
Intra-government transfers	(1,768)	Department of Finance and Administration
Net write down of assets	(378)	Table 3.1
<b>Total Defence Function Expense</b>	<b>13,970</b>	<b>Statement 6, Budget Paper No 1</b>

## DISCRETIONARY GRANTS

**Table 1.11: Discretionary Grants**

Title of Grant Program	Total Grants 2003-04 \$'000
Army Military History Research Grants Scheme	50
Defence Family Support Funding Program	1,170
Grant to the Royal United Services Institute of Australia	75
<b>Total</b>	<b>1,295</b>

### **Army Military History Research Grants Scheme**

The scheme supports and encourages research into the role and involvement of the Army in the development of the nation.

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

This program provides funds to support projects and services initiated by Service families. It is also available to existing groups in the community composed of, or benefiting, Service families.

### **Grant to the Royal United Services Institute of Australia**

The grant provides assistance to the Royal United Services Institute of Australia in promoting the discussion of national security and defence matters, and improving public awareness and understanding of such matters through its organisation of international seminars, lecture programs in all states and territories, and publication of a national journal, addressing strategic, defence and national security issues. The grant also provides continuing support for the institute's national secretariat to position the institute to become more financially independent.

## **PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEFENCE HOUSING AUTHORITY CONTROL ARRANGEMENTS**

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

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

Chairman	Mr P E Jollie AM;
Managing Director	Mr K T Lyon;
Commercial Director	Mr T R O'Brien;
Commercial Director	Mr J D O'Grady;
Commercial Director	Ms B Boezeman;
ADF representative	Rear Admiral R C Moffitt RAN;
ADF representative	Rear Admiral B L Adams AO, RAN;
ADF representative	Major General F X Roberts AM;
ADF representative	Air Vice Marshal C Spence AM; and
Department of Defence representative	Dr R Neumann.

There are currently two vacancies on the board – one commercial director and a Defence Families Australia representative.

### **Resourcing**

The 2003-04 estimate for the purchase of services from the Defence Housing Authority is \$348.9m. This covers the housing and relocation services and the Defence Home Loan Scheme for ADF members. The provision of housing services and the Defence Home Loan Scheme is set out in the services agreement between Defence and the authority signed in August 2000 for a 10-year period. Under the services agreement, Defence expects to rent about 16,500 residences from the authority in 2003-04, about the same number rented in 2002-03.

The responsibility for relocation services was transferred from Defence to the authority on 1 July 2001, and a relocation services agreement was signed on 20 December 2002 to run to 2010, coinciding with the services agreement, subject to satisfactory performance. The relocation services agreement provides for three performance reviews. The first review was conducted during February 2003 and determined that the Defence Housing Authority had performed satisfactorily. Defence extended the term of the relocation agreement to 2005. A second review of the authority's performance will be conducted towards the end of 2005. If the review in 2005 is satisfactory, the agreement will be extended from 2006 to 2008. During 2007, a third review will decide whether to extend the agreement from 2008 to 2010. Defence expects the authority to process about 29,000 relocations in 2003-04, about the same number as in 2002-03.