

DEFENCE

CHAPTER TWO

**RESULTS FOR GOVERNMENT AS
DEFENCE'S CUSTOMER**

PRICE TO GOVERNMENT 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

Defence Cooperation

OUTCOME SIX INTELLIGENCE

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

PRICE TO GOVERNMENT OF DEFENCE OUTCOMES

Budgeted Price to the Government for Defence Outcomes

Table 2a: Budgeted Price to the Government for Defence Outcomes

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	4,836,926	5,298,139	461,212	5,360,365	5,535,781	5,762,203
Employees - Civilian	1,199,282	1,341,583	142,301	1,377,516	1,393,509	1,441,125
Sub-total employees	6,036,208	6,639,722	603,514	6,737,881	6,929,290	7,203,329
Suppliers - Non inventory	3,671,223	4,130,081	458,859	4,292,036	4,049,041	4,247,256
Suppliers - Inventory	881,291	949,031	67,740	948,838	984,462	1,025,693
Sub-total suppliers	4,552,514	5,079,112	526,599	5,240,874	5,033,503	5,272,949
Depreciation and amortisation	2,677,814	2,826,637	148,823	2,984,937	2,742,171	2,835,283
Write down of assets (includes Net Losses on Sale of Assets)	620,000	378,000	(242,000)	100,000	100,000	100,000
Other expenses	33,011	33,793	782	33,356	34,023	34,703
Total operating expenses from ordinary activities	13,919,547	14,957,264	1,037,717	15,097,048	14,838,987	15,446,263
Revenues						
Assets now recognised	415,000	278,000	(137,000)	-	-	-
Other revenues	330,316	280,945	(49,371)	280,209	285,816	291,444
Less Total Own Source Revenues	745,316	558,945	(186,371)	280,209	285,816	291,444
Price to Government for Defence Outcomes	13,174,231	14,398,319	1,224,088	14,816,839	14,553,171	15,154,819

Notes

Capital use charge is not included for 2002-03 figures for consistency purposes, as this charge is not applicable for Government agencies from 2003-04.

Tables in Chapter 2 may not add due to rounding.

Defence outcome and output structure

OUTCOME 1 – 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 2 – 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 3 – 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 4 – 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 5 – 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 6 – Intelligence for the Defence of Australia and its Interests

OUTPUT

- 6.1 Intelligence

OUTCOME 7 – 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

Price Summary for Defence Outcomes

Table 2b: Budgeted Price of Defence Outcomes

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Departmental Outcomes						
Outcome 1						
Command of Operations	546,183	845,403	299,220	534,736	528,180	544,442
Outcome 2						
Navy Capability	3,752,300	4,087,689	335,389	4,181,540	4,114,878	4,254,412
Outcome 3						
Army Capability	4,529,184	4,845,019	315,835	5,246,706	5,155,415	5,440,872
Outcome 4						
Air Force Capability	3,807,619	4,003,694	196,075	4,183,151	4,118,711	4,248,562
Outcome 5						
Strategic Policy	196,636	213,429	16,793	231,721	214,136	227,757
Outcome 6						
Intelligence	342,309	403,085	60,776	438,985	421,851	438,774
Total Price for Defence Departmental Outcomes	13,174,231	14,398,319	1,224,088	14,816,839	14,553,171	15,154,819
Administered Expenses						
Outcome 7						
Superannuation and Housing Support Services for Current and Retired Defence Personnel	2,236,481	2,236,481	-	2,336,481	2,336,481	2,436,481

OUTCOME ONE: COMMAND OF OPERATIONS

Outcome 1 – Command of Operations in Defence of Australia and its Interests

Output 1.1 Command of Operations

Output 1.2 Defence Force Military Operations and Exercises

Output 1.3 Contribution to National Support Tasks

Defence conducts a range of activities to satisfy the Government's strategic interests and objectives. These activities include the conduct of military campaigns and operations, the provision of emergency and non-emergency support to the Australian community, overseas deployments, and various joint and combined exercises involving the three Services and allied or regional military forces. Collectively, these activities are referred to as Defence operations.

Successful Defence operations are underpinned by effective command capability and appropriate joint force preparedness. Defence maintains its command capability through joint headquarters with the capacity to develop and implement strategic plans and provide operational-level guidance to forces assigned. Joint force preparedness is developed in accordance with ADF preparedness requirements and evaluated through an exercise program. Principally, the conduct of Defence operations is the responsibility of the Commander Australian Theatre, under the authority of the Chief of the Defence Force.

The Commander Australian Theatre is the manager for Outcome One.

Headquarters Australian Theatre (including Navy, Army, Air Force and Special Forces components) provides the operational-level command capability and the capacity to assess joint force preparedness. All elements within Defence contribute directly or indirectly to Defence operations.

Planned Performance

In 2003-04, Commander Australian Theatre will continue to command current ADF operations with forces assigned under theatre command, manage major joint and combined exercises and maintain the capability to assess joint force preparedness.

ADF operations that contribute to the security of our immediate neighbourhood that are expected to continue in 2003-04 include:

- the continuing commitment to the United Nations' assistance to East Timor (Operation Citadel);
- the management of the proposed withdrawal of the ADF contribution to the Bougainville peace process (Operation Bel Isi II); and
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway).

ADF operations that support Australia's wider interests which are expected to continue in 2003-04 include:

- an appropriate contribution to the United States-led coalition operation in Iraq and stabilisation and recovery operations in that country (Operation Falconer/Catalyst);
- a continued commitment to the United States-led operation against international terrorism (Operation Slipper); and
- contributions to United Nations and other peacekeeping and humanitarian operations (Operations Paladin, Mazurka, Osier and Pomelo).

ADF peacetime national tasks that are expected to continue as regular or occasional tasks in 2003-04 include:

- operations to deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia (Operation Relex II);
- ongoing operations to provide surveillance and response support to Coastwatch in northern Australia (Operation Cranberry);
- support to the Australian Fisheries Management Authority, when appropriate, in enforcing Australia's exclusive economic zone in the Southern Ocean (Operation Celesta);
- a range of cyclical maritime surveillance operations in Australia's region (Operations Burbage, Osteal, Estes, Mellin, Mistral and Solania); and
- Australian land surveillance and the collection of military geographic information (Operations Prowler and Beachcomber).

These operations and their objectives are summarised in later tables.

ADF joint and combined exercises are conducted to train forces and to evaluate joint force capability. Combined exercises with allies and regional partners enhance and maintain close relationships and develop essential force interoperability. Combined exercises also contribute to the strategic goals of the Defence International Engagement Plan (see also Outcome Five). The ADF exercise program is inherently flexible and is able to be adjusted to allow for changing strategic circumstances. The major ADF exercise commitment is Exercise Crocodile 03, a combined exercise in Australia with United States' forces. The ADF exercise program for 2003-04, detailing planning dates and exercise objectives, are included in later tables.

Extant ADF policy for Defence Assistance to the Civil Community tasks include counter disaster and emergency assistance. Small-scale tasks undertaken within local ADF resources are numerous and generally have minimal impact on ADF resources. Larger tasks involving coordinated activity with state or territory authorities or with Emergency Management Australia (in the Attorney-General's Department) may arise at short notice. Existing contingency plans are likely to remain appropriate in 2003-04.

Existing contingency plans for assistance to Commonwealth or state and territory governments and their civil authorities in law enforcement tasks, where there is the



possibility that force may be required, are also likely to remain appropriate in 2003-04.

ADF support to national search and rescue authorities, when and as required, will continue under current arrangements, within available resources.

Key risks and strategies

The key risks for command of operations are those that constrain commanders in their ability to execute the Government endorsed plan and meet the designated operational end state. The key risks to ADF military operations and exercises are those that affect the attainment of directed force preparedness levels.

Concurrent Operations

The ongoing high level of operational tempo is affecting the availability of personnel and assets, and this pressure is likely to continue in 2003-04.

Operational Preparedness

The high level of operational tempo has also constrained some training and consequent confirmation of preparedness levels.

Geographical Dispersion of Command Elements

Effective command is critical to the conduct of Defence operations. There is currently a physical dislocation between Headquarters Australian Theatre and its component commanders.

Planning for Operations

The range of concurrent activities and requirement for contingency planning may exceed the joint staff planning capacity at strategic, operational and tactical levels. Operational planning, contingency planning and exercise participation is expected to continue at a high tempo in 2003-04.

Logistic Support to Operations

The key risk to capability for logistic support to operations is the erosion of national inventory by the extended commitment to high-intensity operations.

Current inventory systems provide inadequate visibility of items in transit, offshore and within stock holdings.

Loss of Skills and Interoperability with Allies and Regional Partners

The loss of structured training activities with allies and regional partners risks the degradation of combined operational skills and loss of interoperability.

Reduced Ability to Respond to Requests

Reduced availability of major ADF assets to satisfy national support tasks and meet all Government-endorsed or emergency requirements.

Risk Mitigation

Concurrent Operations

This risk will be mitigated through a strategic-level review of major operational commitments. Government agreement will be sought to reduce operational commitments when and where the agreed end state conditions have been met.

Operational Preparedness

The ADF preparedness reporting system implemented in July 2002 has been further refined. Capability for both operational and exercise evaluation has been enhanced and will be further developed within the ADF exercise program during 2003-04.

Geographical Dispersion of Command Elements

A decision to collocate the Theatre Headquarters and components has been taken and action will continue in 2003-04 to achieve collocation in the Bungendore, NSW area (near Canberra) in 2007.

Planning for Operations

Mitigation is available through staff augmentation strategies, continued improvement to communications capability and information management initiatives. In the longer term, the higher percentage of staff with recent operational experience has the potential to further mitigate this risk.

Logistic Support to Operations

Inventory levels are being assessed and inventory expenditure for operations is being monitored. Inventory visibility is being addressed through the Joint Theatre Distribution project.

Loss of Skills and Interoperability with Allies and Regional Partners

To mitigate this risk, critical exercises have been retained in the Program of Major Service Activities for 2003-04. Where necessary, ADF elements will consider participation at a lesser level of force commitment to ensure essential links are maintained.

Reduced Ability to Respond to Requests

Mitigation through the application of resource priorities and substitution of critical assets with alternatives from lower priority areas will ensure effective use of available assets.

Price Summary for Outcome 1

Table 2.1.1: Price Summary of Outputs for Outcome 1 – Command of Operations

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Output 1.1 – Command of Operations	327,767	408,959	81,192	389,858	409,994	414,845
Output 1.2 – Defence Force Military Operations and Exercises	202,886	418,433	215,548	123,990	99,846	110,314
Output 1.3 – Contribution to National Support Tasks	15,530	18,011	2,481	20,889	18,340	19,283
Total Price for Outcome 1	546,183	845,403	299,220	534,736	528,180	544,442

Total Budgeted Price to the Government

Table 2.1.2: Total Budgeted Price for Outcome 1 – Command of Operations

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	159,410	295,704	136,295	135,037	143,136	153,531
Employees - Civilian	82,567	88,975	6,409	89,602	90,419	92,975
Sub-total employees	241,976	384,680	142,704	224,639	233,555	246,505
Suppliers - Non inventory	231,564	364,349	132,785	252,116	250,650	265,806
Suppliers - Inventory	90,276	82,554	(7,722)	32,024	31,955	32,025
Sub-total suppliers	321,839	446,903	125,064	284,139	282,605	297,831
Depreciation and amortisation	30,720	57,600	26,881	61,875	50,685	39,467
Write down of assets (includes Net Losses on Sale of Assets)	23,027	18,023	(5,003)	9,882	7,952	7,603
Other expenses	736	884	148	853	907	961
Total operating expenses from ordinary activities	618,298	908,091	289,792	581,389	575,704	592,368
Revenues						
Assets now recognised	23,743	16,124	(7,619)	-	-	-
Other revenues	48,373	46,564	(1,809)	46,652	47,524	47,926
Less Total Own Source Revenues	72,116	62,688	(9,428)	46,652	47,524	47,926
Price to Government for Outcome 1	546,183	845,403	299,220	534,736	528,180	544,442

Significant Variations

Overall, the budgeted price of command of operations will increase by \$299m to \$845m, representing, an increase of 55 per cent from the 2002-03 projected result. The variations are due to:

- price movements (+ \$18m);
- net additional costs for current operations (+ \$216m);
- other net variations (+ \$65m), due to an increase in depreciation costs (+\$22m), and an increase in employee costs (= \$40m) as a result of:
 - attribution refinements;
 - increases in ADF compensation, health services, allowances and other conditions of service; and
 - increases in CSS and PSS employer superannuation contributions, and net variation in civilian support costs to the Command of Operations Outcome.

OUTPUT STRUCTURE

Output 1.1 - Command of Operations

Commander Australian Theatre is responsible for the planning and conduct of ADF campaigns, operations and other activities as directed by the Chief of the Defence Force, with forces assigned under theatre command.

Planning includes maintenance of situational awareness, preparation of operational concepts and assessment of ADF joint preparedness against the military response options that may be made available to the Government.

Effective command relies on clear command arrangements supported by timely and reliable communications and information systems.

Performance Targets	
•	Australian operational concepts are developed to support ADF planning against credible contingencies.
•	The Australian Theatre Operational Preparedness Requirement provides guidance for joint force preparedness in accordance with the Chief of the Defence Force's direction.
•	Theatre command of ADF forces is effective and the Government's strategic objectives for operations are achieved.

Table 2.1.3: Price of Output 1.1 – Command of Operations

	Projected Result	Budget Estimate	Variation 2002-03	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	73,267	109,716	36,449	119,833	126,962	135,488
Employees - Civilian	57,937	61,980	4,043	63,688	64,490	66,720
Sub-total employees	131,204	171,696	40,492	183,521	191,452	202,208
Suppliers - Non inventory	181,754	196,127	14,373	163,252	172,423	187,048
Suppliers - Inventory	2,300	2,724	425	2,724	2,724	2,724
Sub-total suppliers	184,053	198,851	14,797	166,976	175,147	189,773
Depreciation and amortisation	24,131	46,344	22,213	41,613	46,943	26,918
Write down of assets (includes Net Losses on Sale of Assets)	17,504	14,384	(3,120)	8,664	6,833	6,499
Other expenses	727	784	57	768	793	819
Total operating expenses from ordinary activities	357,619	432,059	74,440	400,542	421,168	426,217
Revenues						
Assets now recognised	17,988	12,337	(5,651)	-	-	-
Other revenues	11,865	10,763	(1,101)	10,685	11,173	11,372
Less Total Own Source Revenues	29,852	23,100	(6,752)	10,685	11,173	11,372
Price to Government for Output 1.1	327,767	408,959	81,192	389,858	409,994	414,845



Output 1.2 - Defence Force Military Operations and Exercises

The ADF is required to undertake a range of military operations at Government direction to ensure the defence of Australia and its national interests. Military operations, exercises and other activities that the ADF undertakes contribute to the achievement of the Government's strategic objectives, defined in the Defence White Paper as defending Australia, contributing to the security of the immediate neighbourhood and supporting wider interests. Peacetime national tasks are included under Output 1.3.

ADF joint and combined exercises are included in the Program of Major Service Activities. Exercise objectives include training in warfighting and related skills, confirmation of interoperability and joint capability and effective engagement with allies and regional partners.

Performance Targets	
•	ADF operations meet Government directives.
•	Forces identified in the Australian Theatre Operational Preparedness Requirement for operational tasks maintain required preparedness levels.
•	ADF forces are effectively deployed and sustained.
•	The Program of Major Service Activities is reviewed regularly and modified where required.
•	Exercise Crocodile 03 is conducted as a combined exercise with United States forces in 2003-04.

ADF Operations

Table 2.1.12 in Output 1.3 contains details of operations in support of peacetime national tasks.

Table 2.1.4: Contributing to the Security of the Immediate Neighbourhood

Operation	Objective
Citadel Commenced 2002 Forces: ADF	To contribute to United Nations support to East Timor.
Bel Isi II Commenced 1998 Forces: ADF	To support the regional Peace Monitoring Group to monitor and report on the maintenance of the cease-fire in Bougainville by contributing specialist medical, logistic, communications and transport capabilities.
Gateway Commenced 1981 Forces: Air Force	To conduct northern Indian Ocean and South China Sea maritime surveillance patrols.

Table 2.1.5: Supporting Wider Interests

Operation	Objective
Catalyst Commenced 2003 Forces: ADF	To contribute to stabilisation and recovery operations in Iraq.
Falconer⁽¹⁾ Commenced 2003 Forces: ADF	To contribute to the United States-led coalition operation against Iraq.
Slipper Commenced 2001 Forces: ADF	To contribute to the United States-led operation against international terrorism and to the Multinational Maritime Interception Force in the Persian Gulf.
Paladin Commenced 1956 Forces: Army	To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervises, observes and reports on the various cease-fire arrangements, truces and peace treaties that have been negotiated between Israel and neighbouring Arab nations since 1948.
Mazurka Commenced 1992 Forces: ADF	To provide personnel to the Multinational Force and Observers to monitor the security arrangements in the Sinai.
Osier Commenced 1997 Forces: Army	To deploy Army personnel as part of the Stabilisation Force in Bosnia-Herzegovina and Croatia, and the Kosovo Force in Kosovo. In both cases, personnel serve as individuals attached to United Kingdom forces.
Pomelo Commenced 2001 Forces: Army	To contribute to United Nations peacekeeping efforts in Africa as part of the United Nations Mission in Ethiopia/Eritrea.

Note

1. Operation Falconer replaced Operation Bastille, which involved the pre-deployment of forces to the Middle East, with the commencement of hostilities in Iraq.

Australian Defence Force Exercise Program

Exercises are presented in these statements under the following headings:

- ADF Joint Exercises.
- Combined ADF and United States Exercises.
- Combined ADF and Five Power Defence Arrangements Exercises.
- Combined ADF and New Zealand Exercises.
- Other Combined Exercises.

A number of exercises expected to be scheduled in the Program of Major Service Activities are yet to be confirmed. It is expected that further exercises will be scheduled for 2003-04 and reported in the Portfolio Additional Estimates Statements.

Table 2.1.6: ADF Joint Exercises

Exercise	Forces	Objective
Day Bubble July 2003	Navy, Special Forces	To conduct familiarisation training in multi-swimmer release techniques from submarines.
Day Shark August 2003	Air Force, Special Forces	To test counter-terrorist troops in offshore manoeuvrability using C-130 aircraft.
Vital Launch February 2004	ADF	To practice Deployable Joint Force Headquarters and component staff in the methods, procedures, planning and conduct of joint and combined operations through participation in the joint military appreciation process.



Table 2.1.7: Combined ADF and United States Exercises

Exercise	Australian Forces	Objective
Gold Eagle 03 May – July 2003	Army	To further develop interoperability between the Australian Army and the United States Marine Corps in combined operations by conducting a field training or amphibious exercise.
Pacific Reserve 03 July 2003	Army	To further develop interoperability between the Australian Army Reserve and the United States Army Reserve by undertaking a field training exercise.
Pacific Bond 03 July 2003	Army	To further enhance interoperability between the Australian Army and the United States Army by conducting a field training exercise.
Lungfish 03 August 2003	Navy, Air Force	To practise undersea warfare with joint and independent maritime patrol aircraft cooperation and to practise and develop combined Navy/United States Navy submarine operations.
Crocodile 03 September 2003	ADF	To exercise Australian and United States forces in the conduct of an Australian-led, United States-supported warfighting campaign by conducting a command post exercise and a field training exercise.
Extendex 03-4 September 2003	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Extendex 04-1 December 2003	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Tricrab 04 April – May 2004	Navy, Air Force	To improve interoperability with the United States Navy by conducting an explosive ordnance demolition and mine clearance diving exercise.
Extendex 04-2 March 2004	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Gold Eagle 04 March 2004	Army	To further develop interoperability between the Australian Army and the United States Marine Corps in combined operations by conducting a field training or amphibious exercise.
Lone Arrow March 2004	Air Force	To conduct C-130 aircraft training for selected combat airlift instructor aircrew.
Air Warrior II 2004 June 2004	Air Force	To train airlift and ground force crews in short-notice tactical operations and combat airlift.
Extendex 04-3 June 2004	Air Force	To conduct maritime patrol aircraft undersea warfare training.

Table 2.1.8: Combined ADF and Five Power Defence Arrangements Exercises

Exercise	Australian Forces	Participating Countries	Objective
Flying Fish 03 June – July 2003	Navy, Air Force	New Zealand, United Kingdom, Singapore, Malaysia	To enhance interoperability and strengthen relations between Five Power Defence Arrangements defence forces by conducting a joint and combined maritime and air defence exercise.
Suman Warrior 03 September – October 2003	Army	Malaysia, New Zealand, Singapore, United Kingdom	To exercise the armies of the Five Power Defence Arrangements in combined land operations by conducting a brigade to unit-level command post exercise.

Table 2.1.9: Combined ADF and New Zealand Exercises

Exercise	Australian Forces	Objective
Tasman Exchange 03 July 2003	Army	To further develop interoperability between the Australian and New Zealand armies by conducting a field training exercise.
Wyvern Primo 03 August 2003	Army	To exercise the Australian crisis management machinery in the resolution of an offshore hostage incident.
PWO Sea Assessment Week November 2003	Navy, Air Force	To ensure the ability of students to act as Defence Watch Principal War Officers at sea, by conducting training and subsequent assessment.
ASWEX 2003 November 2003	Navy, Air Force	To improve undersea warfare skills in all participating maritime units and exercise interoperability between maritime undersea warfare platforms.
Ocean Protector 04-1 January – February 2004	Navy, Air Force	To return the surface combatant, major amphibious and afloat support, submarine and mine countermeasures force element groups to the minimum level of capability following a reduced activity period.
Vital Prospect 04 March – April 2004	ADF	To practise Deployable Joint Force Headquarters and component staff in the methods, procedures, planning and conduct of joint and combined operations through participation in the joint military appreciation process.

Table 2.1.10: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Focused Logistics Wargame 03 April – July 2003	ADF	Canada, United Kingdom, United States	To facilitate Australian input into the United States multilateral logistics objectives identified in Joint Vision 2010.
Rifle Company Butterworth May – August 2003	Army	Malaysia	To provide an opportunity for training and exercising in Malaysia and to train with elements of the Malaysian Armed Forces.
Long Look 03 June – September 2003	Army	United Kingdom	To broaden the military experience and knowledge of selected personnel and to promote cooperation between the two countries.
Taa Nok In Sii 03-1 July 2003	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and RAAF surveillance procedures.
Pacific Airlift Rally 03 July – August 2003	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, airland and airdrop delivery techniques for specific regional aircraft.

Exercise	Australian Forces	Participating Countries	Objective
Night Falcon 03 July – August 2003	Army, Air Force	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.
Kakadu VI/03 July – August 2003	Navy, Air Force	Brunei, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Papua New Guinea, Republic of Korea, Singapore, Thailand, Vietnam	To conduct a series of graduated training activities with regional naval and air forces in all areas of maritime warfare, in order to improve preparedness, interoperability and mutual understanding.
Singas Exchange 03 July 2003 – March 2004	Army	Singapore	To broaden the military experience and professional knowledge of selected personnel and to promote continued cooperation between the two countries.
Paradise 03 July 2003	Navy, Air Force	Papua New Guinea	To improve interoperability with the Papua New Guinea Defence Force by conducting an annual maritime surveillance exercise with RAN patrol boat elements.
Night Tiger 03 July 2003	Air Force, Special Forces	Malaysia	To develop relations and enhance interoperability by conducting training with the Malaysian Special Forces.
Red Flag 03-4 August 2003	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 September 2003	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.
Wallaby 03 October – November 2003	Army	Singapore	To enhance interoperability by conducting a field training exercise with Singapore.
Croix Du Sud 04 October 2003 – April 2004	ADF	France, New Zealand, Tonga	To improve interoperability with France, New Zealand and Tonga in a combined maritime training exercise.
Haringaroo 03-3 October 2003	Army	Malaysia	To practise combined operations requiring interoperability at a tactical level with elements of the Malaysian Army.
Longreach 03-1 November 2003	Deployable Joint Force Headquarters	New Zealand, Papua New Guinea	To practise the Deployable Joint Force Headquarters in contingency.
Tamex 03-4 December 2003	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.

Exercise	Australian Forces	Participating Countries	Objective
Star Tiger 03 November – December 2003	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	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and RAAF surveillance procedures.
Rifle Company Butterworth November 2003 – February 2004	Army	Malaysia	To provide an opportunity for training and exercising in Malaysia and to train with elements of the Malaysian Armed Forces.
Tasmanex 04 February 2004	Navy, Air Force	New Zealand, France	To develop interoperability with New Zealand and France by conducting combined maritime operations including maritime surveillance, undersea warfare and mine countermeasures operations.
Tamex 04-1 March 2004	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.
Taa Nok In Sii 04-1 April 2004	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and RAAF surveillance procedures.
Bell Buoy 04 April – May 2004	Navy	Canada, Chile, Republic of Korea, Singapore, United Kingdom, United States, South Africa, France	To exercise and develop regional naval control and protection of shipping doctrine and procedures and improve interoperability by conducting a combined operations exercise.
Tamex 04-2 June 2004	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.
Rimpac 04 June – July 2004	Navy, Air Force	Canada, Chile, Japan, Republic of Korea, United Kingdom, United States	To improve interoperability with regional forces to operate in coalition arrangements by conducting a combined maritime warfare exercise.

Table 2.1.11: Price of Output 1.2 – Defence Force Military Operations and Exercises

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	83,666	182,435	98,770	11,151	11,734	13,256
Employees - Civilian	21,008	23,113	2,104	21,954	21,958	22,242
Sub-total employees	104,674	205,548	100,874	33,105	33,692	35,498
Suppliers - Non inventory	40,697	158,579	117,881	77,838	68,536	69,284
Suppliers - Inventory	87,633	79,481	(8,152)	28,950	28,882	28,952
Sub-total suppliers	128,330	238,060	109,730	106,788	97,418	98,236
Depreciation and amortisation	5,811	9,950	4,139	18,008	3,023	11,037
Write down of assets (includes Net Losses on Sale of Assets)	5,148	3,375	(1,772)	1,103	1,020	1,007
Other expenses	22	66	45	52	74	100
Total operating expenses from ordinary activities	243,985	457,000	213,015	159,057	135,228	145,878
Revenues						
Assets now recognised	5,588	3,656	(1,933)	-	-	-
Other revenues	35,511	34,911	(600)	35,067	35,382	35,564
Less Total Own Source Revenues	41,099	38,567	(2,533)	35,067	35,382	35,564
Price to Government for Output 1.2	202,886	418,433	215,548	123,990	99,846	110,314

Output 1.3 - Contribution to National Support Tasks

The ADF can be called upon to provide emergency and non-emergency assistance to the Government and the Australian community in non-combat related roles. The tasks the ADF may be requested to undertake could include emergency assistance, search and rescue, disaster recovery, surveillance, security or non-emergency law enforcement roles. Tasks may be directed by the Government or requested by other civil authorities.

The ADF also contributes to the civil surveillance program, providing maritime surveillance and response through Coastwatch.

Performance Targets	
•	The ADF contribution to peacetime national tasks meets Government directives.
•	Forces identified in the Australian Theatre Operational Preparedness Requirement for Defence Assistance to the Civil Community, Defence Assistance to Civil Authorities and search and rescue, maintain required preparedness levels.
•	ADF forces are effectively deployed and sustained.
•	The ADF response to requests for search and rescue and emergency assistance tasks are effectively managed and reported.
•	ADF support to the civil surveillance program, in consultation with Coastwatch, is provided at the following resource levels: <ul style="list-style-type: none"> - 250 flying hours by P-3C surveillance aircraft, and - 1,800 Fremantle-class patrol boat days.
•	The ADF continues to conduct minor emergency and non-emergency assistance tasks from local resources where feasible.
•	National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively managed and reported.
•	National support tasks undertaken by the ADF as Defence Assistance to Civil Authorities are effectively managed and reported.

ADF Operations

Table 2.1.4 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and operations supporting wider interests.

Table 2.1.12: Peacetime National Tasks⁽¹⁾

Operation	Objective
Relax II Commenced 2002 Forces: ADF	To conduct air and surface patrols across Australia’s northern approaches to deter unauthorised boat arrivals.
Celesta Commenced 2001 Force: ADF	Overarching plan to conduct surface fisheries patrols in the Heard Island-McDonald Island Exclusive Economic Zone.
Cranberry Commenced 1997 Forces: ADF	To conduct surveillance in northern Australia.
Gaberdine Commenced 2001 Forces: ADF	To provide support to the Department of Immigration and Multicultural and Indigenous Affairs to manage any increase in unauthorised boat arrivals.
Burbage Commenced 1995 Forces: Navy and Air Force	To conduct Indian Ocean maritime surveillance patrols.
Osteal Commenced 1995 Forces: Navy and Air Force	To conduct Coral Sea maritime surveillance patrols.

■ □ Customer Perspective

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Operation	Objective
Estes Commenced 1980 Forces: Navy	To conduct surface patrols in Bass Strait.
Mellin Commenced 1995 Forces: Navy and Air Force	To contribute to Torres Strait and Timor Gap maritime surveillance patrols.
Mistral Commenced 1998 Forces: Navy and Air Force	To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by contributing to Southern Ocean fisheries patrols.
Solania Commenced 1988 Forces: Navy and Air Force	To conduct South West Pacific maritime surveillance patrols.
Prowler Commenced 1996 Forces: Navy and Army	To collect military geographic information in northern Australia.
Beachcomber Commenced 1996 Forces: Navy and Army	To collect beach information in Australia for operational planning.

Note

1. Surveillance operations are conducted when required, subject to asset availability. The level and type of forces assigned to the various surveillance operations will be adjusted in accordance with national surveillance priorities. The surveillance operations in Australia's north western maritime approaches have been subsumed by Operation Relex II for the duration of that activity.

Table 2.1.13:

Price of Output 1.3 – Contribution to National Support Tasks

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	2,477	3,553	1,076	4,052	4,440	4,787
Employees - Civilian	3,621	3,882	261	3,960	3,972	4,012
Sub-total employees	6,098	7,435	1,337	8,012	8,412	8,799
Suppliers - Non inventory	9,113	9,643	531	11,026	9,691	9,473
Suppliers - Inventory	343	349	6	349	349	349
Sub-total suppliers	9,456	9,992	537	11,375	10,040	9,822
Depreciation and amortisation	778	1,306	529	2,253	719	1,512
Write down of assets (includes Net Losses on Sale of Assets)	374	264	(110)	116	100	97
Other expenses	(12)	34	45	34	38	43
Total operating expenses from ordinary activities	16,694	19,032	2,338	21,790	19,309	20,273
Revenues						
Assets now recognised	167	131	(36)	-	-	-
Other revenues	997	890	(108)	901	969	990
Less Total Own Source Revenues	1,164	1,021	(143)	901	969	990
Price to Government for Output 1.3	15,530	18,011	2,481	20,889	18,340	19,283

OUTCOME TWO: NAVY CAPABILITY

Outcome 2 – Navy Capability for the Defence of Australia and its Interests

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

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

Planned Performance

In 2003-04, the Navy will maintain support for the ADF's involvement in the war against terrorism, the rehabilitation and support for Iraq, border protection operations, offshore resource protection and associated law enforcement, peace monitoring and maritime surveillance as required by the Government.

The Navy will continue to maintain sufficient combatant forces, support ships and mine countermeasure forces to deploy on operations as set forth in military preparedness directives. The risk management initiative introduced in 2002-03, of prioritising limited logistic resources, will enable the Navy to sustain planned performance. As a consequence of this initiative, some force elements with lesser preparedness requirements have reduced funding which may affect preparedness for higher level contingency requirements.

Surface combatant force capability, particularly in long-range air warfare and anti-ship missile defence, will remain the Navy's highest capability development priority. The handover to ADI Limited of the first guided missile frigate to undergo upgrade, and delivery of new short-range missiles for the Anzac-class frigates, both scheduled for the fourth quarter of 2003, are important milestones in maintaining, into the future, a credible anti-ship missile defence capability within the major surface combatant force. The long-range air warfare requirement for protection of



ADF forces deployed offshore will remain a challenge for the Navy in meeting high-end capability requirements.

The nature and tempo of operations over the past several years have brought about a need for greater emphasis on core warfighting skill reintegration. Higher-end warfare skills will be a focus of training and exercise activities throughout 2003-04. This will present challenges as the Navy aims simultaneously to improve skill levels, maintain personnel and equipment at appropriate preparedness levels to meet other contingencies, and allow leave to be taken.

The Navy is funded to provide force elements at levels of capability to meet Defence operations, international engagement requirements and levels of preparedness directed by the Chief of the Defence Force for military response options. In addition, there is a need to achieve a level of training that maintains core skills and professional standards across all warfare areas. The Navy has undertaken to provide measures to the Government that better reflect the full availability of maritime forces to meet these requirements.

The availability of maritime forces for tasking is indicated by a new measure - the planned unit ready days (URD). This is the number of days that a force element is available for tasking, by the Maritime Commander, within planned readiness requirements. Planned URD are determined for each Force Element Group by aggregating total days for the unit in commission (366 for 2003-04), less all days when the unit is programmed to be in major maintenance and conducting pre-workup (preparations for initial operational training). The expectation is that the Navy will achieve 95 per cent of the planned URD, because of unplanned maintenance delays.

Reporting of achievement will include:

- a measure of quantity - percentage achievement of the planned URD (naval aviation will continue to be reported by flying hours); and
- indicators of quality - the Navy's performance in supporting Defence operations, achieving international engagement requirements and meeting levels of preparedness within the URD targets.

Quality indicators are:

- to achieve levels of preparedness directed by the Chief of the Defence Force for military response options; and
- to achieve a level of training that maintains core skills and professional standards across all warfare areas.

In 2003-04, the Navy intends enhancing its reporting of performance with a further quality indicator - achievement of mission capability. Mission capability measures capability for the assigned task, and is defined as the required level of unit readiness for the actual tasking for which the force element has been scheduled at any time through its operational cycle. Tasking includes all scheduled activities to achieve assigned Defence operations, international engagement requirements and levels of preparedness required for military response.

Key Risks and Limitations

Personnel

The Navy's total uniformed workforce strength has been increasing slowly since the second quarter of 2001, but shortages of uniformed personnel in some employment categories continue to be one of the key risks to the Navy capability. Current high levels of operational activity are placing additional pressure on the Navy workforce, but to date, this has had no noticeable adverse effect on recruitment or retention.

Logistic Support

Accumulated logistic shortfalls and lack of funding for forecast logistic shortfalls hinder the Navy's ability to sustain the current force structure, operational commitments and preparedness requirements. Resolution of these shortfalls cannot be achieved in the short term due to the lead times involved in acquiring weapon system spares and ammunition.

Operations and Reconstitution of Forces on Completion

The operational tempo continues to provide a challenge to the Navy. The ability to reintegrate skills in the full range of Navy warfighting capabilities will be affected while the Navy continues to meet priority operational tasking.

Air Warfare Capability

The primary area, or force, air warfare system of the surface combatant force, the Standard Missile One, is dated and has limited remaining service life. While the system remains suitable for a range of operations, the ability of the surface combatant force to provide air warfare protection for deployed ADF forces in higher level contingencies is declining when judged against emerging potential threats.

A number of factors have affected higher-end air warfare skills within the Navy. These comprise:

- the nature of operations undertaken during the last few years;
- the cumulative effect on training arising from reduced fast-jet support due to aircraft technical issues, associated with an ageing fleet, project delays and shortfalls in some key skilled personnel; and
- the demise of the Enhanced Nowra Agreement, entered into by the Navy in 1997 to provide Royal New Zealand Air Force Skyhawk support for fleet operations on the east coast of Australia.

Undersea Warfare Capability

The high operational tempo of the surface combatant and helicopter forces has reduced the opportunities for the Navy to exercise undersea warfare skills. Like air warfare, this will become a focus of the Navy's warfare skills reintegration program.



Risk Mitigation

Personnel

The Navy's strategy is to recover uniformed personnel category shortfalls, through concentrated effort to improve retention, recruitment and maximising trainee throughput, while sustaining operations. Recruitment has been good for most employment categories for the past two years and initiatives are targeting segments of the workforce that are difficult to recruit. Strategies to improve retention have been modestly successful and additional retention strategies are being implemented. These are focused primarily on the employment groups with the worst personnel shortfalls. Lead indicators recently developed show a positive forecast for 2003-04. The Government has agreed to spend \$40m over a four year period on a number of initiatives aimed at increasing Navy's retention rates. The Navy's training force, which includes sailors under initial category training and officers under primary qualification training, is at a record level and strategies are being implemented successfully to maximise throughput to the trained force.

Logistic Support

Options to enable targeting of the shortfalls relating specifically to sustainability are being trialed. Measures to determine and moderate logistic cost drivers are being pursued in the Defence Materiel Organisation, with the assistance of the Defence Science and Technology Organisation.

Operations and Reconstitution of Forces on Completion

The Navy is implementing plans to reintegrate the full range of Navy capabilities as force availability allows. The focus remains on reconstituting preparedness for the surface combatant force, aviation force, hydrographic force and amphibious ships, all of which have experienced increased operational commitments over the last three years.

Air Warfare Capability

The guided missile frigate and Anzac-class frigate upgrade programs are planned to enhance the area and self-defence air warfare effectiveness of the surface combatant force until the planned introduction of the air warfare destroyer in 2013.

Raising the Navy's higher-end air warfare skills will be a focus of the Navy's reconstitution program.

Undersea Warfare Capability

The introduction into service of the sixth and final Collins-class submarine, HMAS *Rankin*, will increase the overall availability of submarines for training of surface and aviation forces.

Price Summary for Outcome 2

Table 2.2.1: Price Summary of Outputs for Outcome 2 – Navy Capability

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate 2004-05	Forward Estimate 2005-06	Forward Estimate 2006-07
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Output 2.1 – Capability for Major Surface Combatant Operations	1,342,596	1,487,315	144,719	1,535,494	1,537,858	1,602,113
Output 2.2 – Capability for Naval Aviation Operations	412,969	472,472	59,503	496,123	470,755	493,699
Output 2.3 – Capability for Patrol Boat Operations	251,516	260,599	9,084	266,461	257,198	270,322
Output 2.4 – Capability for Submarine Operations	682,784	773,777	90,992	734,149	717,411	728,103
Output 2.5 – Capability for Afloat Support	210,260	215,090	4,830	230,334	224,498	222,041
Output 2.6 – Capability for Mine Warfare	323,797	333,790	9,993	349,508	350,562	367,597
Output 2.7 – Capability for Amphibious Lift	354,849	366,429	11,580	385,398	376,657	383,308
Output 2.8 – Capability for Hydrographic and Oceanographic Operations	173,530	178,219	4,689	184,071	179,938	187,229
Total Price for Outcome 2	3,752,300	4,087,689	335,389	4,181,540	4,114,878	4,254,412

Total Budgeted Price to the Government

Table 2.2.2: Total Budgeted Price for Outcome 2 – Navy Capability

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate 2004-05	Forward Estimate 2005-06	Forward Estimate 2006-07
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	1,164,009	1,238,483	74,474	1,281,973	1,313,846	1,361,048
Employees - Civilian	284,281	325,435	41,154	326,967	328,702	337,453
Sub-total employees	1,448,290	1,563,918	115,628	1,608,940	1,642,548	1,698,502
Suppliers - Non inventory	1,022,075	1,203,374	181,299	1,244,846	1,169,688	1,220,446
Suppliers - Inventory	212,128	239,729	27,601	229,043	236,026	257,684
Sub-total suppliers	1,234,203	1,443,103	208,900	1,473,888	1,405,714	1,478,129
Depreciation and amortisation	1,006,469	1,059,648	53,178	1,098,965	1,068,813	1,081,606
Write down of assets (includes Net Losses on Sale of Assets)	228,525	144,028	(84,496)	40,321	39,324	39,142
Other expenses	6,688	6,933	245	6,802	6,988	7,180
Total operating expenses from ordinary activities	3,924,175	4,217,630	293,456	4,228,916	4,163,387	4,304,558
Revenues						
Assets now recognised	109,256	84,578	(24,678)	-	-	-
Other revenues	62,617	45,363	(17,254)	47,376	48,509	50,146
Less Total Own Source Revenues	171,873	129,941	(41,932)	47,376	48,509	50,146
Price to Government for Outcome 2	3,752,300	4,087,689	335,389	4,181,540	4,114,878	4,254,412

Significant Variations

Overall, the budgeted price of Navy capability will increase by \$336m to \$4.09b, representing an increase of 8.9 per cent from the 2002-03 estimated outcome. The major variations are due to:

- price movements (+\$50m);
- an increase in the permanent naval force to reflect the Defence White Paper growth path to 13,800 by 2009-10 and an increase in employees military compensation, health service, allowances and other conditions of service (+\$44m);
- increased civilian personnel costs, including full-year effect of the *Defence Employees Certified Agreement 2002-03*, increases in CSS and PSS employer superannuation contributions, and net variation in civilian support costs to the Navy outcome (+\$37m);

- an increase in suppliers expense, including additional funding for Collins-class submarines full cycle docking, other logistic support and a recategorisation of the portion of the investment program to operating, to reflect items expensed rather than capitalised, such as project office costs, research and development, project studies, and project related travel and other overheads (+215m);
- net variation in depreciation expense (+\$53m), mainly reflecting the introduction into service of HMAS *Perth* and the Super Seasprite helicopters;
- expected reduction in the write down of assets (-\$84m) and assets first found (+\$25m), which reflects the further progression of work to more accurately account for the Defence asset base;
- higher than planned Departmental revenue in 2002-03, including the sale of specialist military equipment (+\$18m); and
- other net variations (-\$22m).

OUTPUT STRUCTURE

Output 2.1 – Capability for Major Surface Combatant Operations

The major surface combatant force consists of six guided missile frigates and four Anzac-class frigates. A fifth Anzac-class frigate will be delivered to the ADF in 2003, with all eight planned to be in service by 2006. An upgrade program aims to ensure the guided missile frigates' survivability in the increasingly sophisticated maritime warfare environment. The upgrade is a rolling program commencing in late 2003 and due to be completed in 2008. Work has begun on Project Sea 4000 which will provide an air warfare destroyer capability by 2013.

The surface combatants possess combat capabilities in all three primary warfare areas (air, surface and undersea) and are capable of sustained independent operations. They are key elements in any task group that the ADF may deploy for maritime operations. Their flexibility and versatility make these ships a first choice in contingencies throughout the spectrum of conflict.

Performance Targets		
Vessel Type	Number	Budget Estimate
Guided missile frigates	6	1,498 URD ⁽¹⁾
Anzac-class frigates	5	1,402 URD ⁽¹⁾

Note

1. See page 56 for explanation of unit ready days (URD).

**Table 2.2.3:
Price of Output 2.1 – Capability for Major Surface Combatant Operations**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	361,982	403,497	41,515	430,880	445,619	464,113
Employees - Civilian	87,455	105,663	18,208	106,840	107,580	111,295
Sub-total employees	449,437	509,160	59,723	537,720	553,199	575,408
Suppliers - Non inventory	326,042	388,400	62,359	417,584	388,788	428,518
Suppliers - Inventory	129,877	143,666	13,789	138,178	142,967	157,818
Sub-total suppliers	455,919	532,066	76,148	555,762	531,755	586,336
Depreciation and amortisation	401,034	422,185	21,151	428,735	437,978	425,788
Write down of assets (includes Net Losses on Sale of Assets)	76,598	46,226	(30,372)	10,055	10,824	10,963
Other expenses	2,409	2,456	47	2,413	2,469	2,525
Total operating expenses from ordinary activities	1,385,396	1,512,093	126,696	1,534,685	1,536,224	1,601,021
Revenues						
Assets now recognised	36,356	27,558	(8,798)	-	-	-
Other revenues	6,444	(2,780)	(9,224)	(809)	(1,634)	(1,092)
Less Total Own Source Revenues	42,800	24,778	(18,022)	(809)	(1,634)	(1,092)
Price to Government for Output 2.1	1,342,596	1,487,315	144,719	1,535,494	1,537,858	1,602,113

Output 2.2 – Capability for Naval Aviation Operations

The naval aviation force comprises 16 Seahawk helicopters, seven Sea King helicopters and 13 Squirrel helicopters. The Navy's aviation capability will be enhanced by the introduction of 10 Super Seasprite helicopters, which are proposed for introduction with limited training capabilities through 2003-04, with the last to be introduced after 2003-04.

Organic frigate-based naval aviation assets are part of, and extend substantially, the sensor and weapons systems of the parent ship. All naval aviation assets can provide maritime aviation support, but this is the primary role of the Sea King helicopters. Amphibious operations from HMA ships *Kanimbla*, *Manoora* or *Tobruk* are supported by the Sea Kings. The Seahawks contribute to the Navy's capability for undersea warfare, surface warfare (strike), reconnaissance, surveillance, maritime support, search and rescue, medical evacuation, electronic warfare and aircrew training. Naval aviation, like Army aviation, is dependent on the Air Force for the initial flying training of officer aircrew and aviation technicians. Initial helicopter aircrew training is conducted using the Squirrel helicopters. As the Squirrel approaches its planned date of withdrawal from service, a proposal is being developed to provide a more cost effective training system using a different helicopter. Naval aviation also manages the Kalkara aerial target system, which supports Fleet and Air Force training.

Performance Targets		
Aircraft Type	Number	Budget Estimate
Seahawks	16	4,600 hours
Sea Kings	7	2,000 hours
Squirrels	13 ⁽¹⁾	4,000 hours
Super Seasprites	10	1,000 hours
Kalkaras	13	39 presentations ⁽²⁾

Notes

1. An additional aircraft is held for attrition purposes.
2. Kalkara is an unmanned aerial target system used for fleet support. Presentations refer to the number of instances during which the system is used as a target in training exercises.

Table 2.2.4:**Price of Output 2.2 – Capability for Naval Aviation Operations**

	Projected Result	Budget Estimate	Variation 2002-03	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03	2003-04	to 2003-04	2004-05	2005-06	2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	146,280	156,594	10,314	159,160	161,616	166,617
Employees - Civilian	34,633	39,224	4,591	39,235	39,319	40,156
Sub-total employees	180,913	195,817	14,905	198,395	200,935	206,773
Suppliers - Non inventory	138,662	175,409	36,746	190,879	173,900	185,240
Suppliers - Inventory	3,836	5,277	1,440	4,919	5,003	5,267
Sub-total suppliers	142,499	180,685	38,187	195,797	178,903	190,507
Depreciation and amortisation	74,733	82,828	8,095	89,165	78,566	84,474
Write down of assets (includes Net Losses on Sale of Assets)	33,432	22,556	(10,877)	8,439	7,488	7,135
Other expenses	850	880	29	860	887	915
Total operating expenses from ordinary activities	432,427	482,766	50,339	492,657	466,779	489,984
Revenues						
Assets now recognised	19,430	14,854	(4,577)	-	-	-
Other revenues	28	(4,560)	(4,588)	(3,466)	(3,976)	(3,716)
Less Total Own Source Revenues	19,458	10,294	(9,164)	(3,466)	(3,976)	(3,716)
Price to Government for Output 2.2	412,969	472,472	59,503	496,123	470,755	493,699

Output 2.3 – Capability for Patrol Boat Operations

The patrol boat force consists of 15 Fremantle-class patrol boats, which will be replaced by a fleet of Armidale-class patrol boats between 2004-08. The number of new platforms has not yet been determined or agreed by the Government.

The patrol boat force makes a large and effective contribution to the civil surveillance program (managed by Coastwatch) and to the protection of Australia's sovereignty, through the provision of a patrol, response and surveillance capability in Australia's maritime approaches. Patrol boats contribute to regional engagement and security through the conduct of operations, port visits and exercises with regional nations.

Performance Targets		
Vessel Type	Number	Budget Estimate
Patrol boats	15	4,871 URD ^{(1) (2)}

Note

- Patrol boat performance targets include both Navy and Coastwatch tasks, as the new measure of URD covers all operational tasking.
- See page 56 for explanation of unit ready days (URD).

Table 2.2.5:

Price of Output 2.3 – Capability for Patrol Boat Operations

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate 2004-05	Forward Estimate 2005-06	Forward Estimate 2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	116,207	122,625	6,419	124,764	126,463	130,456
Employees - Civilian	18,777	21,681	2,905	21,561	21,541	22,204
Sub-total employees	134,983	144,306	9,323	146,325	148,004	152,660
Suppliers - Non inventory	65,527	67,582	2,055	70,874	65,100	68,433
Suppliers - Inventory	21,704	23,378	1,674	22,138	22,772	24,737
Sub-total suppliers	87,231	90,960	3,729	93,012	87,872	93,169
Depreciation and amortisation	29,292	29,363	71	33,673	27,504	30,638
Write down of assets (includes Net Losses on Sale of Assets)	12,193	6,206	(5,987)	(42)	585	699
Other expenses	701	723	22	716	727	737
Total operating expenses from ordinary activities	264,401	271,559	7,158	273,683	264,692	277,904
Revenues						
Assets now recognised	5,219	3,488	(1,731)	-	-	-
Other revenues	7,666	7,471	(195)	7,222	7,493	7,583
Less Total Own Source Revenues	12,885	10,959	(1,925)	7,222	7,493	7,583
Price to Government for Output 2.3	251,516	260,599	9,084	266,461	257,198	270,322

Output 2.4 – Capability for Submarine Operations

The Navy has six Collins-class submarines. Two of the six submarines have been enhanced to provide a higher level of capability. Projects are in place to enhance progressively the combat capability of all six submarines.

The submarine force is capable of fulfilling the roles of maritime strike and interdiction, maritime surveillance, reconnaissance and intelligence collection, undersea warfare, and special forces operations. A submarine may be employed to operate independently either as an element of the ongoing national intelligence collection effort or as a forward reconnaissance unit in an area of heightened tension. It may also be employed as one of a number of key elements in task group operations that deny opponents the use of Australia's maritime approaches. The submarine force is also able to conduct operations in a combined or coalition force.

Performance Targets		
Vessel Type	Number	Budget Estimate
Submarines	6	945 URD ⁽¹⁾⁽²⁾

Notes

1. HMAS *Collins* remains in Full Cycle Docking for all of 2003-04.
2. See page 56 for explanation of unit ready days (URD).

Table 2.2.6:

Price of Output 2.4 – Capability for Submarine Operations

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	127,639	133,524	5,885	134,703	135,477	138,838
Employees - Civilian	49,842	55,167	5,326	55,318	55,397	55,923
Sub-total employees	177,480	188,691	11,211	190,020	190,874	194,760
Suppliers - Non inventory	204,069	270,320	66,251	224,102	209,531	214,121
Suppliers - Inventory	4,832	11,024	6,192	10,476	10,589	10,936
Sub-total suppliers	208,901	281,343	72,442	234,579	220,119	225,057
Depreciation and amortisation	286,117	301,406	15,289	307,925	308,107	310,696
Write down of assets (includes Net Losses on Sale of Assets)	43,376	32,227	(11,149)	15,089	12,576	12,119
Other expenses	643	663	20	637	673	711
Total operating expenses from ordinary activities	716,518	804,331	87,813	748,250	732,349	743,343
Revenues						
Assets now recognised	17,853	16,359	(1,494)	-	-	-
Other revenues	15,880	14,195	(1,685)	14,101	14,938	15,240
Less Total Own Source Revenues	33,733	30,554	(3,179)	14,101	14,938	15,240
Price to Government for Output 2.4	682,784	773,777	90,992	734,149	717,411	728,103

Output 2.5 – Capability for Afloat Support

This Output provides afloat support consisting of an oil tanker and a replenishment ship.

The afloat support capability has a major role in the provision of afloat tactical logistics, particularly under-way replenishment. It also has the capacity for logistic support to land forces and utility in a range of peacetime national tasks. Through the provision of logistic support, the afloat support capability contributes significantly to the performance of major surface combatant operations. These major fleet units provide important logistic support to operations and exercises, and contribute to Defence international engagement through these activities.

Performance Targets		
Vessel Type	Number	Budget Estimate
Oil tanker	1	310 URD ⁽¹⁾
Replenishment ship	1	303 URD ⁽¹⁾

Note

- See page 56 for explanation of unit ready days (URD).

Table 2.2.7:

Price of Output 2.5 – Capability for Afloat Support

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate 2004-05	Forward Estimate 2005-06	Forward Estimate 2006-07
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	74,696	76,069	1,373	77,452	78,348	81,196
Employees - Civilian	17,163	19,705	2,542	19,615	19,602	20,148
Sub-total employees	91,859	95,774	3,915	97,067	97,950	101,344
Suppliers - Non inventory	70,404	72,505	2,101	82,960	85,758	74,766
Suppliers - Inventory	11,637	12,403	766	11,290	11,405	11,763
Sub-total suppliers	82,042	84,909	2,867	94,250	97,163	86,529
Depreciation and amortisation	35,336	36,547	1,211	41,685	32,873	37,844
Write down of assets (includes Net Losses on Sale of Assets)	16,552	11,250	(5,302)	4,213	3,734	3,647
Other expenses	496	526	29	516	530	545
Total operating expenses from ordinary activities	226,285	229,006	2,720	237,731	232,251	229,910
Revenues						
Assets now recognised	8,031	6,342	(1,689)	-	-	-
Other revenues	7,994	7,574	(420)	7,397	7,754	7,869
Less Total Own Source Revenues	16,026	13,916	(2,110)	7,397	7,754	7,869
Price to Government for Output 2.5	210,260	215,090	4,830	230,334	224,498	222,041

Output 2.6 – Capability for Mine Warfare

The mine warfare force comprises six Huon-class coastal mine hunters, two auxiliary minesweepers and two clearance diving teams.

The Huon-class mine hunters provide an advanced mine hunting and clearance capability. The minehunter HMAS *Yarra* was commissioned in March 2003, completing the coastal mine hunter build program. The two auxiliary minesweepers deliver influence mine and moored minesweeping capabilities. Clearance diving teams support the full spectrum of mine warfare operations, including explosive ordnance disposal.

Performance Targets		
Vessel Type	Number	Budget Estimate
Coastal mine hunters	6	1,721 URD ⁽¹⁾
Auxiliary minesweepers	2	732 URD ⁽¹⁾
Clearance diving teams	2	732 URD ⁽¹⁾

Note

1. See page 56 for explanation of unit ready days (URD).

Table 2.2.8:

Price of Output 2.6 – Capability for Mine Warfare

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	114,555	117,813	3,258	122,425	130,352	135,547
Employees - Civilian	28,046	29,964	1,918	30,330	31,099	32,067
Sub-total employees	142,601	147,777	5,175	152,756	161,451	167,614
Suppliers - Non inventory	74,750	78,182	3,432	90,944	83,039	92,469
Suppliers - Inventory	11,202	12,222	1,021	11,753	11,979	12,680
Sub-total suppliers	85,951	90,404	4,453	102,697	95,018	105,149
Depreciation and amortisation	90,009	96,397	6,388	97,438	97,334	98,086
Write down of assets (includes Net Losses on Sale of Assets)	19,842	11,408	(8,434)	1,724	2,197	2,283
Other expenses	213	243	31	235	250	265
Total operating expenses from ordinary activities	338,617	346,230	7,612	354,850	356,249	373,396
Revenues						
Assets now recognised	8,835	7,060	(1,775)	-	-	-
Other revenues	5,985	5,379	(606)	5,342	5,687	5,799
Less Total Own Source Revenues	14,820	12,439	(2,381)	5,342	5,687	5,799
Price to Government for Outcome 2.6	323,797	333,790	9,993	349,508	350,562	367,597

Output 2.7 – Capability for Amphibious Lift

The amphibious force consists of two amphibious landing ships, a heavy landing ship and six heavy landing craft. These elements provide the core of the ADF amphibious capability.

The three major fleet units provide amphibious lift and support to landing forces. They have utility in a broad range of peacetime national tasks, including evacuation operations, disaster relief, humanitarian assistance and peace support operations. The ships also have an extensive capability for command, control and communications, helicopter operations and medical support facilities, which make them extremely versatile. Recent completion of first of class flight trials for the landing ships has increased their capability for night flying operations. Joint amphibious training will be a priority in 2003-04.

Performance Targets		
Vessel Type	Number	Budget Estimate
Heavy landing ships	1	294 URD ⁽¹⁾
Amphibious landing ships	2	568 URD ⁽¹⁾
Heavy landing craft	6	2,070 URD ⁽¹⁾

Note

1. See page 56 for explanation of unit ready days (URD).

**Table 2.2.9:
Price of Output 2.7 – Capability for Amphibious Lift**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	132,883	137,784	4,900	140,343	142,230	148,024
Employees - Civilian	29,658	33,695	4,037	33,768	33,858	35,010
Sub-total employees	162,541	171,479	8,938	174,111	176,088	183,034
Suppliers - Non inventory	102,615	107,417	4,802	120,062	119,785	110,830
Suppliers - Inventory	26,228	28,505	2,277	26,952	27,751	30,227
Sub-total suppliers	128,842	135,922	7,079	147,015	147,536	141,057
Depreciation and amortisation	66,635	66,482	(153)	73,663	62,529	68,784
Write down of assets (includes Net Losses on Sale of Assets)	19,634	11,326	(8,308)	2,034	2,386	2,450
Other expenses	1,185	1,226	41	1,212	1,232	1,253
Total operating expenses from ordinary activities	378,836	386,434	7,598	398,035	389,771	396,577
Revenues						
Assets now recognised	10,564	6,942	(3,622)	-	-	-
Other revenues	13,423	13,063	(360)	12,636	13,114	13,270
Less Total Own Source Revenues	23,987	20,005	(3,982)	12,636	13,114	13,270
Price to Government for Output 2.7	354,849	366,429	11,580	385,398	376,657	383,308

Output 2.8 – Capability for Hydrographic and Oceanographic Operations

The hydrographic survey force comprises two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne depth-sounder aircraft and the hydrographic office deployable survey unit, all supported by the Australian Hydrographic Office in Wollongong.

Oceanographic operations are conducted by mobile teams, the Operational Meteorological and Oceanographic Centre, Australian Oceanographic Data Centre, the Fleet Weather and Oceanographic Centre in Sydney, and the Naval Air Station Weather and Oceanographic Centre in Nowra, NSW.

All elements provide outcomes to the Navy and national and international authorities, with a primary Defence focus on military geospatial information and rapid environmental assessment initiatives. The national tasking supports navigation safety, infrastructure development, preservation of the marine environment and obligations to manage hydrographic and oceanographic data.

Performance Targets		
Vessel/Aircraft/Unit/Chart Production	Number	Budget Estimate
Hydrographic ships	2	732 URD ⁽¹⁾
Survey motor launches	4	1,464 URD ⁽¹⁾
Laser airborne depth sounding aircraft	1	990 hours for surveying; 38 hours for ferrying
Hydrographic office detached survey unit	1	Availability 300 days; Planned deployments 169 days
Chart production: - New charts/editions - New charts/diagrams for use by the Navy - Electronic nautical chart cells		50 in number 15 in number 30 in number

Note

1. See page 56 for explanation of unit ready days (URD).

Customer Perspective

**Table 2.2.10:
Price of Output 2.8 – Capability for Hydrographic and Oceanographic
Operations**

	Projected Result	Budget Estimate	Variation 2002-03	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03	2003-04	to 2003-04	2004-05	2005-06	2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	89,767	90,578	811	92,247	93,742	96,256
Employees - Civilian	18,708	20,335	1,627	20,300	20,305	20,651
Sub-total employees	108,475	110,913	2,438	112,547	114,047	116,908
Suppliers - Non inventory	40,006	43,561	3,554	47,440	43,787	46,069
Suppliers - Inventory	2,812	3,254	442	3,336	3,561	4,256
Sub-total suppliers	42,818	46,814	3,996	50,777	47,348	50,325
Depreciation and amortisation	23,314	24,440	1,126	26,681	23,921	25,295
Write down of assets (includes Net Losses on Sale of Assets)	6,896	2,830	(4,066)	(1,191)	(465)	(333)
Other expenses	190	216	26	212	220	228
Total operating expenses from ordinary activities	181,694	185,214	3,520	189,025	185,071	192,423
Revenues						
Assets now recognised	2,966	1,975	(991)	-	-	-
Other revenues	5,198	5,021	(177)	4,954	5,133	5,194
Less Total Own Source Revenues	8,164	6,995	(1,169)	4,954	5,133	5,194
Price to Government for Output 2.8	173,530	178,219	4,689	184,071	179,938	187,229

OUTCOME THREE: ARMY CAPABILITY

Outcome 3 – Army Capability for the Defence of Australia and its Interests

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

The Army provides land forces that contribute to the ADF's priority tasks, namely to defend Australian territory, to contribute to the security of our immediate neighbourhood and to contribute to international coalition forces to meet crises beyond Australia's immediate neighbourhood where Australian interests are engaged. The Army also provides forces for peacetime national tasks, including counter-terrorism and chemical, biological, radiological and explosive incident response operations.

The Army contributes to the achievement of the Government's desired outcome through the provision of capabilities for land operations. Army capabilities comprise special forces, mechanised, light infantry, Army aviation, ground-based air defence, combat support, regional surveillance, logistic support, motorised and protective operations.

The Army's capabilities provide the capacity to conduct:

- shaping and influencing operations, including operations to prevent effective operational command and control of adversary forces by influencing, degrading, or destroying their operational systems;
- land focused offensive operations through pre-emptive or reactive operations by special or conventional forces to destroy enemy forces or power projection assets, including command, control and communications nodes. Conventional operations cover the full spectrum of Army warfighting capabilities, including, but not limited to, strike, interdiction, strategic raids, neutralising an adversarial force, deterring or denying the use of a forward operating base by an adversary, and offensive manoeuvre;



- non-combatant evacuation operations to protect Australian nationals and approved foreign nationals where host nations are unwilling or unable to provide security;
- operational logistic support to sustain forces through the maintenance of lines of communications to a forward operating base and by providing distribution, materiel support, support engineering, health services support, personnel services and civil affairs;
- air defence;
- humanitarian assistance operations in support of the civil populace in times of significant need and disaster;
- counter-terrorism operations to defeat terrorism throughout the entire threat spectrum, including protection from terrorist acts and offensive measures taken to prevent, deter and respond to terrorism, including support to incidents involving the use of chemical, biological or radiological materials;
- consequence management operations to provide detection, identification, marking, warning, reporting and decontamination of chemical, biological or radioactive material; and
- peace support operations with the intention of establishing a peaceful environment through the presence of military forces, either armed or unarmed.

Planned Performance

The Army intends to achieve its performance milestones in 2003-04 by balancing the requirements to support existing operations, meet extant preparedness requirements and develop Army core capabilities. Forces deployed to the Middle East will be reconfigured.

Support to Operations

In 2003-04, the Army's first priority continues to be support of land forces on operations. The Army continues to support a variety of current operations, including deployments to the Middle East, Afghanistan, East Timor, Bougainville, Bosnia and Herzegovina and Ethiopia and Eritrea. Forces deployed to the Middle East will be reconfigured.

Meeting Preparedness Requirements

The Army will continue to provide ready frontline forces as directed by the Government and the Chief of the Defence Force Preparedness Directive, including six battalion groups at 90 days readiness or less. In addition, the Army is developing its High Readiness Reserves capability, which includes raising six reserve company-sized Brigade Response Forces to provide a holistic response to the Army's counter-terrorist capability. Meeting preparedness requirements is the Army's primary performance measure.

Developing the Army's Core Capabilities

Major initiatives under the Defence Capability Plan in 2003-04 relating to the Army include the provision of ready front line forces, sustainment and rotation, combat weight and command, control, communications and intelligence. The focus of the

Army's approach to modernisation is to achieve the Chief of the Defence Force's vision of a seamless force with the agility and balance to strategically deploy, conduct operations in complex terrain and excel in harnessing joint effects. The Army has developed the Army Capability Development Plan to achieve this vision. The Army will continue to maximise its ability to sustain and rotate deployed forces through:

- development of the Army sustainment model designed to ensure that a brigade and battalion group can be deployed continually;
- ongoing enhancement of a deployable medical facility for deployed forces for delivery in 2004;
- ongoing development of systems for water purification and bulk liquid distribution for delivery in 2005; and
- ongoing development of supplies control and delivery in a joint area of operations through the Theatre Distribution System Project.

The Army will continue to develop its combat weight through developments in mobility, firepower and protection of existing force elements including:

- ongoing development of the Bushmaster infantry mobility vehicle for delivery in 2005;
- procurement of additional Javelin direct fire guided weapons for the remainder of the land forces by 2006;
- accelerated provision for additional troop lift helicopters;
- ongoing development of enhanced and rapidly emplaced bridging capability for delivery in 2005;
- ongoing development of two squadrons (22 aircraft) of armed reconnaissance helicopters to ensure delivery from 2004;
- enhancement of the thermal surveillance systems for the Leopard main battle tank;
- upgrade of the M113 armoured personnel carrier fleet for delivery in 2006;
- enhancement of the existing Black Hawk helicopter fleet with ballistic protection and self-protection capabilities; and
- ongoing development of the Tactical Assault Group (East) and the Incident Response Regiment, which together form part of the ADF's anti-terrorist capability.



The Army will continue to provide support and command, control, communications and intelligence through the delivery of:

- Special Operations Command;
- additional ground surveillance radar, thermal imagery and unattended ground sensors;
- ongoing replacement of high frequency communications capabilities for delivery in 2004; and
- support of ongoing trials for the provision of a tactical unmanned aerial vehicle system for land forces in 2007.

The Army will seek to meet its planned requirements through the reduction of key vulnerabilities identified in the Defence Management and Finance Plan, including the remediation of personnel and logistic deficiencies within the Army.

Key Risks and Limitations

Personnel

Currently, recruiting and retention statistics are positive, but challenges remain in some specific ranks and trades such as medical, dental, pilots, telecommunication technicians and linguists and in developing the Army to man new capabilities identified in the Defence White Paper.

Logistics Support

The Army has experienced logistic challenges over the past year. These challenges are being progressively addressed through increases in ammunition holdings, enhanced maintenance programs for key Army fleets and the replacement of a range of equipment.

Risk Mitigation

Personnel

To meet both extant preparedness requirements and future capability commitments detailed in the Defence White Paper, the Army's strength is projected to be some 26,598 by 2009-10, which includes an additional 327 personnel for Special Operations Command and accelerated growth to support the introduction of new capabilities. The Army is enhancing its capability to sustain a brigade group offshore indefinitely, a battalion group for short-notice contingency operations, maintenance of six high-readiness infantry battalion groups and an enhanced special forces and counter terrorist capacity.

The ongoing development of the Army sustainment model will assist the Army to identify and develop its force and personnel requirements to sustain offshore operations and respond to short notice contingencies. The Army Capability Development Plan will deliver identified personnel requirements to enable timely recruitment and training, and to build new capabilities, as specified in the Defence White Paper.

Improved recruiting and retention measures have resulted in positive recruiting and retention rates. This is assisting the Army in addressing its most critical trade

deficiencies. However, this situation will need to continue for some time as the Army continues to increase its strength and meet planned performance measures.

Logistics Support

Studies into ammunition requirements have identified the quantum of the deficiencies. Funding has been foreshadowed in the Defence Management and Finance Plan to commence remediation to better align ammunition stockholdings with capability and preparedness requirements and to provide increased support for the general service vehicle fleet. The reversal of deficiencies in ammunition and general service vehicle fleet will see the Army aligned to meet planned performance measures.

Price Summary for Outcome 3

Table 2.3.1: Price Summary of Outputs for Outcome 3 – Army Capability

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Output 3.1 – Capability for Special Forces Operations	416,218	445,118	28,900	388,810	381,087	401,440
Output 3.2 – Capability for Mechanised Operations	743,836	800,591	56,755	897,238	882,729	920,335
Output 3.3 – Capability for Light Infantry Operations	947,509	1,020,185	72,676	1,043,243	1,021,550	1,072,399
Output 3.4 – Capability for Army Aviation Operations	412,501	449,568	37,067	506,663	490,874	509,036
Output 3.5 – Capability for Ground Based Air Defence	97,671	92,956	(4,715)	101,479	100,418	104,233
Output 3.6 – Capability for Combat Support Operations	351,443	407,921	56,479	464,630	450,797	475,838
Output 3.7 – Capability for Regional Surveillance	98,218	86,750	(11,467)	100,713	98,797	108,592
Output 3.8 – Capability for Operational Logistic Support to Land Forces	407,486	433,401	25,915	464,336	458,966	484,897
Output 3.9 – Capability for Motorised Infantry Operations	537,201	573,759	36,558	641,979	633,679	667,282
Output 3.10 – Capability for Protective Operations	517,102	534,769	17,667	637,615	636,518	696,822
Total Price for Outcome 3	4,529,184	4,845,019	315,835	5,246,706	5,155,415	5,440,872

Total Budgeted Price to the Government

Table 2.3.2: Total Budgeted Price for Outcome 3 - Army Capability

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate 2004-05	Forward Estimate 2005-06	Forward Estimate 2006-07
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	2,294,463	2,474,189	179,726	2,613,490	2,707,634	2,832,669
Employees - Civilian	375,540	417,449	41,909	432,979	442,212	466,656
Sub-total employees	2,670,003	2,891,638	221,636	3,046,470	3,149,846	3,299,325
Suppliers - Non inventory	1,086,863	1,135,299	48,436	1,243,298	1,163,996	1,227,283
Suppliers - Inventory	292,353	335,613	43,260	389,153	394,173	407,259
Sub-total suppliers	1,379,216	1,470,911	91,696	1,632,451	1,558,168	1,634,542
Depreciation and amortisation	600,749	608,881	8,131	676,421	558,361	619,109
Write down of assets (includes Net Losses on Sale of Assets)	150,586	85,890	(64,696)	19,491	20,758	20,988
Other expenses	17,681	17,617	(64)	17,489	17,680	17,873
Total operating expenses from ordinary activities	4,818,234	5,074,937	256,703	5,392,321	5,304,813	5,591,837
Revenues						
Assets now recognised	140,524	78,964	(61,560)	-	-	-
Other revenues	148,527	150,954	2,427	145,615	149,398	150,965
Less Total Own Source Revenues	289,051	229,918	(59,133)	145,615	149,398	150,965
Price to Government for Outcome 3	4,529,184	4,845,019	315,835	5,246,706	5,155,415	5,440,872

Significant Variations

Overall, the budgeted price of Army capability will increase by \$317m to \$4.85b, representing an increase of seven per cent from the 2002-03 projected result. The major variations are due to:

- price movements (+\$102m);
- an increase in military employee expenses (+\$180m), including establishment of the Tactical Assault Group (East), Incident Response Regiment, Special Operations Command and accelerated growth in the Permanent Military Force, combined with increases in compensation, health services, allowances and other conditions of service;
- an increase in civilian personnel costs includes full-year effect of the *Defence Employees Certified Agreement 2002-03*, increases in CSS and PSS employer superannuation contributions, and net variation in civilian support costs to the Army Outcome (+\$42m);

- variation in suppliers (+ \$49m), including funding for logistics shortfalls, the establishment of Tactical Assault Group (East), Incident Response Regiment, Special Operations Command and accelerated growth in the Permanent Military Force, and a reduction in 2002-03 for the East Timor deployment;
- an increase in inventory costs reflects higher operational tempo and increased requirements for the Army training program (+\$43m);
- increased depreciation expense, which reflects the introduction of new equipment into service (+\$8m); and
- expected reduction in the write down of assets and assets first found, reflecting the further progression of work to more accurately account for the Defence asset base (- \$3m).

OUTPUT STRUCTURE

Output 3.1 – Capability for Special Forces Operations

The special forces operations capability is designed to:

- exploit deception and surprise;
- employ techniques which are discreet, non-escalatory, avoid collateral damage and which span the continuum of elite conventional to unconventional operations; and
- provide forces for Government domestic security operations.

The Army's capability for special forces operations is commanded by the recently raised Special Operations Command. Units commanded by Special Operations Command include:

- Special Air Service Regiment;
- 4 Battalion Royal Australian Regiment (Commando);
- 1 Commando Regiment (Reserve);
- 126 Commando Signals Squadron; and
- Incident Response Regiment.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

**Table 2.3.3:
Price of Output 3.1 – Capability for Special Forces Operations**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	257,122	270,850	13,728	220,387	226,720	235,205
Employees - Civilian	26,424	29,796	3,372	30,720	31,329	32,883
Sub-total employees	283,546	300,646	17,100	251,107	258,049	268,088
Suppliers - Non inventory	74,647	81,867	7,220	79,871	73,664	78,667
Suppliers - Inventory	30,153	32,762	2,609	20,951	21,369	22,544
Sub-total suppliers	104,800	114,629	9,829	100,821	95,034	101,211
Depreciation and amortisation	39,541	40,653	1,111	45,379	36,858	41,096
Write down of assets (includes Net Losses on Sale of Assets)	8,378	4,826	(3,551)	1,325	1,315	1,313
Other expenses	1,160	1,173	13	1,163	1,178	1,193
Total operating expenses from ordinary activities	437,425	461,928	24,503	399,795	392,433	412,901
Revenues						
Assets now recognised	9,995	5,357	(4,638)	-	-	-
Other revenues	11,212	11,452	240	10,985	11,345	11,460
Less Total Own Source Revenues	21,207	16,810	(4,397)	10,985	11,345	11,460
Price to Government for Output 3.1	416,218	445,118	28,900	388,810	381,087	401,440

Output 3.2 – Capability for Mechanised Operations

The mechanised force is designed to:

- exploit mobility, protection, inherent command, control, communications, computing, intelligence, surveillance and reconnaissance, and firepower; and
- achieve surprise, offensive action, concentration of force and rapidity of execution, all of which arise from the employment of the combined arms team.

The Army's capability for mechanised operations is commanded by 1 Brigade and includes:

- a headquarters;
- 1 Armoured Regiment;
- 2 Cavalry Regiment;
- 8/12 Medium Regiment;
- 1 Combat Engineer Regiment;
- 1 Communications Support Regiment;
- 5/7 Battalion Royal Australian Regiment (Mechanised); and
- 1 Combat Service Support Battalion.

Performance Targets
<ul style="list-style-type: none"> Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 2.3.4:
Price of Output 3.2 – Capability for Mechanised Operations

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03	2003-04	2003-04	2004-05	2005-06	2006-07
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	361,554	402,303	40,749	450,238	461,409	477,705
Employees - Civilian	59,405	69,603	10,197	71,287	72,328	75,237
Sub-total employees	420,959	471,905	50,946	521,525	533,737	552,941
Suppliers - Non inventory	164,487	163,502	(985)	183,534	171,346	180,811
Suppliers - Inventory	54,860	62,410	7550	79,514	80,430	82,801
Sub-total suppliers	219,347	225,912	6,565	263,048	251,776	263,612
Depreciation and amortisation	116,015	118,276	2,261	127,025	111,484	118,172
Write down of assets (includes Net Losses on Sale of Assets)	30,547	17,658	(12,889)	3,434	3,902	3,987
Other expenses	2,742	2,771	30	2,754	2,783	2,812
Total operating expenses from ordinary activities	789,609	836,522	46,913	917,787	903,682	941,524
Revenues						
Assets now recognised	24,515	14,648	(9,867)	-	-	-
Other revenues	21,258	21,283	25	20,549	20,954	21,189
Less Total Own Source Revenues	45,773	35,932	(9,842)	20,549	20,954	21,189
Price to Government for Output 3.2	743,836	800,591	56,755	897,238	882,729	920,335

Output 3.3 – Capability for Light Infantry Operations

The light infantry force is designed to:

- exploit strategic, operational and tactical mobility;
- exploit flexibility, adaptability and utility across the spectrum of conflict; and
- achieve surprise, rapidity of execution and the capacity to seize and hold ground.

The Army's capability for light infantry operations is commanded by 3 Brigade and includes:

- a headquarters;
- B Squadron, 3/4 Cavalry Regiment (armoured personnel carrier);

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- 4 Field Regiment;
- 3 Combat Engineer Regiment;
- 3 Communications Support Regiment;
- 1 Battalion Royal Australian Regiment;
- 2 Battalion Royal Australian Regiment;
- 3 Battalion Royal Australian Regiment; and
- 3 Combat Service Support Battalion.

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months including the provision of three battalion-sized groups within 90 days readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 2.3.5:
Price of Output 3.3 – Capability for Light Infantry Operations

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	552,663	611,125	58,462	601,301	615,576	636,358
Employees - Civilian	63,369	74,831	11,463	77,406	78,894	82,546
Sub-total employees	616,032	685,957	69,924	678,707	694,470	718,904
Suppliers - Non inventory	204,373	193,392	(10,981)	205,663	190,112	201,815
Suppliers - Inventory	68,702	76,726	8,024	75,930	77,114	80,365
Sub-total suppliers	273,075	270,118	(2,957)	281,593	267,226	282,180
Depreciation and amortisation	89,373	91,017	1,644	103,470	81,053	92,771
Write down of assets (includes Net Losses on Sale of Assets)	20,400	12,020	(8,381)	3,329	3,296	3,290
Other expenses	3,560	3,594	35	3,572	3,608	3,644
Total operating expenses from ordinary activities	1,002,440	1,062,706	60,266	1,070,672	1,049,654	1,100,789
Revenues						
Assets now recognised	26,709	13,900	(12,809)	-	-	-
Other revenues	28,222	28,621	399	27,429	28,103	28,390
Less Total Own Source Revenues	54,931	42,521	(12,410)	27,429	28,103	28,390
Price to Government for Output 3.3	947,509	1,020,185	72,676	1,043,243	1,021,550	1,072,399

Output 3.4 - Capability for Army Aviation Operations

This capability is focused on 16 Brigade (Aviation) consisting of 1 and 5 Aviation Regiments. It provides integral air mobility, medium lift, reconnaissance, surveillance and aerial fire support to combat and special forces operations.

Army aviation provides the organic aviation capabilities required to conduct:

- surveillance and armed reconnaissance;
- tactical airlift;
- command and control support; and
- combat service support.

The Army’s capability for aviation operations is commanded by 16 Brigade (Aviation) and includes:

- 1 Aviation Regiment; and
- 5 Aviation Regiment.

Table 2.3.6: Army Aviation Aircraft

Aircraft	Number	Flying Hours 2003-04
CH-47D Chinook	6	1,270
S-70A9 Black Hawk	36	8,600
B-206 Kiowa	42	12,970
UH-1H Iroquois	25	4,980
B-200 King Air	3	2,000
DHC-6 Twin Otter	2	1,200

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months and achieve a level of training that maintains core skills and professional standards across all warfare areas.

**Table 2.3.7:
Price of Output 3.4 – Capability for Army Aviation Operations**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	142,794	147,406	4,612	163,075	166,458	171,817
Employees - Civilian	35,865	37,357	1,492	38,116	38,477	39,402
Sub-total employees	178,659	184,763	6,104	201,192	204,935	211,219
Suppliers - Non inventory	121,874	144,360	22,486	161,443	155,419	159,782
Suppliers - Inventory	36,642	41,911	5,269	56,736	57,138	57,966
Sub-total suppliers	158,516	186,272	27,755	218,179	212,557	217,748
Depreciation and amortisation	77,003	79,292	2,290	86,399	73,118	80,086
Write down of assets (includes Net Losses on Sale of Assets)	17,815	12,000	(5,815)	4,919	4,287	4,172
Other expenses	989	999	11	985	1005	1027
Total operating expenses from ordinary activities	432,983	463,327	30,344	511,674	495,903	514,250
Revenues						
Assets now recognised	13,664	9,232	(4,432)	-	-	-
Other revenues	6,817	4,527	(2,291)	5,011	5,029	5,214
Less Total Own Source Revenues	20,482	13,759	(6,723)	5,011	5,029	5,214
Price to Government for Output 3.4	412,501	449,568	37,067	506,663	490,874	509,036

Output 3.5 – Capability for Ground Based Air Defence

The Army's capability for ground-based air defence is focused on 16 Air Defence Regiment. It is an integral component of the ADF air defence system, and provides short-range point air defence for manoeuvre formations and area defence, within low and medium threat scenarios. Ground-based air defence is characterised by flexible, versatile and rapid establishment of defended airspace in conjunction with other land and joint elements.

The capability is focused on 16 Air Defence Regiment, consisting of:

- a headquarters;
- an RBS70 battery; and
- a Rapier battery.

Performance Targets
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

**Table 2.3.8:
Price of Output 3.5 – Capability for Ground Based Air Defence**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	51,069	41,784	(9,285)	45,485	46,587	48,245
Employees - Civilian	9,644	10,772	1,128	10,541	10,492	10,794
Sub-total employees	60,713	52,555	(8,157)	56,026	57,079	59,039
Suppliers - Non inventory	20,201	24,986	4,785	28,426	26,852	28,730
Suppliers - Inventory	4,975	5,821	846	7,617	7,709	7,947
Sub-total suppliers	25,176	30,807	5,631	36,043	34,562	36,676
Depreciation and amortisation	11,528	12,006	477	13,600	12,316	11,953
Write down of assets (includes Net Losses on Sale of Assets)	6,222	2,380	(3,842)	(1,369)	(621)	(485)
Other expenses	280	284	3	281	285	290
Total operating expenses from ordinary activities	103,920	98,031	(5,888)	104,581	103,621	107,473
Revenues						
Assets now recognised	3,015	1,883	(1,132)	-	-	-
Other revenues	3,233	3,193	(41)	3,101	3,203	3,241
Less Total Own Source Revenues	6,249	5,076	(1,173)	3,101	3,203	3,241
Price to Government for Output 3.5	97,671	92,956	(4,715)	101,479	100,418	104,233

Output 3.6 – Capability for Combat Support Operations

The Army's capability for combat support operations is designed to enhance the conduct of operations through effective communications, surveillance and specialist support (in particular construction engineering, topographical support and electronic warfare operations).

Combat support units include:

- 131 Surveillance and Target Acquisition Battery;
- Headquarter Engineer Support Regiment;
 - 21 Construction Regiment;
 - 22 Construction Regiment;
 - 17 Construction Squadron;
 - 21 Construction Squadron;
 - 19 Construction Engineer Works;
- 1 Topographical Survey Squadron;
- Signals Squadron Regiment;
- Intelligence Battalion;
- 1 Military Police Battalion; and
- Combat Training Centre.

Performance Targets	
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas

**Table 2.3.9:
Price of Output 3.6 – Capability for Combat Support Operations**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	199,647	210,238	10,591	238,982	245,232	254,631
Employees - Civilian	40,081	45,560	5,479	47,485	47,883	49,629
Sub-total employees	239,728	255,798	16,070	286,466	293,115	304,260
Suppliers - Non inventory	72,484	110,712	38,227	122,029	114,474	120,824
Suppliers - Inventory	10,540	12,861	2,321	15,549	15,978	17,242
Sub-total suppliers	83,024	123,573	40,548	137,578	130,452	138,066
Depreciation and amortisation	42,102	42,977	875	50,002	37,803	44,342
Write down of assets (includes Net Losses on Sale of Assets)	16,800	11,429	(5,371)	4,896	4,190	4,062
Other expenses	1,186	1,188	2	1,188	1,204	1,223
Total operating expenses from ordinary activities	382,840	434,964	52,124	480,131	466,763	491,953
Revenues						
Assets now recognised	17,708	11,066	(6,641)	-	-	-
Other revenues	13,689	15,976	2,287	15,501	15,967	16,115
Less Total Own Source Revenues	31,397	27,043	(4,354)	15,501	15,967	16,115
Price to Government for Output 3.6	351,443	407,921	56,479	464,630	450,797	475,838

Output 3.7 – Regional Surveillance

The Army's capability for regional surveillance consists of three regional surveillance battalions. These battalions conduct surveillance tasks throughout the north of Australia.

Regional surveillance consists of:

- Norforce;
- the Pilbara Regiment; and
- 51 Far North Queensland Regiment.

Performance Targets	
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

**Table 2.3.10:
Price of Output 3.7 – Capability for Regional Surveillance**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	45,663	37,336	(8,327)	44,479	48,025	52,507
Employees - Civilian	9,474	9,181	(294)	9,955	10,330	11,323
Sub-total employees	55,137	46,516	(8,621)	54,434	58,355	63,831
Suppliers - Non inventory	34,196	30,403	(3,793)	33,653	31,324	33,496
Suppliers - Inventory	1,104	1,623	519	2,021	2,073	2,226
Sub-total suppliers	35,300	32,026	(3,274)	35,674	33,397	35,722
Depreciation and amortisation	12,056	12,331	275	14,357	10,899	12,927
Write down of assets (includes Net Losses on Sale of Assets)	2,075	988	(1,087)	189	216	221
Other expenses	562	545	(17)	541	545	551
Total operating expenses from ordinary activities	105,131	92,406	(12,725)	105,193	103,413	113,251
Revenues						
Assets now recognised	2,285	982	(1,303)	-	-	-
Other revenues	4,628	4,673	45	4,480	4,616	4,659
Less Total Own Source Revenues	6,913	5,655	(1,257)	4,480	4,616	4,659
Price to Government for Output 3.7	98,218	86,750	(11,467)	100,713	98,797	108,592

Output 3.8 – Capability for Operational Logistic Support to Land Forces

The Army’s capability for operational logistic support to land forces is designed to provide supply, transportation, repair and health functions to military support and combat operations.

The Army’s logistic support consists of a brigade-sized logistical support force comprising of:

- a headquarters;
- 1 Petroleum Company;
- 3 Recovery Company;
- 130 Signals Squadron;
- 145 Signals Squadron;

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- 2 Field Supply Battalion;
- 9 Field Support Battalion;
- a logistic support force workshop;
- a Defence Force support unit;
- 10 Field Support Battalion;
- 1 Hospital Support Battalion;
- 2 Hospital Support Battalion;
- 3 Hospital Support Battalion; and
- 1 Psychology Unit.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 2.3.11:

Price of Output 3.8 – Capability for Operational Logistic Support to Land Forces

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	235,887	257,473	21,586	273,793	283,823	296,123
Employees - Civilian	39,574	45,941	6,368	47,381	48,370	50,653
Sub-total employees	275,461	303,414	27,953	321,174	332,194	346,776
Suppliers - Non inventory	91,175	87,579	(3,596)	94,806	88,234	92,930
Suppliers - Inventory	11,764	14,513	2,749	13,919	14,391	15,782
Sub-total suppliers	102,939	102,091	(848)	108,725	102,625	108,712
Depreciation and amortisation	37,557	38,592	1,034	44,486	34,420	39,765
Write down of assets (includes Net Losses on Sale of Assets)	16,819	9,867	(6,952)	2,215	2,372	2,400
Other expenses	1,615	1,632	17	1,624	1,643	1,659
Total operating expenses from ordinary activities	434,390	455,595	21,205	478,223	473,253	499,311
Revenues						
Assets now recognised	12,654	7,667	(4,987)	-	-	-
Other revenues	14,250	14,527	277	13,887	14,287	14,414
Less Total Own Source Revenues	26,904	22,194	(4,710)	13,887	14,287	14,414
Price to Government for Output 3.8	407,486	433,401	25,915	464,336	458,966	484,897

Output 3.9 – Motorised Infantry Operations

Motorised infantry operations are designed to:

- exploit mobility, protection, tactical sustainability, endurance, reconnaissance and surveillance;
- exploit flexibility, adaptability and utility using inherent command, control, communications, computing, intelligence, surveillance and reconnaissance systems; and
- achieve surprise, rapidity of concentration and execution.

The Army's capability for motorised infantry operations is based on 7 Brigade, an integrated formation of full and part-time personnel. The brigade consists of:

- a headquarters;
- 2/14 Light Horse Regiment (Queensland Mounted Infantry);
- 1 Field Regiment;
- 2 Combat Engineer Regiment;
- 7 Communication Support Regiment;
- 6 Battalion Royal Australian Regiment;
- 9 Royal Queensland Regiment; and
- 7 Combat Service Support Battalion.

Performance Targets
<ul style="list-style-type: none">• Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

**Table 2.3.12:
Price of Output 3.9 – Capability for Motorised Infantry Operations**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	268,060	292,537	24,478	324,102	334,907	350,006
Employees - Civilian	42,319	47,993	5,674	48,275	49,354	52,417
Sub-total employees	310,378	340,530	30,152	372,377	384,261	402,423
Suppliers - Non inventory	120,857	123,056	2,199	137,549	128,960	135,843
Suppliers - Inventory	37,413	44,399	6,986	59,527	60,195	61,844
Sub-total suppliers	158,270	167,455	9,185	197,076	189,155	197,687
Depreciation and amortisation	84,311	83,628	(682)	90,750	77,910	84,765
Write down of assets (includes Net Losses on Sale of Assets)	17,847	8,348	(9,500)	(617)	439	631
Other expenses	2,631	2,624	(7)	2,595	2,615	2,636
Total operating expenses from ordinary activities	573,437	602,586	29,149	662,180	654,379	688,142
Revenues						
Assets now recognised	15,170	7,612	(7,558)	-	-	-
Other revenues	21,066	21,214	149	20,201	20,700	20,860
Less Total Own Source Revenues	36,235	28,827	(7,409)	20,201	20,700	20,860
Price to Government for Output 3.9	537,201	573,759	36,558	641,979	633,679	667,282

Output 3.10 – Capability for Protective Operations

Protective operations are provided predominantly by the Reserve component of the Army. Operations are focused on providing surge and sustainment forces to the Ready Deployment Force. Protective operations also assist the Australian community during civil emergencies.

The Army's capability for protective operations consists of:

- 4, 5, 8, 9, 11 and 13 Brigades, each comprising:
 - a headquarters;
 - two to three infantry battalions;
 - an armoured reconnaissance unit; and
 - combat and logistic support units.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months readiness and achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 2.3.13:
Price of Output 3.10 – Capability for Protective Operations

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	180,004	203,137	23,133	251,650	278,895	310,073
Employees - Civilian	49,386	46,416	(2,969)	51,813	54,755	61,772
Sub-total employees	229,390	249,553	20,164	303,463	333,650	371,844
Suppliers - Non inventory	182,568	175,441	(7,127)	196,324	183,611	194,386
Suppliers - Inventory	36,200	42,587	6,386	57,390	57,774	58,543
Sub-total suppliers	218,769	218,028	(741)	253,714	241,385	252,928
Depreciation and amortisation	91,262	90,109	(1,153)	100,953	82,500	93,232
Write down of assets (includes Net Losses on Sale of Assets)	13,683	6,375	(7,308)	1,170	1,363	1,398
Other expenses	2,957	2,805	(152)	2,785	2,814	2,842
Total operating expenses from ordinary activities	556,061	566,871	10,810	662,085	661,711	722,245
Revenues						
Assets now recognised	14,808	6,615	(8,193)	-	-	-
Other revenues	24,151	25,487	1,336	24,470	25,194	25,423
Less Total Own Source Revenues	38,959	32,102	(6,857)	24,470	25,194	25,423
Price to Government for Output 3.10	517,102	534,769	17,667	637,615	636,518	696,822

OUTCOME FOUR: AIR FORCE CAPABILITY

Outcome 4 – Air Force Capability for the Defence of Australia and its Interests

Output 4.1 Capability for Air Combat

Output 4.2 Capability for Combat Support of Air Operations

Output 4.3 Capability for Strategic Surveillance

Output 4.4 Capability for Maritime Patrol Aircraft

Output 4.5 Capability for Airlift

The Air Force provides combat forces that contribute to the defence of Australia and its regional and global interests, and support shaping of the strategic environment. The Air Force provides offensive combat, rapid mobility, surveillance, battlespace management and expeditionary combat support capabilities.

Planned Performance

During 2003-04, the Air Force will continue to support both the war against terror and the reconstruction of Iraq, by maintaining a presence in the Middle East area of operations. The Air Force will also provide capabilities for the deterrence and management of unauthorised arrivals, by maintaining a surveillance capability in the north as required by the Government. In addition, forces deployed to the Middle East will be reconfigured.

Proposals for additional explosive ordnance, F/A-18 aircraft capability enhancement and a proposal for a supportability upgrade of the P-3C Orion electronic support measures capability will be considered by the Government to enhance Air Force capability.

Key Risks and Limitations

Maintenance of regional capability edge, logistic support including ageing aircraft issues, and support for deployments will continue to be risk areas throughout 2003-04. In addition, management of the operational tempo and reintegration activities following redeployment of assets from the Middle East area of operations will require ongoing effort.

Personnel

While overall personnel numbers, retention and recruitment remain strong, attraction and retention of skilled personnel in niche areas, such as aerospace engineers, logistics officers and air traffic controllers continue to pose some challenges.



Regional Capability Edge

The combat capability within the region continues to grow, although there is little evidence of aggressive development. Previously reported capability enhancements for F/A-18s and F-111s continue to improve the relative air combat capability and the current upgrades to the F/A-18 worked well on operations in Iraq.

Logistic Support

The operation of commercial 'off-the-shelf' equipment, such as that fitted to the AP-3C Orion aircraft, will change the way the Air Force's military capability is managed. Life-of-type purchases to enable ageing platforms to continue operating for significant periods, as has occurred previously, will not be possible and lower-scale upgrades will become necessary. In addition, the Air Force's ageing fleet, including the B707, F-111, P-3C and Caribou aircraft, will require increasing resources to sustain capability in the longer term.

Forward Deployment

Experience in East Timor and Iraq indicates that the ability to sustain protracted or concurrent operations without external support will remain restricted. Until the systems are replaced, the Air Force's ageing mobile air surveillance, control and reporting capability will continue to be stretched by any significant operation.

Risk Mitigation

Personnel

While overall personnel numbers remain strong, with recruiting targets being met and separations rates under eight per cent, ongoing initiatives are targeting specific niche shortfalls to attract and retain skilled personnel. In particular, initiatives aimed at aerospace engineers, logistics officers and air traffic control officers have constrained separations and retained experience. While these strategies have targeted specific specialisations, a broad-based personnel strategy is being implemented which should further improve attraction and retention. A range of initiatives are being developed to enhance personnel management and satisfy members' desires for better career management, which is an important factor in separations. Recruiting in some areas will be reduced following better than anticipated retention rates.

Regional Capability Edge

Previously endorsed projects have made significant improvements in some elements of the air control capability. Further development of this capability will include electronic warfare self-protection capability, improved F/A-18 aircraft simulators and replacement for aged target identification and laser designation pods. When introduced, these enhancements will ensure regional capability parity and enhanced utility of the F/A-18 aircraft.

Logistic Support

To ensure capability is maintained, introduction of the F/A-18 simulators will enable a reduction in fatigue for the aircraft, thereby minimising the logistic resources required and contributing to the achievement of aircraft life-of-type. Previously endorsed system upgrades to the mobile control and reporting system should result in provision of a deployable recognised air picture later in the decade.

Forward Deployment

A review of the Air Force's Combat Support Group will be undertaken to identify lessons learnt from operations in East Timor and Iraq to enable maximum support for deployed operations.

Price Summary for Outcome 4

Table 2.4.1: Price Summary of Outputs for Outcome 4 – Air Force Capability

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Output 4.1 – Capability for Air Combat	1,699,623	1,779,583	79,961	1,851,408	1,834,068	1,860,389
Output 4.2 – Capability for Combat Support of Air Operations	397,709	423,662	25,952	447,967	448,078	480,850
Output 4.3 – Capability for Strategic Surveillance	322,227	369,154	46,927	400,843	404,289	425,155
Output 4.4 – Capability for Maritime Patrol Aircraft	488,693	535,451	46,757	542,577	541,796	544,701
Output 4.5 – Capability for Airlift	899,366	895,843	(3,523)	940,356	890,480	937,468
Total Price for Outcome 4	3,807,619	4,003,694	196,075	4,183,151	4,118,711	4,248,562

Total Budgeted Price to the Government

Table 2.4.2: Total Budgeted Price for Outcome 4 – Air Force Capability

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	1,126,419	1,173,467	47,048	1,206,536	1,243,873	1,283,278
Employees - Civilian	294,177	333,135	38,959	337,779	340,175	349,432
Sub-total employees	1,420,595	1,506,602	86,007	1,544,315	1,584,048	1,632,710
Suppliers - Non inventory	1,113,128	1,176,755	63,628	1,280,732	1,207,408	1,264,991
Suppliers - Inventory	285,814	290,134	4,320	297,618	321,307	327,724
Sub-total suppliers	1,398,941	1,466,889	67,948	1,578,350	1,528,715	1,592,715
Depreciation and amortisation	953,964	1,008,500	54,536	1,046,518	989,308	1,007,781
Write down of assets (includes Net Losses on Sale of Assets)	215,400	129,117	(86,283)	30,496	31,969	32,237
Other expenses	7,394	7,606	211	7,473	7,664	7,860
Total operating expenses from ordinary activities	3,996,296	4,118,713	122,417	4,207,152	4,141,705	4,273,303
Revenues						
Assets now recognised	137,511	96,542	(40,969)	-	-	-
Other revenues	51,166	18,477	(32,689)	24,000	22,994	24,741
Less Total Own Source Revenues	188,677	115,020	(73,658)	24,000	22,994	24,741
Price to Government for Outcome 4	3,807,619	4,003,694	196,075	4,183,151	4,118,711	4,248,562

Significant Variations

The price for Outcome Four will increase by \$196.1m to \$4,003.7m or 5.1 per cent from the 2002-03 estimated outcome of \$3807.6m. The major variations are due to:

- price movements (\$83m);
- exchange Supplementation (-\$23.5);
- variation in employee expenses, including increases in compensation costs (+\$14m), housing (+\$5m), health (+\$6m) and Government determinations;
- an increase in civilian personnel costs, including full-year effect of the Defence Employees Certified Agreement, increases in CSS and PSS employer superannuation contributions, and net variation in civilian support costs to the Air Force Outcome (+39m);
- increased suppliers expense, primarily associated with the Government decision to provide additional logistics support funding, including F/A-18 maintenance and C-130J support (+\$74m);

- recategorisation of the portion of the investment program to operating, to reflect items expensed rather than capitalised, such as project office costs, research and development, project studies, and project related travel and other overheads (+\$50.7m);
- other non-recurring net variations (-\$52.3m) in suppliers expense, including expenditure on special purpose aircraft and B200 lease extension;
- net variation in depreciation expense (\$54m) for full year effect and roll-out of projects including CAMM2, Hawk lead-in fighter, air defence radars, Hornet upgrade and AP-3C upgrade;
- expected reduction in write down of assets and assets now recognised, reflecting the further progression of work to more accurately account for the Defence asset base (-\$86m); and
- reduction in other revenues (\$32.6m), predominantly for non-recurring PC-9A training for the Air Force (\$10m) and sale of assets (\$23m).

OUTPUT STRUCTURE

Output 4.1 – Capability for Air Combat

The Air Force’s air combat capability is provided by the Air Combat Group. The group provides F/A-18 and F-111 aircraft, crews, weapon systems and support infrastructure at the level of capability required to provide air control, maritime and land strike, offensive air support and limited reconnaissance capabilities.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas. • F/A-18 upgrade documentation will be considered by the Government for a decision on F/A-18 airframe upgrades. • Options to acquire additional explosive ordnance will be considered to ensure that key explosive ordnance types are available for contingency operations. • The F-111 wing recovery program will be completed to address failure of an aircraft wing during ground fatigue testing. 		
Aircraft	Number	Flying Hours 2003-04
F/A-18	71 (55 x F/A-18A and 16 x F/A -18B)	12,500
F-111	28 ⁽¹⁾	3,800
Hawk lead-in fighter	33	8,000
PC-9/A (F) FAC training aircraft	4	1,030

Note

1. An additional five F-111Gs are in long-term storage and an additional two F-111Gs have been broken down for spares.

■ □ Customer Perspective



Table 2.4.3: Price of Output 4.1 – Capability for Air Combat

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000		2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	367,619	396,566	28,947	404,361	416,725	422,425
Employees - Civilian	135,148	145,851	10,703	146,951	147,557	150,178
Sub-total employees	502,767	542,417	39,650	551,313	564,282	572,603
Suppliers - Non inventory	450,507	464,000	13,493	512,964	480,790	504,019
Suppliers - Inventory	149,657	162,780	13,124	175,078	187,388	180,720
Sub-total suppliers	600,163	626,780	26,617	688,042	668,177	684,739
Depreciation and amortisation	559,104	584,902	25,798	597,748	582,929	584,535
Write down of assets (includes Net Losses on Sale of Assets)	111,914	63,430	(48,484)	9,216	12,127	12,654
Other expenses	3,284	3,341	57	3,284	3,366	3,447
Total operating expenses from ordinary activities	1,777,233	1,820,871	43,638	1,849,602	1,830,881	1,857,977
Revenues						
Assets now recognised	66,172	47,100	(19,072)	-	-	-
Other revenues	11,438	(5,813)	(17,250)	(1,806)	(3,187)	(2,412)
Less Total Own Source Revenues	77,610	41,287	(36,322)	(1,806)	(3,187)	(2,412)
Price to Government for Output 4.1	1,699,623	1,779,583	79,961	1,851,408	1,834,068	1,860,389

Output 4.2 – Capability for Combat Support of Air Operations

The Air Force's capability for combat support of air operations is provided by the Combat Support Group and involves the provision of operations support activities required to support expeditionary air bases within Australia and overseas in contingencies.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve a level of training that maintains core skills and professional standards across all operations support areas.
- Maintain two combat support wings.
- Maintain one expeditionary combat support wing.
- Maintain one combat reserve wing.
- Maintain one air field defence wing.
- Maintain one health services wing.
- Development of doctrine, concepts and procedures for expeditionary airfield operations will formalise direction for future capability.

**Table 2.4.4:
Price of Output 4.2 – Capability for Combat Support of Air Operations**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	248,881	260,388	11,507	270,045	286,561	303,538
Employees - Civilian	27,621	32,107	4,486	34,049	35,224	38,074
Sub-total employees	276,501	292,495	15,993	304,094	321,785	341,612
Suppliers - Non inventory	88,146	94,455	6,309	100,535	92,815	98,084
Suppliers - Inventory	18,718	20,083	1,366	20,188	20,695	22,575
Sub-total suppliers	106,863	114,538	7,675	120,723	113,510	120,659
Depreciation and amortisation	25,282	26,204	922	32,284	22,005	27,853
Write down of assets (includes Net Losses on Sale of Assets)	3,391	1,068	(2,323)	(411)	(118)	(62)
Other expenses	779	811	31	800	817	836
Total operating expenses from ordinary activities	412,817	435,115	22,299	457,490	457,999	490,898
Revenues						
Assets now recognised	4,248	1,653	(2,595)	-	-	-
Other revenues	10,859	9,801	(1,059)	9,523	9,922	10,048
Less Total Own Source Revenues	15,107	11,454	(3,654)	9,523	9,922	10,048
Price to Government for Output 4.2	397,709	423,662	25,952	447,967	448,078	480,850

Output 4.3 – Capability for Strategic Surveillance

The Air Force's capability for strategic surveillance is provided by the Surveillance and Control Group and encompasses the provision of sensors and battlespace management elements at the level of capability required to support wide-area aerospace surveillance, air defence, airspace control and battlespace management.

Performance Targets	
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
•	Achieve levels of training that maintains core skills and professional standards across all assigned warfare areas.
•	Maintain 10 air traffic control radars.
•	Maintain two tactical air defence radars.
•	Maintain the Jindalee Operational Radar Network, including over-the-horizon radar sensors in Laverton, Western Australia and Longreach, Queensland, the Jindalee Radar Facility in Alice Springs, Northern Territory and the Jindalee Operational Radar Network Coordination Centre at RAAF Edinburgh, South Australia.
•	The first of four air defence radars should be delivered during 2003-04.

Customer Perspective

**Table 2.4.5:
Price of Output 4.3 – Capability for Strategic Surveillance**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	140,452	139,737	(716)	147,110	151,200	161,624
Employees - Civilian	48,931	59,385	10,454	60,366	60,695	61,951
Sub-total employees	189,383	199,121	9,738	207,477	211,894	223,576
Suppliers - Non inventory	99,733	122,973	23,240	138,160	138,797	143,594
Suppliers - Inventory	3,369	4,901	1,532	4,722	10,794	11,601
Sub-total suppliers	103,101	127,873	24,772	142,882	149,591	155,195
Depreciation and amortisation	23,625	28,419	4,794	33,527	24,812	28,598
Write down of assets (includes Net Losses on Sale of Assets)	16,070	10,109	(5,961)	3,073	2,924	2,898
Other expenses	891	953	62	942	960	979
Total operating expenses from ordinary activities	333,071	366,475	33,405	387,901	390,182	411,245
Revenues						
Assets now recognised	19,021	11,936	(7,085)	-	-	-
Other revenues	(8,178)	(14,614)	(6,437)	(12,942)	(14,108)	(13,910)
Less Total Own Source Revenues	10,843	(2,679)	(13,522)	(12,942)	(14,108)	(13,910)
Price to Government for Output 4.3	322,227	369,154	46,927	400,843	404,289	425,155

Output 4.4 – Capability for Maritime Patrol Aircraft

The Air Force's capability for maritime patrol aircraft is provided by the Maritime Patrol Group and involves the provision of P-3C Orion aircraft, crews and weapon systems at the level of capability required to conduct maritime surveillance and reconnaissance, maritime strike, offensive air support and search and rescue.

Performance Targets		
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	
•	Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas.	
•	The P-3C Orion aircraft flight simulator will be introduced into service.	
•	Accept a further six AP-3C Orion aircraft as P-3C Orion aircraft are modified.	
Aircraft	Number	Flying Hours 2003-04
Orion	22 (19 x P-3C/AP-3C and 3 x TAP-3)	9,100

**Table 2.4.6:
Price of Output 4.4 – Capability for Maritime Patrol Aircraft**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	124,429	130,281	5,852	132,540	136,532	138,063
Employees - Civilian	32,324	37,351	5,027	37,147	37,190	37,998
Sub-total employees	156,752	167,631	10,879	169,687	173,721	176,061
Suppliers - Non inventory	132,427	158,696	26,269	167,178	154,936	159,820
Suppliers - Inventory	39,662	38,533	(1,129)	39,594	41,408	46,562
Sub-total suppliers	172,088	197,229	25,140	206,772	196,343	206,382
Depreciation and amortisation	157,390	172,036	14,646	169,493	174,956	165,612
Write down of assets (includes Net Losses on Sale of Assets)	28,522	16,779	(11,743)	3,647	3,961	4,017
Other expenses	1,008	1,035	27	1,019	1,044	1,069
Total operating expenses from ordinary activities	515,761	554,710	38,949	550,618	550,025	553,140
Revenues						
Assets now recognised	15,787	11,376	(4,411)	-	-	-
Other revenues	11,281	7,884	(3,397)	8,041	8,230	8,440
Less Total Own Source Revenues	27,068	19,260	(7,808)	8,041	8,230	8,440
Price to Government for Output 4.4	488,693	535,451	46,757	542,577	541,796	544,701

Output 4.5 – Capability for Airlift

The Air Force's capability for airlift is provided by the Airlift Group and entails the provision of airlift aircraft, crews and weapon systems at the level of capability required to provide air logistics support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance, VIP flights, air-to-air refueling, navigator training and surveillance operations.

Performance Targets		
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	
•	Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas.	
•	Six HS748 aircraft will be retired from service.	
•	Seven Beechcraft Kingair 350 aircraft (B300) will be introduced into service.	
Aircraft	Number	Flying Hours 2003-04
C-130H and C-130J-30 Hercules	24 (12 x C-130H and 12 x C-130J-30)	15,000
B707		4
DHC-4 Caribou		14
Boeing 737 BBJ VIP aircraft		2
CL604 Challenger VIP aircraft		3
HS748 navigator training aircraft		6
B300 navigator training aircraft		7

Customer Perspective

**Table 2.4.7:
Price of Output 4.5 – Capability for Airlift**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	245,038	246,495	1,458	252,479	252,855	257,628
Employees - Civilian	50,154	58,442	8,288	59,266	59,510	61,230
Sub-total employees	295,191	304,937	9,746	311,745	312,365	318,858
Suppliers - Non inventory	342,316	336,631	(5,686)	361,895	340,070	359,474
Suppliers - Inventory	74,409	63,837	(10,572)	58,035	61,023	66,266
Sub-total suppliers	416,725	400,467	(16,258)	419,930	401,093	425,740
Depreciation and amortisation	188,563	196,939	8,375	213,466	184,606	201,184
Write down of assets (includes Net Losses on Sale of Assets)	55,503	37,731	(17,773)	14,971	13,076	12,731
Other expenses	1,431	1,466	33	1,428	1,477	1,530
Total operating expenses from ordinary activities	957,415	941,540	(15,875)	961,540	912,617	960,043
Revenues						
Assets now recognised	32,283	24,477	(7,806)	-	-	-
Other revenues	25,766	21,220	(4,546)	21,184	22,137	22,576
Less Total Own Source Revenues	58,049	45,697	(12,352)	21,184	22,137	22,576
Price to Government for Output 4.5	899,366	895,843	(3,523)	940,356	890,480	937,468

OUTCOME FIVE: STRATEGIC POLICY

Outcome 5 – Strategic Policy for the Defence of Australia and its Interests

Outcome 5.1 Strategic and International Policy, Activities and Engagement

Outcome 5.2 Military Strategy and Strategic Operations

The Strategic Policy Group provides timely and responsive strategic policy advice to enable the Government to make sound judgements on, and develop appropriate responses to, changes in Australia's strategic circumstances. The Group applies strategic policy guidance to assist the development of recommendations to the Government on force structure, capability development, preparedness of ADF elements, international relationship management and operational matters as they arise.

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

Planned Performance

Australia's changed strategic environment has increased the importance of a strategic policy capability that is able to adequately inform Government policy and planning, and to support the development of ADF capability and the planning and conduct of ADF operations. Defence strategic policy will focus on:

- providing timely and considered strategic and international policy advice to the Government;
- providing timely and accurate strategic advice on Defence operations to the Government;
- providing appropriate policy guidance on the development and management of capability; and
- managing effectively Defence's international relationships and the Defence Cooperation Program.

Key Risks and Limitations

The key risks and limitations are:

- any deterioration in Australia's strategic circumstances, both generally and with respect to specific potential crises;
- the emergence of new and more immediate threats from terrorism and increased concerns about the proliferation of weapons of mass destruction;
- managing core priorities at times of increased operational tempo, such as during the war against terrorism or the activities in Iraq; and
- managing projects funded under the Defence Cooperation Program in regional countries where factors external to Defence impact on the achievement of objectives.

Risk Mitigation

To varying degrees, these risks and limitations will be mitigated by:

- reviewing continuously the strategic environment to enable the shaping of appropriate policies;
- continuing the development of Defence's relationships with the United States, and countries of the Association of Southeast Asian Nations and the Pacific region;
- ensuring personnel management practices are focused on optimising staff skills and balancing competing priorities;
- ensuring alignment between Defence's policy and operational objectives; and
- developing project management skills in relevant areas.

Price Summary for Outcome 5

Table 2.5.1: Price Summary of Outputs for Outcome 5 – Strategic Policy

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Output 5.1 – Capability for Strategic and International Policy, Activities and Engagement	174,517	170,465	(4,051)	184,444	168,489	178,995
Output 5.2 – Capability for Military Strategy and Strategic Operations	22,119	42,964	20,845	47,277	45,647	48,762
Total Price for Outcome 5	196,636	213,429	16,793	231,721	214,136	227,757

Total Budgeted Price to the Government

Table 2.5.2: Total Budgeted Price for Outcome 5 – Strategic Policy

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees – Military	57,388	63,686	6,298	65,332	67,207	69,060
Employees – Civilian	37,496	39,005	1,509	39,722	39,953	40,691
Sub-total employees	94,884	102,691	7,807	105,054	107,159	109,751
Suppliers - Non inventory	106,662	111,861	5,199	118,907	110,533	115,814
Suppliers – Inventory	276	408	132	408	408	408
Sub-total suppliers	106,938	112,269	5,331	119,315	110,941	116,222
Depreciation and amortisation	5,946	9,583	3,638	15,560	4,592	10,442
Write down of assets (includes net losses on sale of assets)	531	106	(425)	(88)	(38)	(30)
Other expenses	121	275	156	269	291	312
Total operating expenses from ordinary activities	208,419	224,925	16,506	240,111	222,946	236,700
Revenues						
Assets now recognised	543	119	(425)	-	-	-
Other revenues	11,240	11,377	137	8,390	8,810	8,943
Less Total Own Source Revenues	11,783	11,495	(288)	8,390	8,810	8,943
Price to Government for Outcome 5	196,636	213,429	16,793	231,721	214,136	227,757

Significant Variations

Overall, the budgeted price of Strategic Policy will increase by approximately \$17m to \$213m, representing an increase of 8.5 per cent from the 2002-03 estimated outcome. The major variations are due to:

- price movements (+ \$4m);
- increased civilian personnel costs (+ \$1.5m), which include the full year effect of the *Defence Employees Certified Agreement 2002-03* and increases in CSS and PSS employer superannuation contribution rates;
- an increase in military employee expenses (+ \$5m), including increases in compensation costs, health services costs and allowances; and
- increases in depreciation, which reflects the introduction of new equipment into service (\$3m).

OUTPUT STRUCTURE

Output 5.1 – Strategic and International Policy, Activities and Engagement

This output provides strategic and international policy advice to the Government to enable it to make sound judgements on, and develop appropriate responses to, changes in Australia's strategic circumstances, and on specific security issues as they arise. It also applies strategic policy guidance to assist the development of recommendations to the Government on international engagement activities and initiatives.

Performance Targets	
•	The Government is provided with comprehensive and timely strategic policy advice on current and emerging international Defence issues.
•	Defence's international engagement activities continue to support Australia's efforts to promote regional and global security.
•	Defence's overseas representatives contribute to the effective management of Australia's defence interests in the context of overall bilateral relationships.
•	The Defence Cooperation Program is achieved.

**Table 2.5.3:
Price of Output 5.1 – Strategic and International Policy, Activities and Engagement**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	52,727	54,597	1,870	54,449	55,065	55,625
Employees - Civilian	30,761	21,173	(9,587)	21,308	21,335	21,539
Sub-total employees	83,488	75,770	(7,718)	75,757	76,400	77,164
Suppliers - Non inventory	95,663	97,257	1,594	103,203	96,383	101,079
Suppliers - Inventory	267	211	(57)	211	211	211
Sub-total suppliers	95,930	97,468	1,537	103,414	96,593	101,290
Depreciation and amortisation	5,011	7,476	2,465	12,628	3,153	8,288
Write down of assets (includes net losses on sale of assets)	458	87	(371)	(91)	(47)	(39)
Other expenses	107	128	19	119	136	153
Total operating expenses from ordinary activities	184,995	180,928	(4,067)	191,827	176,235	186,856
Revenues						
Assets now recognised	443	106	(337)	-	-	-
Other revenues	10,035	10,356	321	7,383	7,746	7,861
Less Total Own Source Revenues	10,478	10,462	(16)	7,383	7,746	7,861
Price to Government for Output 5.1	174,517	170,465	(4,051)	184,444	168,489	178,995

Output 5.2 – Military Strategy and Strategic Operations

This output provides strategic policy guidance to assist the development of recommendations to the Government on force structure, capability development, preparedness of ADF elements, and operational matters as they arise. It also provides advice to the Government on the command of ADF operations.

Performance Targets	
•	Defence is able to provide regular advice to the Government on military options and preparedness that reflect the changing strategic environment.
•	The review of Defence capability priorities takes into account Australia's changing strategic environment and the Government's expectations of Defence.
•	The Government is provided with comprehensive and timely strategic advice on current and emerging operational issues.
•	ADF joint and combined operations are effectively managed at the strategic level.

**Table 2.5.4:
Price of Output 5.2 – Military Strategy and Strategic Operations**

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	4,661	9,090	4,428	10,883	12,142	13,435
Employees - Civilian	6,735	17,832	11,096	18,414	18,618	19,153
Sub-total employees	11,397	26,921	15,524	29,298	30,760	32,588
Suppliers - Non inventory	10,999	14,604	3,605	15,705	14,151	14,735
Suppliers - Inventory	9	198	189	198	198	198
Sub-total suppliers	11,007	14,801	3,794	15,903	14,349	14,933
Depreciation and amortisation	934	2,107	1,173	2,932	1,440	2,155
Write down of assets (includes Net Losses on Sale of Assets)	73	19	(54)	3	9	9
Other expenses	12	148	136	149	154	159
Total operating expenses from ordinary activities	23,424	43,997	20,573	48,285	46,712	49,844
Revenues						
Assets now recognised	100	13	(88)	-	-	-
Other revenues	1,205	1,021	(184)	1,008	1,064	1,082
Less Total Own Source Revenues	1,305	1,033	(272)	1,008	1,064	1,082
Price to Government for Output 5.2	22,119	42,964	20,845	47,277	45,647	48,762

DEFENCE COOPERATION

Overview

The Defence International Engagement Plan provides a robust policy for business planning and management of Defence's international engagement and particularly for the Defence Cooperation Program over the next five years. The aims and objectives of the Defence Cooperation Program are to support the Government's strategic objectives by:

- contributing to the maintenance of regional security;
- working with allies, regional partners and others to shape the global and regional environment in a way favourable to Australia and the ADF;
- consolidating acceptance of Australia as an obvious and legitimate participant in deliberations on issues that affect regional security; and
- encouraging and assisting with the development of the defence self-reliance of regional countries.

These activities encompass assistance to regional security forces in the areas of strategic planning, command and control, infrastructure, communications and logistics support. A key element of the Defence Cooperation Program is the Pacific patrol boat program. This comprises 22 vessels in 12 countries (Papua New Guinea 4, Fiji 3, Federated States of Micronesia 3, Tonga 3, Solomon Islands 2, Cook Islands 1, Kiribati 1, Marshall Islands 1, Palau 1, Western Samoa 1, Tuvalu 1, Vanuatu 1) and is designed to help the Pacific island countries become better able to police their maritime zones. The Defence Cooperation Program also supports the conduct of combined exercises to improve the ability of regional countries to contribute to regional security. A key focus will be the development of the nascent East Timor Defence Force. Australian assistance will include a range of training initiatives and infrastructure projects.

A breakdown of the \$67.7m allocated to the program in 2003-04 is shown in the following table. The increase of \$5.0m from the previous year is mostly due to costs associated with planned proposals such as the Pacific patrol boat life extension program and a range of construction projects.

Table 2.5.5: Defence Cooperation Funding

	Projected Result 2002-03 \$'000	Budget Estimate 2003-04 \$'000
Papua New Guinea	9,031	9,083
South Pacific		
Vanuatu	1,562	1,638
Solomon Islands	502	606
Tonga	2,057	2,435
Western Samoa	477	656
Cook Islands	362	403
Fiji	2,715	3,164
Marshall Islands	860	1,020
Federated States of Micronesia	791	1,026
Tuvalu	647	694
Kiribati	764	961
Palau	697	856
Multilateral General Assistance	10,680	11,240
Sub-total	22,114	24,699
South-East Asia		
Singapore	355	428
Philippines	3,302	3,424
Thailand	3,515	3,796
Malaysia	4,600	4,881
Indonesia	4,851	5,329
East Timor	6,590	6,864
Vietnam	1,602	2,161
Cambodia and Laos	1,071	1,059
Brunei	70	100
Sub-total	25,956	28,042
Other Regional Activities	5,590	5,907
Total	62,691	67,731

OUTCOME SIX: INTELLIGENCE

Outcome 6 – Intelligence for the Defence of Australia and its Interests

Output 6.1 Intelligence

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

Planned Performance

Good intelligence remains critical to Australia's strategic posture in a complex and fluid environment. Defence will maintain an intelligence capability to inform Government policy and planning, to support the planning and conduct of ADF operations, and to underpin the development of future ADF capability. Defence conducts intelligence operations, maintains intelligence capabilities and provides analysis in order to provide timely intelligence products to Defence and to a range of other government departments and agencies.

Defence's intelligence functions include:

- maintenance of intelligence capabilities, including trained and experienced personnel, databases and collection, production and dissemination systems, to meet national and Defence priority requirements;
- production of a range of products, including signals intelligence reports and electronic warfare databases, imagery and geospatial products and databases, and all-source intelligence assessments, reports and databases;
- provision of national communications and information security capabilities and services to meet whole-of-Government requirements;
- a tangible and continuous contribution to alliances and to other important Defence intelligence relationships; and
- provision of specialist assistance to counter-terrorism.

Key Risks and Limitations

The continued war against terror, the increased tempo of ADF operations, and heightened Government requirements for intelligence and security advice have placed pressure on Defence intelligence resources. The highest priority intelligence requirements continue to be met through the reallocation of resources and priorities.

Defence's ability to preserve its capability edge in intelligence collection and analysis is critically dependent on the availability of skilled and experienced personnel to support ongoing operations, the acquisition and exploitation of new technology and the maintenance of effective security.



Risk Mitigation

A number of strategies have been developed to mitigate these risks. Robust capital investment and personnel development programs have been progressed; agency partnerships strengthened; quality control measures, an increased customer focus and a security renewal agenda implemented; and system and database recovery plans refined. Approval for some agencies to recruit and train additional specialists will help address the issue of sustaining the effort against a number of high priority and concurrent targets.

Significant initiatives have been implemented to enhance intelligence capabilities for the next decade. These include substantial and sustained investment in enhanced signals intelligence and imagery collection capabilities, enhanced geospatial information systems and improved intelligence processing and dissemination systems. These initiatives are progressing, and will assist in meeting the Government's increased requirements for intelligence support.

Price Summary for Outcome 6

Table 2.6.1: Price Summary of Outputs for Outcome 6 – Intelligence

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04 to 2003-04 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Output 6.1 – Intelligence	342,309	403,085	60,776	438,985	421,851	438,774
Total Price for Outcome 6	342,309	403,085	60,776	438,985	421,851	438,774

Output 6.1 – Intelligence

Table 2.6.2: Price of Outcome 6 – Intelligence

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04 to 2003-04 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Operating expenses						
Employees - Military	35,238	52,609	17,372	57,996	60,086	62,617
Employees - Civilian	125,222	137,583	12,361	150,467	152,048	153,918
Sub-total employees	160,460	190,192	29,733	208,463	212,134	216,535
Suppliers - Non inventory	110,932	138,446	27,514	152,139	146,764	152,916
Suppliers - Inventory	445	593	148	593	593	593
Sub-total suppliers	111,377	139,038	27,662	152,732	147,357	153,509
Depreciation and amortisation	79,966	82,425	2,459	85,598	70,412	76,877
Write down of assets (includes Net Losses on Sale of Assets)	1,932	836	(1,096)	(103)	35	59
Other expenses	390	477	87	470	493	515
Total operating expenses from ordinary activities	354,125	412,969	58,844	447,160	430,431	447,496
Revenues						
Assets now recognised	3,423	1,673	(1,749)	-	-	-
Other revenues	8,393	8,210	(183)	8,175	8,580	8,722
Less Total Own Source Revenues	11,816	9,884	(1,932)	8,175	8,580	8,722
Price to Government for Outcome 6	342,309	403,085	60,776	438,985	421,851	438,774

Significant Variations

Overall, the budgeted price of intelligence will increase by \$61m to \$403m. This is an increase of 17.8 per cent from the 2002-03 estimated outcome. The major variations are due to:

- an increase in military employee expenses by \$17.372m, due to accelerated growth in the permanent force; increases in compensation costs, health services costs and allowances;
- increases in civilian employee expenses by \$12.361m, due to the full year effect of the *Defence Employees Certified Agreement 2002-03*, increases in CSS and PSS employer superannuation contribution rates and implementation of Defence White Paper approved initiatives. These initiatives include enhancements to signals intelligence and imagery collection capabilities, enhanced geospatial information systems, improved intelligence processing, and deeper levels of cooperation with the United States in some key systems;
- an increase in supplier expenses by \$27.662m, due to price movements, attribution of certain Navy functions to Outcome 6 for the first time and implementation of Defence White Paper-approved initiatives; and
- write down of assets expense, which is expected to reduce by \$1.096m and revenue from assets now recognised is expected to decrease by \$1.749m, reflecting the progression of work to more accurately account for Defence assets.

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

Outcome 7 – 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 Seven, together with its administered output, covers activities that Defence performs on behalf of the Government. These activities relate mainly to the provision of superannuation and housing support services to current and retired Defence personnel. Defence also administers reimbursements from the United Nations for costs associated with East Timor and returns the receipts to the Government. Details of the administered activities are outlined below.

Administered Activities

Administered Revenue

Revenues administered on behalf of the Government represent dividends from the Defence Housing Authority; non-taxation revenue, which includes contributions for military superannuation; and reimbursement from the United Nations for costs associated with East Timor. These revenues are returned to the Government once collected.

Superannuation for Current and Retired Defence Personnel

This includes all superannuation services provided for current and retired Defence personnel under the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme.

Housing Assistance for Current and Retired Defence Personnel

In 2003-04, Defence and the Defence Housing Authority will complete the fourth year of a 10-year agreement for the delivery of housing services to ADF members. The overall aim of the Defence Housing Authority is to provide a single point for housing and relocation services to ADF members and their families. This includes housing assistance provided for current and retired Defence personnel under the Defence Home Owner Scheme. This scheme provides a subsidy on the interest payable on a home loan for members of the ADF and is covered by the *Defence Force (Home Loans Assistance) Act 1990*.

Price Summary for Outcome 7

The costs of performing the administered activities are very small and therefore have not been separately identified and form part of the total departmental outcome costs.

Output 7.1 – Superannuation and Housing Support Services for Current and Retired Defence Personnel

Table 2.7.1: Revenues Administered on behalf of the Government

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04 %	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 %	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Revenues Administered on Behalf of Government						
Housing Dividends	361,900	205,400	(43.2)	270,200	49,500	49,500
Military Superannuation Contributions	606,497	607,683	0.2	611,389	611,389	611,389
Foreign Government and the United Nations reimbursements for East Timor	76,000	23,000	(69.7)	2,000	2,000	2,000
Total revenues administered on behalf of Government	1,044,397	836,083	(19.9)	883,589	662,889	662,889

Significant Variations

Revenue administered on behalf of the Government will decrease by \$208m to \$836m, representing a decrease of 19.9 per cent from the 2002-03 projected result. The major variations are due to:

- expected reduction in capital return special dividend payments from the Defence Housing Authority to the Government (-\$157m); and
- revised estimates for the reimbursements from foreign Government and the United Nations for East Timor from \$76m to \$23m (-\$53m).

Table 2.7.2: Expenses Administered on behalf of the Government

	Projected Result	Budget Estimate	Variation 2002-03 to 2003-04 %	Forward Estimate	Forward Estimate	Forward Estimate
	2002-03 \$'000	2003-04 \$'000	2003-04 %	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000
Expenses Administered on Behalf of Government						
Military Superannuation Benefits	2,200,000	2,200,000	-	2,300,000	2,300,000	2,400,000
Retention Benefits	30,600	30,600		30,600	30,600	30,600
Housing Subsidies	5,700	5,700	-	5,700	5,700	5,700
Other	181	181	-	181	181	181
Total expenses administered on behalf of Government	2,236,481	2,236,481	-	2,336,481	2,336,481	2,436,481