

DEFENCE PORTFOLIO BUDGET STATEMENTS 1998-99

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USER GUIDE

INTRODUCTION

The purpose of the Portfolio Budget Statements (PBS) is to inform Senators and Members of the basis for Budget outlays for the Defence portfolio with particular emphasis on the provisions in *Appropriation Bills (1 and 2) 1998-99*. The 1998-99 Defence PBS summarises the Defence budget for 1998-99 and provides details of Program performance forecasts and budget allocations in order to justify expenditure for the Defence organisation.

This PBS only addresses the Department of Defence; the Department of Veterans' Affairs, which is also part of the Defence Portfolio, tables its own statements.

Portfolio and Program-level Budget Estimates for 1998-99 are compared, at the Appropriation level, with estimates of likely expenditure (the Estimated Outcome) for the 1997-98 financial year. An explanation for variations between these two figures is provided at the Program level. Staffing levels and variations for the same periods are also provided.

This is the last PBS to present a cash and Program-based budget; the 1999-2000 PBS will present an accrual-based outcome/output budget. Defence is positioning itself for this change by developing an accrual-based outcome/output framework.. It is one of a number of agencies participating in a trial accrual budget for 1998-99 and is working with the Department of Finance and Administration to address the policies, principles and practical issues associated with implementing the new framework. An explanation of the internal management mechanisms that Defence is developing for the new framework is contained in Section One of this document.

Portfolio and Program performance information for 1997-98 will be published in the 1997-98 Annual Report, to be tabled in the Parliament by 31 October 1998.

FORMAT

Section One - Portfolio Overview

This section contains:

- a schematic illustration of the Portfolio's Program structure, down to Sub-Program level, for which detailed explanations of estimates are provided in Section Two;
- an overview which identifies the Defence mission, objectives, outcome and outputs;
- a discussion of major Portfolio developments, including Defence Reform Program progress;
- a summary of the Defence Budget which includes:
 - an overview of Budget measures in the Defence Portfolio Budget;
 - the derivation of the Budget by Defence Function Outlay;
 - a summary of the Defence Estimates;
 - a reconciliation of appropriations; and
 - a summary of initiatives funded by redirection of the \$125m administrative savings.

Section Two - Program Resources and Variations

This section contains the detailed explanation of the 1998-99 Defence Budget Estimates. For each Program, it presents:

- the objective and a description of the Program including the main responsibilities of its Sub-Programs;
- strategies, performance measures and performance forecasts for 1998-99;
- resource tables which identify:
 - outlays by Sub-Program;
 - staff numbers and profiles by Sub-Program;
 - each appropriation item contributing to that Program and any offsetting receipts; and
 - a reconciliation between the 1997-98 Estimated Outcome and the 1998-99 Budget Estimates, with explanations for variations.

The Explanation for Variations tables contain a presentation that gives clear visibility to:

- 'real variations' which reflect real changes in the level of activities or outcomes, or the reallocation of funds from one appropriation to another;
- Defence Reform Program savings and reinvestment;
- 'Program transfers', aggregated at either the appropriation or sub-appropriation level, which relate to the movement of functions and associated resources between or within Programs and within the same appropriation and which have no net effect on total Defence outlays; and
- price and exchange variations.

Section Three - Appendices

This section provides supplementary information reconciling appropriations and Programs; summarising Defence outlay by departments contributing to the Defence function; reconciling Defence outlay with the Budget papers; the composition of the 1998-99 Budget Estimate; detailed staffing data; and further reports on some areas of specific Defence activity.

STYLE CONVENTIONS

The amounts in the document have been rounded to the nearest \$'000. All totals are the rounded additions of precise figures. Rounded figures are consistent with those given in Budget Papers No 1, 2 and 3. The convention used is that rounding downwards occurs if the end digit is less than five, and rounding upwards if the figure is five or more.

Each annual appropriation item is cross-referenced to the Appropriation Bills by use of a code which identifies the address of the item (in terms of Division, Sub-Division and Line-item Number) in the Appropriation Bills, for example:

180	02	01
Division	Sub-Division	Line-item Number

RESOURCE ATTRIBUTIONS

Defence directs resources towards the achievement of the objectives of Defence and of each of the 14 Defence Programs. In the Defence resource planning and budgeting process, resources are allocated to Program Managers who have responsibility for managing those resources. Because of the complex nature of Defence activities, there is not a perfect correlation between the funds allocated to a specific Program Manager and the total funds which may be used in supporting the achievement of the Program which that Program Manager directs. For example, some of the salary resources allocated to a Program Manager, such as a Chief of Service, may contribute to the achievement of the objectives of other Programs. The procedure for identifying all the resources used to achieve the objectives of each Program is known as attribution.

Defence's PBS reflects the effect of this attribution process with each Program's Statement accounting for the total resources required to achieve that Program's outcomes. Attribution of resources is intended to assist analysis, program evaluation and presentation, rather than provide accounting accuracy.

RESERVE AND READY RESERVE PERSONNEL NUMBERS

The figures provided in the Staffing Summary and Staffing Profile Tables for Reserves report the average number of personnel to be funded rather than the full-time staff year equivalents. This presentation ensures that Reserve part-time personnel staff numbers are consistent with those reported for Permanent Force and Civilian personnel. Following the abolition of the Ready Reserve, those personnel previously attributed to the Ready Reserve have now been incorporated into the General Reserve category.

PRICE AND EXCHANGE BASIS OF BUDGET ESTIMATES

The 1997-98 Estimated Outcome and 1998-99 Budget Estimates are in Budget 1997-98 and Budget 1998-99 prices and exchange rates respectively. The majority of Defence outlays are updated to a particular price and exchange rate basis using parameters provided by the Department of Finance and Administration.

Under current Defence budget arrangements, there is usually no adjustment made to Defence outlays within the financial year for any difference between the parameters underpinning the Budget and actual price and exchange rate movements experienced within the financial year. These are usually made in the following Budget year. The 1998-99 Budget therefore includes an adjustment (+\$95m) for the impact of price adjustment and a general depreciation of the Australian dollar against the 1997-98 Budget exchange rates to the end of March 1998.

A further amendment to the 1997-98 price and exchange adjustments will be required in the 1998-99 Additional Estimates following confirmation of the final actual price movements and exchange rates (March to June 1998) experienced in 1997-98.

PORTFOLIO STRUCTURAL CHANGES

The following changes from the Defence Program structure reported in the Portfolio Additional Estimates Statements 1997-98 (pages 8-9) have been implemented for 1998-99.

Program 1: Defence Headquarters

- The Strategic Logistics Sub-Program has been replaced by the National Support Sub-Program.
- Sub-Program 1.7 has been renamed Australian Theatre.

Program 7: Joint Education and Training

- Sub-Program 7.2 has been renamed Education and Training Services.

Program 8: Defence Personnel Executive

The previous five Sub-Programs have been replaced by a four Sub-Program structure:

- Personnel Executive.
- Personnel Policy.
- Personnel Management.
- Defence Health Services.

Program 12: Corporate Information

- Sub-Program 12.3 has been retitled Information Infrastructure.
- A new Sub-Program 12.4, Year 2000 Project Office, has been created.

SECTION ONE

PORTFOLIO OVERVIEW

DEFENCE PROGRAM STRUCTURE

DEFENCE MISSION, OBJECTIVES, OUTCOME AND OUTPUTS

MAJOR PORTFOLIO DEVELOPMENTS

Strategic Review

Defence Reform Program Progress

Restructuring the Army

Defence Accrual-Based Output Management

Performance Reporting and Evaluation

1998-99 BUDGET SUMMARY

DEFENCE PROGRAM STRUCTURE 1998-99

1 DEFENCE HEADQUARTERS	2 NAVY	3 ARMY	4 AIR FORCE	5 INTELLIGENCE	6 SUPPORT COMMAND	7 JOINT EDUCATION & TRAINING
1.1 Strategic Policy and Plans	2.1 Combat Forces	3.1 Combat Forces	4.1 Combat Forces	5.1 Defence Intelligence Organisation	6.1 Executive	7.1 Education & Training Policy
1.2 International Policy	2.2 Executive	3.2 Executive	4.2 Executive	5.2 Defence Signals Directorate	6.2 Logistics Operations - Navy	7.2 Education & Training Services
1.3 Capability Program & Resources Planning	2.3 Training	3.3 Training	4.3 Training		6.3 Logistics Operations - Army	
1.4 Capability Development					6.4 Logistics Operations - Air Force	
1.5 National Support					6.5 Emergency Management Australia	
1.6 Strategic Command						
1.7 Australian Theatre						

DEFENCE PROGRAM STRUCTURE 1998-99

8 DEFENCE PERSONNEL EXECUTIVE	9 ACQUISITION	10 SCIENCE & TECHNOLOGY	11 DEFENCE ESTATE	12 CORPORATE INFORMATION	13 DEFENCE CORPORATE SUPPORT	14 FINANCE & INSPECTOR- GENERAL
8.1 Personnel Executive	9.1 Capital Equipment	10.1 Aeronautical & Maritime Research	11.1 Resources and Policy	12.1 Information Policy and Plans	13.1 Corporate Support	14.1 Resources and Financial Programs
8.2 Personnel Policy	9.2 Industry Procurement & Infrastructure	10.2 Electronics & Surveillance Research	11.2 Project Delivery	12.2 Information Management Services	13.2 Base Support	14.2 Inspector-General
8.3 Personnel Management		10.3 Executive & Support	11.3 Property Management	12.3 Information Infrastructure	13.3 Public Information	
8.4 Defence Health Services			11.4 Estate Operations and Planning	12.4 Year 2000 Project Office	13.4 Legal	

DEFENCE MISSION, OBJECTIVES, OUTCOME AND OUTPUTS

The most fundamental responsibility of the Government is to provide for the security of Australia, its people and its interests. This responsibility is reflected in the Defence mission.

DEFENCE MISSION

To prevent or defeat the use of armed aggression against Australia and its interests

This statement of the enduring reason for the existence of the Defence organisation guides the development of defence policy, planning, programs and activities, and represents the ultimate benchmark against which its performance will be measured. The core defence business is to ensure that the Australian Defence Force (ADF) is able to operate effectively in conflict, should that be necessary, and to contribute to managing Australia's national security interests in such a way that conflict does not occur. The mission involves, therefore, two key dimensions: the development and maintenance of the capacity to defeat any use or threat of armed force against Australia and its interests; and the promotion of a regional and global security environment which enhances Australia's security by reducing the likelihood of armed attack against Australia or its interests.

Australia is faced with numerous political, economic and social challenges, stemming both from changes in the Australian community and economy, and from changes in the international strategic, political and economic situations. Australia needs an imaginative and forward-looking approach if it is to secure its place in the changing pattern of relationships in the Asia-Pacific region.

DEFENCE OBJECTIVES

In order to meet its mission, Defence has identified eight objectives, both to provide its longer-term direction and focus and to guide its day-to-day activities.

Preventing armed attack or coercion against Australia is the most important and demanding requirement of the Defence organisation. The first objective is *to develop the force structure to defeat attacks on Australia and to defend its regional interests, and to maintain forces at a state of preparedness to defeat any attack which could credibly be mounted against Australia; contribute actively to defending our regional and global interests; and contribute to national tasks as directed by Government (Objective 1).*

Our priority in developing capabilities to defend Australia and its regional interests reflects the importance of our ability as a sovereign nation to provide for our own security. It also reflects the judgement that capabilities developed to defeat any credible attack against Australia or its interests give us significant forces and flexibility to undertake other tasks. A strong and effective defence force not only ensures our security but also allows Australia to play a constructive role in the overall security of our region, alliance relationships, and international activities including peacekeeping. The focus on defeating attacks on Australia and defending our regional interests has provided a clear basis for planning, and has provided a rationale for our force structure which has been readily understood and accepted, both domestically and within the region.

A combination of political change and economic prosperity in recent years has seen a trend towards a more balanced, external focus for regional defence forces, together with arms modernisation programs and more sophisticated weaponry. In addition, the current economic downturn in Southeast Asia has highlighted the potential for instability within the region. As a result, the threat environment in which the ADF may be required to operate could be very demanding. It is imperative that we maintain the excellence of the ADF in key capabilities and in operating those capabilities. The basic tasks required of the ADF are unlikely to change in the foreseeable future, although the way in which the tasks are performed will change significantly with advances in information technology and warfare.

Given the relatively small size of our armed forces, a climate of fiscal constraint and the formidable geographical and environmental challenges that the defence of Australian territory and interests presents, it is particularly important that we achieve maximum effectiveness with the resources that we have at our disposal. At the root of our efforts to enhance our operational capabilities is the development of *effective strategic and operational-level command, control and planning (Objective 2)*.

The successful achievement of the Defence mission depends also on *timely warning of significant developments in Australia's strategic environment (Objective 3)*. The capacity of the ADF to respond appropriately to the changing security environment and to undertake its tasks successfully requires accurate, reliable and timely information about activities and developments within the region. A key element of our intelligence capability is the information-sharing arrangements with our alliance partners.

Australia cannot rely solely upon its capacity to develop and maintain a defence force that is able to fight and win in order to secure Australia's future. Australia cannot be defended adequately only by guarding our territory and interests and looking on at the changes in Asia. We must manage our security environment in such a way that conflicts of interest can be resolved without the use of military options. Defence seeks to *promote a regional and global environment that enhances Australia's security through: effective strategic relationships with regional countries; strong alliances; and support for United Nations and other international endeavours (Objective 4)*.

The relative priority we give to defeating attacks on Australia, regional cooperation, alliance relationships and international activities reflects continuing judgements about the combination of activities which offer the greatest returns for Australia's security. All these activities share the common objective of improving Australia's security. Regional and alliance activities do not require the same order of financial investment as the development of military capabilities, but there are complex issues in determining the level of resources allocated for the ADF's training and readiness, bilateral and multilateral exercises, and other regional and international activities.

Our international defence relationships are an important adjunct and complement to our diplomatic efforts to shape the regional security environment. The United States (US) is our most important alliance partner and we continue to share many common security interests. Our relationship with the US makes a very significant contribution to the quality and development of ADF capabilities, through close consultation, training and exercises, and access to equipment, technology and intelligence. The US has long-term interests in the Asia-Pacific region and is a key strategic player in the region. A strong US presence in, and security commitment to, the region is viewed by Government as a key to long-term stability and security. Using our alliance to facilitate US strategic engagement in the region and to develop our defence relationships with regional countries is a high priority.

Efforts to enhance our relationship with the US will not, however, be at the expense of relationships or activities with the region. The priority attached to developing Australia's relationships with our regional neighbours, and the increasing importance attached to regional cooperation and partnerships, will continue. Australia's objectives are to promote regional security and stability, and to develop the capacity to work with regional countries to confront future security challenges, either diplomatically or militarily.

Working with other regional forces, through bilateral, multilateral and alliance arrangements, Defence will reinforce the expanding web of relations that has emerged between Australia and other countries in our region. Our aim is to ensure that our relations with our neighbours are robust enough to deal with the uncertainties that arise in the normal course of defence and wider relations. Our collective interests clearly lie in the promotion of stable yet flexible relations within the region and the peaceful resolution of issues arising out of conflicting viewpoints or claims.

We will also continue to contribute to international peacekeeping, providing forces as directed by Government to support multinational security efforts, and to provide technical and policy support for non-proliferation initiatives.

To ensure the most efficient and effective support for our combat capabilities, and especially in a time of fiscal constraint, we need both to harness the skills and expertise of Australian industry and the private sector and to employ leading-edge technology in the application and support of military force. We must seek *to strengthen our national support base for defence through: an effective partnership with the Australian community and Australian industry; and the maintenance of a strong national defence science and technology base (Objective 5)*. This will also allow Defence to reduce its overhead and support costs and to free-up military personnel for combat and combat support functions. Traditional views of the roles of Service personnel, industry and civilians (both within and outside Defence) will continue to be broken down, to allow both the maximum employment of civilian labour in support of operational capability and the maximum use of non-Defence support, where this is operationally feasible and cost-effective.

Defence is also aware of the wider responsibilities that it has in relation to the Government's overall program to improve public sector performance including an ongoing process of micro-economic reform and a move to more competitive and efficient purchasing practices. Processes such as tendering and contracting will continue to be improved with a view to achieving best practice and better outcomes in defence procurement. Defence is determined to ensure that, to the greatest extent practicable, Australian industry is brought into an ongoing partnership in the identification, development, supply and support of capabilities and technologies for the ADF.

The developing economies, technologies and force structures and the changing strategic orientations of countries in our security environment present a significant challenge in managing current activities and planning for future requirements. A key responsibility of Defence is *to provide high quality, relevant and timely advice to Government on Australian strategic and defence policy (Objective 6)*. Defence monitors continuously Australia's strategic outlook, and develops plans and programs, consistent with Government policies and priorities, for the strategic posture, disposition, activities, and development of the ADF.

The decisions that we make today in relation to force-structure requirements and our estimations of the capabilities likely to be available within the region provide the conceptual underpinning for our materiel and technology acquisitions, and thus our combat capabilities, well into the future. We are

determined to continue to be at the forefront of modern war-fighting capability and to play a central role in shaping outcomes in our security environment.

Defence must also be responsive to changes in the domestic environment - not only at the political level, but also in terms of the underlying economic realities and the pressures to strive constantly for international best practice to get the most out of every defence dollar. Recognising the requirement to be accountable for its use of public resources, Defence pursues *effective management policies and practices through a priority focus on achievement of the Defence mission, and efficient use of all resources (Objective 7)*.

Through a range of management and efficiency measures and, more recently, through the Defence Reform Program, Defence seeks to redirect funds from management and administrative areas to operational areas. Defence is endeavouring to maximise the effectiveness of our forces by seeking to ensure that, to the greatest extent possible, our resources are directed to the maintenance and enhancement of our war-fighting capability. This requires careful judgements about resource allocations and involves decisions across a range of areas: equipment, facilities, personnel, planning and doctrine, organisational arrangements, training, combat readiness and sustainability. However, enhancing combat effectiveness involves more than simply transferring resources from support functions to the combat end of operations. We must ensure that our existing and proposed capabilities represent the most cost-effective way of ensuring the capacity to achieve our objective of defending Australia and its interests.

These complex issues are being addressed through Defence's planning processes that will provide guidance on broad priorities for capability development and resource expenditure.

The Defence organisation has undergone far-reaching change but there is still much to be done. The challenge is to find processes and systems that keep our business focused on key outcomes, in ways that conform to broader government practices and requirements.

The effective management of human resources is critical to our ability to meet successfully all other objectives. Defence strives *to attract, develop and retain highly skilled, educated and motivated people as part of an integrated Defence organisation which provides satisfying work and careers, and fair and reasonable pay and conditions (Objective 8)*.

Defence invests heavily in its people - the men and women who make up the ADF and our civilian workforce. We must be able to attract suitable people, train them and create an environment which encourages teamwork, commitment and productivity. We do this through the establishment of quality recruiting, training and personnel development programs and strategic workforce planning processes to meet personnel and skills needs into the next century.

DEFENCE OUTCOME

In response to the Government's planned accrual-based outcomes and outputs framework, Defence has developed the following outcome, as the intended consequence of the delivery of its outputs:

The prevention or defeat of armed aggression against Australia and its interests.

DEFENCE OUTPUTS

Defence provides four principal deliverables to Government. These Defence outputs are:

- Combat capability - a national capacity to defeat any use of armed force against Australia, without the assistance of combat forces from other countries
- Effective international defence relationships and contribution to international activities
- Effective contribution to national support tasks
- Strategic command and policy

It is very difficult to disaggregate combat capability into measurable, comprehensive and mutually-exclusive components. Defence Force elements, platforms and personnel can be applied flexibly to a wide range of defence tasks. Nevertheless, for management purposes, Defence has broken down the combat capability output into the capability afforded by force elements in the following broad areas:

- Operational command
- Strategic intelligence
- Capability for major surface combatant operations
- Capability for patrol boat operations
- Capability for submarine operations
- Military geographic information
- Capability for afloat support
- Capability for mine countermeasures and defensive mining
- Capability for amphibious lift
- Capability for special forces operations
- Capability for land task forces operations
- Capability for logistics support of land operations
- Capability for air strike/ reconnaissance
- Capability for tactical fighter operations
- Capability for ground-based air defence
- Capability for strategic surveillance
- Capability for maritime patrol aircraft operations
- Capability for airlift
- Capability for operational support of air operations

Defence will need to measure the way in which different parts of the organisation contribute to the direct outputs. This includes the enabling products and services delivered by certain organisational elements of Defence to other parts of Defence, which can be reported against broad functional categories such as:

- General logistic support;
- Personnel policy and management;
- General training and education (initial training undertaken by the Services as well as joint education and training activities);
- Acquisition and industry;
- Estate planning and management;
- Science and technology policy and enabling research;
- Corporate information planning and services;
- Corporate and administrative support; and
- Financial resource policy and management, and evaluation and audit.

This framework yields 22 direct outputs and nine enabling products and services. For external reporting purposes, the resources consumed in delivering the enabling products and services will be allocated and attributed against the 22 outputs.

MAJOR PORTFOLIO DEVELOPMENTS

STRATEGIC REVIEW

Australia's Strategic Policy, released in December 1997, establishes the direction for Australian defence planning into the 21st century. It builds on the Government's White Paper on Foreign and Trade Policy, *In the National Interest*, to outline the modern, relevant military force required to undertake successfully the range of challenging tasks that could be required of the ADF in the years ahead.

Australia's Strategic Policy identifies two major factors shaping Australia's strategic environment - namely economic growth in East Asia, and particularly its implications for regional arms modernisation programs, and the changing strategic relativities between the region's major powers.

The review does not identify any particular threat or country, nor does it attempt to predict circumstances in which Australia might be threatened or would need to commit the ADF. Rather, *Australia's Strategic Policy* builds on our understanding of the enduring fundamentals of Australia's strategic environment and the key long-term trends that are likely to affect those fundamentals.

The review identifies Australia's key strategic interests as:

- helping to avoid destabilising strategic competition between the region's major powers;
- helping to prevent the emergence in the Asia-Pacific region of a security environment dominated by any power or powers whose interests would likely be inimical to those of Australia;
- helping to maintain a benign security environment in Southeast Asia - especially in maritime Southeast Asia - which safeguards the territorial integrity of all countries in the region;
- helping to prevent the positioning in neighbouring states by any foreign power of military forces which might be used to attack Australia; and
- helping to prevent the proliferation of weapons of mass destruction in our region.

In light of these priorities, the review considers that there are three basic tasks which the ADF could be required to perform:

- defeating attacks on Australia;
- defending our regional interests; and
- supporting a global security environment which discourages interstate aggression.

The Government has made clear that having the capabilities to defeat attacks on Australia is the highest priority. However, the defence of Australia does not begin at Australia's shoreline.

Australia's strategic geography dictates that we should plan on more proactive operations which focus on defeating attacks in our maritime and air approaches, before they reach Australian territory.

Moreover, Australia's future security and prosperity is increasingly dependent on that of the wider Asia-Pacific region. To that end, Australia will work hard to maintain regional stability through bilateral and multilateral dialogue and diplomacy, and regional defence cooperation.

In addition, no Government can rule out the possibility that circumstances might arise in which Australia would want to make a significant contribution to a future conflict in which our interests were vitally engaged. That means being prepared to contribute actively to the maintenance of broader regional stability and our objective of 'a secure Australia in a secure region'.

The review outlines four priority areas for the future development of ADF capabilities. These are:

- the knowledge edge - that is, the effective exploitation of information technologies to allow Australia to use our relatively small forces to maximum effectiveness;
- developing military capabilities to defeat any future threats in our maritime and air approaches;
- maintaining an effective ADF strike capability - that is, the ability to operate proactively against hostile forces in the defence of Australia and our interests; and
- developing capabilities to defeat threats on Australian territory.

On 2 December 1997, the Minister for Defence made a major statement in Parliament on the key findings of the review and announced that, in light of the review, the Government had approved a number of major equipment purchases with a total value of around \$5 billion. These acquisitions are intended to ensure that Australia's forces remain well equipped and highly capable.

DEFENCE REFORM PROGRAM PROGRESS

The Defence Reform Program is an extensive and ambitious program of major management change impacting on the whole of the Defence organisation. Its principal aim is to refocus Defence on its primary task – to prevent or defeat the use of armed aggression against Australia and its interests. To support this, the Defence Reform Program is intended to free considerable financial resources for reinvestment in combat capability – equipment, training, operations and readiness.

While the Defence Reform Program involves major organisational changes and the achievement of large-scale efficiency gains, it is fundamentally about changing the way the Defence organisation is managed and operates. This includes:

- a truly joint and integrated approach and a corporate Defence focus on the achievement of the Defence mission; and
- reliance on effective client-provider relationships, rather than the ownership and control of supporting functions at single-Service or Program levels or below.

The revised higher-management arrangements and organisational structures required under the Defence Reform Program were implemented on 1 July 1997. These arrangements and structures will

be reviewed and amended over time to reflect progress in the implementation of the Defence Reform Program. A more corporate approach to planning and decision making, including more effective long term planning, is being implemented. Common support organisations for education and training, logistics, personnel management, corporate information and corporate support have been created, and the support functions will be rationalised, with many of them to be market tested over the 1997-98 to 2000-01 period.

These corporately-sponsored changes are supported and underpinned by continuous improvement throughout the organisation and a strong focus on the cost-effective achievement of results and the production of outputs.

The Defence Reform Program is planned to realise one-off savings of \$500m and mature ongoing annual savings of at least \$900m. These are expected to be achieved substantially by the end of 2000-01.

The Defence Reform Program has incorporated the consideration of the 18 key findings and 52 key recommendations of the report of the Defence Efficiency Review:

- all of the 18 key findings of the Review have been agreed, with consideration and related action complete on 17 and with one still being actioned, and
- of the 52 key recommendations, 49 have been agreed, with action complete on 15 and proceeding on the remaining 34. Three recommendations, which related to organisational issues, were not agreed.

The generalised nature of many of the Defence Efficiency Review findings and recommendations and the more extensive focus of the Defence Reform Program means that the Review findings and recommendations provide an insufficient basis for the effective monitoring of the implementation of the Defence Reform Program. There are more than 150 specific initiatives being implemented, with many impacting on more than one Program. For reporting purposes, the initiatives can be grouped into the major categories of reforms listed below.

Defence Command and Management Arrangements

These initiatives clarify the functioning of senior commanders and executives within Defence and their roles and responsibilities. Savings are being achieved from the collocation and integration of staffs at the strategic level and the elimination of duplication; and the streamlining of the command arrangements and the rationalisation of headquarters elements, particularly those under the Commander, Australian Theatre. These reforms will be substantially complete by the end of 1998-99, with the exception of efficiency gains which will flow from the establishment of a collocated headquarters for the Commander, Australian Theatre.

Intelligence

These involve small-scale changes to the management, administration and support of intelligence functions. Most savings are expected to be available by the end of 1998-99.

Capability Development

The savings arise from civilianisation proposals related to the capability development process, as well as efficiencies arising from the proposed amalgamation of functions. Additional staffing has also been provided to enhance the level of strategic guidance expertise within Defence Headquarters.

Acquisition

These initiatives centre around the more efficient procurement of major capital equipment. Acquisition projects have been reorganised to achieve improved synergies in technologies. Business processes are being re-engineered and extra effort directed at training and specialist graduate recruitment. The collocation of all acquisition personnel in new premises will promote other opportunities for greater efficiencies. Additional savings will result from civilianising part of the military acquisition staff.

Industry Policy

These initiatives relate to the optimal use of industry to support Defence activities. Savings relate to the rationalisation of the former Industry Involvement and Contracting Division, and the consolidation of industry, export, contracting and acquisition management into policy and support centres to support the defence capital acquisition program.

Science and Technology

These initiatives relate to the enhancement of the role of the Defence Science and Technology Organisation (DSTO), in particular its modelling and simulation capability, with savings related principally to the rationalisation of the test and evaluation functions within the Service Programs and some general efficiencies within DSTO.

Facilities and Long Term Force Disposition

The DRP seeks to maximise efficiencies in the management of the Defence estate by creating an executive responsible for all building owner activities, with a series of one-off savings in excess of \$400m and associated reductions in the need for base support. Initial savings will be derived largely through the rationalisation of facilities operations' management.

Logistics

Logistics recommendations centre around the creation of a single provider of logistic support and purchasing, eliminating single-Service duplication of effort. Further savings will be achieved through the adoption of best commercial practice for inventory management and purchasing, as well as one-off sales of unnecessary inventory and more efficient use of warehouse space. Initial savings will result largely from market testing of a series of discrete logistics support units or authorities.

Personnel Planning

A range of initiatives is being undertaken to rationalise the management of conditions of service for ADF numbers and implement more streamlined administration of Defence personnel. The majority of savings in 1998-99 will come from rationalisation in the areas of personnel planning and administrative support.

Education and Training

These initiatives relate principally to the development of common joint training for all Service personnel, where appropriate, and the integration of senior staff education and training. The majority of savings in 1998-99 will relate to management and administrative positions and the attendance of fewer students on senior-level courses.

Administrative Support

These initiatives relate to the rationalisation and market testing of garrison and administrative services across Defence bases Australia-wide, and a number of national functions including travel,

publishing and libraries. It also covers the rationalisation of legal and public information services. Initial savings will be derived largely from the rationalisation of existing administrative support services.

Information Management

Information management initiatives include the development of a single provider of corporate information management services and the rationalisation of information management support organisations. Initial savings will be achieved through the rationalisation of information technology support functions.

Further information on specific initiatives can be found in the individual Program statements in Section Two of this document.

Defence Reform Program Resource Savings and Reallocation Strategy

Defence has already achieved approximately \$100m in savings including reductions in the civil and military workforce and reductions to administrative expenses and to the Defence Industry Development program. Detail of the savings achieved so far and those planned to be achieved across the Forward Estimates are contained in the tables below.

Initial decisions have been made on the reallocation of the savings generated through the Defence Reform Program. It involves a balance of reallocation into the current force (personnel in the combat force, operational costs, preparedness, logistic support) and into the future force (major capital equipment and facilities).

50,000 Permanent Force ADF

DRP savings will result in Service personnel reductions of 3,800 and the market testing of 11,200 potentially reducing the ADF to a nominal end strength of 42,500. The Minister for Defence has announced that, to maintain a credible force, the permanent ADF is to be retained at around 50,000, with 65% in the combat force. Defence will maintain a 50,000 ADF by transferring skilled personnel no longer required in enabling areas and using DRP savings to recruit new personnel into the combat force.

Movement of Land Force Personnel into Combat-Related Positions

Consistent with the objectives of *Restructuring the Army*, Army Program has been funded for the movement of approximately 950 personnel into the combat force. Over half of these personnel are being placed into infantry units, with additional personnel being placed into other elements of the combat force including Special Forces, Signals, Engineer, Intelligence and Headquarters elements.

Capability-Related Logistics Costs

A comprehensive review of the operating costs associated with maintaining an effective combat force at the planned levels of operational readiness found that the costs related to the repair and maintenance of fleets of ADF equipment are steadily increasing. A number of specific proposals will be funded, including the refurbishment of GMLS-13 Standard Missile launchers on FFGs, refurbishment of Close-in Weapons Systems, increased provisions for ammunition, combat rations and clothing, and increased maintenance on the FA-18, P-3C, C130, Caribou and B-707 fleets.

New Capabilities – Net Personnel and Operating Costs

Funding has been provided to cover the personnel and operating costs of recently acquired equipment including Anzac/Collins in-service support, Anzac Ship helicopters, minehunter coastal, hydrographic ships, land force communication systems, Bradshaw field training area, lead-in fighter and the high frequency modernisation projects.

Amphibious Capabilities

HMAS *Tobruk* is to be retained in the fleet and HMA Ships *Manoora* and *Kanimbla* are being funded to ensure that they can operate effectively. Provision has been made for the crewing of these vessels and their associated operating costs.

Defence Science – Capability-Related Projects

Defence has invested additional funds into priority research and technology activities including support to Land Operations, support to command and control elements, information warfare, enhancing weapon systems, supporting the new submarine fleet, enhancing surveillance capabilities and the survivability and maintainability of ADF weapon platforms.

New Capital Investment

Funds have been set aside later in the Forward Estimates for new capital investment, contributing to the objectives of *Australia's Strategic Policy*.

Defence Reform Program Transition Costs

A \$60m per annum provision has been programmed in each year of the Budget and Forward Estimates for DRP implementation costs. The major component is the expected cost of voluntary redundancies but the provision includes seed funding for rationalisation studies and contracting out. Provision has been made in Support Command and Defence Corporate Support Programs for anticipated contract costs in 1998-99 and across the Forward Estimates.

Table 1: DRP Cumulative Resource Savings by Major Category of Savings Initiative ^{(1) (2)}

	1997-98	1998-99	1999-00	2000-01	2001-02	Mature
	\$m	\$m	\$m	\$m	\$m	\$m
DRP Savings Category:						
Defence Command and Management Arrangements	3	13	16	17	24	34
Intelligence		1	1	1	1	1
Capability Development ⁽³⁾						1
Acquisition and Industry ⁽⁴⁾	23	26	25	28	31	34
Science and Technology		1	2	2	2	4
Facilities and Long Term Force Disposition ⁽⁵⁾	40	11	28	50	57	57
Logistics	11	55	134	234	261	321
Personnel Planning	9	27	35	54	75	184
Education and Training	9	20	34	42	48	87
Administrative Support	27	123	220	331	336	338
Information Management	1	6	16	31	36	42
Total	123	283	511	791	871	1,103
Other Savings:						
Unallocated ⁽⁶⁾		7	12	25	72	72
Superannuation ⁽⁷⁾		37	69	112	124	135
Fringe Benefits Tax ⁽⁷⁾		16	30	48	53	58
Total Gross DRP Savings	123	343	622	975	1,120	1,368
Provision for contractor support ⁽⁸⁾	-21	-88	-219	-416	-453	-453
Total Net DRP Savings	102	255	403	560	667	915

Notes:

- Totals may not add due to rounding.
- The figures in the table represent the cumulative ongoing annual savings. They include minor implementation and transition costs being borne by Programs – major transition/implementation costs are not included and will be funded from a separate Portfolio provision (see Table 3). The Savings Category figures do not include the costs of contracts for services to be delivered by external providers (see note 8 below).
- These savings arise from civilianisation proposals related to the capability development process. The level of savings to be achieved are still subject to review and savings programmed do not exceed \$1m.
- The savings in 1998-99 and onwards are net of the costs of rationalisation and civilianisation in the Acquisition Program.
- The savings in 1997-98 relate primarily to one-off savings achieved through the sale of RAAF Base Fairbairn and Tresco.
- These planned savings are expected to be achieved through a range of initiatives which have not yet been allocated by Program or by Major Category of Savings Initiative.
- The planned savings in Superannuation and Fringe Benefits Tax have been calculated on the basis of the anticipated reductions in personnel numbers. In the Section 2 DRP Tables, the Superannuation and Fringe Benefits Tax savings have not been included in the savings by DRP Category; rather the total Portfolio savings for Superannuation and Fringe Benefits Tax have been shown against Programs 8 and 14 respectively.
- The planned savings listed in the table are the gross savings to be achieved, including the salary and operating costs of support areas to be market tested. This line represents the estimated cost of the contracts for the services to be delivered by external providers.

Table 2: Planned Cumulative DRP Personnel Savings by Major Initiative Category ^{(1) (2) (3)}

DRP Savings Category	1997-98		1998-99		1999-00		2000-01		2001-02		MATURE	
	ADF	APS	ADF	APS	ADF	APS	ADF	APS	ADF	APS	ADF	APS
Defence Command and Management Arrangements	10	40	141	92	178	100	187	103	278	105	497	109
Intelligence		15	16	24	33	40	36	52	36	52	37	17
Capability Development ⁽⁴⁾									10	-10	22	-22
Acquisition and Industry ⁽⁴⁾		173	150	267	211	190	292	108	353	8	414	8
Science and Technology		99	20	101	16	112	16	123	16	123	56	123
Facilities and Long Term Force Disposition		61	40	83	44	98	44	53	44	53	44	53
Logistics	120	269	617	498	1,463	783	2,939	901	3,268	1,009	3,950	1,023
Personnel Planning	25	373	425	402	604	424	941	454	1,307	463	1,385	463
Education and Training	67	35	317	70	548	73	673	79	744	127	1,232	160
Administrative Support	13	388	1,587	884	2,918	1,167	4,552	1,381	4,552	1,393	4,552	1,408
Information Management		-48	13	57	126	122	340	162	440	162	540	162
Unallocated ⁽⁵⁾											1,146	
Total DRP Savings ⁽⁶⁾	360	1,405	3,326	2,478	6,141	3,109	10,020	3,416	11,048	3,485	13,875	3,504

Notes:

1. The figures in the table represent the cumulative ongoing annual savings.
2. These savings represent actual numbers of personnel rather than Average Strength.
3. Figures represent both the positions to be saved and an assumed 90% reduction of military positions and a 25% reduction of civilian positions in those functions to be market tested (the market-test savings assumptions are broadly based on historical experience).
4. In Capability Development and Acquisition and Industry, a number of military positions will be replaced by civilian positions.
5. These planned savings are expected to be achieved through a range of initiatives which have not yet been allocated by Program or by Major Category of Savings Initiative.
6. These figures do not include the reinvestment of DRP savings in ADF personnel (see Table 3).

Table 3: Allocation of Defence Reform Program Savings

Initiative	1997-98	1998-99	1999-00	2000-01	2001-02
	\$m	\$m	\$m	\$m	\$m
Estimated DRP Savings	102	255	403	560	667
New Capital Investment			83	165	135
Amphibious Capabilities	5	32	25	17	24
Capability - Related Logistics Costs	106	107	116	164	73
New Capabilities - Net Personnel & Operating Costs	15	66	67	95	82
Defence Science - Capability Projects		15	15	22	22
Army Program Reinvestment ⁽¹⁾		43			
Provision for 50,000 ADF		11	46	161	346
Pilot Training		4	5	4	4
DRP Transition Costs	67	60	60	60	60
Total Allocation ⁽²⁾	193	338	417	688	746

Notes:

1. Funding has been provided for the movement of additional personnel into the Army combat force. The level of reinvestment for this and other personnel-related initiatives are still subject to review and no funds for these purposes have been programmed across the Forward Estimates at this stage.
2. These initiatives have projected gross expenditure levels in excess of the savings to be achieved through the DRP. This strategy has been adopted because of uncertainty about the lead times and achievable expenditure spreads, particularly in equipment and logistics items. This over-programming ensures that overall expenditure on the package in each year will exceed DRP savings. From 1999-00, the unallocated balance of funds remaining from the \$125m Administrative Savings Initiatives will also be available for allocation. Expenditure in a particular year will be matched to the funds available by cash management techniques, review of priorities or provision of extra funds from within overall Defence outlay.

RESTRUCTURING THE ARMY

The *Restructuring the Army* initiative was announced in October 1996. It seeks to validate the concepts and organisational structures developed by the *Army in the 21st Century* review through a range of trials and studies, and determine how the Army will staff the new organisation. Restructuring will take place at a rate that will allow the Army to meet its readiness requirements and to take account of the outcomes of trials and evaluations. This restructuring, including additional equipment acquisitions, will be funded from existing Defence outlays.

Activities commenced in 1997 and will progress through to December 1999 with a report to be submitted to the Government by mid-2000. Specific activities commenced so far are:

- the amalgamation of 6 Brigade and 7 Brigade (Queensland) to form 7 Task Force occurred on 1 July 1997. 7 Task Force has commenced the evaluation of formation integration and collective training initiatives;
- the transfer of personnel into the Combat Force from the Enabling Force has largely been completed. Current refinement will ensure a full-time Combat Force strength of 15,000 personnel out of a total 23,000 full-time Army personnel;

- to increase operational capability, the revitalisation of the part-time Army is progressing in 4 Brigade (Victoria) and 13 Brigade (Western Australia);
- in 4 Brigade, 500 new part-time soldiers have completed the six week Common Induction Training course, which provides equivalent levels of induction training for part-time and full-time soldiers. The Brigade continues to receive additional equipment and training resources and under current plans will have its complement of 10% full-time personnel by December 1999;
- in 13 Brigade, a full-time sub-unit will be established as part of 16th Battalion, The Royal Western Australian Regiment. The Brigade will have its complement of 10% full-time personnel by December 1999;
- the conversion of 4 Battalion, Royal Australian Regiment, to a second commando regiment has started and will be operational by 2001; and
- the trial of a restructured Task Force and units based on 1 Brigade (Darwin) and a motorised infantry battalion trial in Brisbane commenced in February 1998. During 1998, this trial will focus on 'Defeating Attacks against Australia' scenarios, with the focus in 1999 on 'Defending Regional Interests' scenarios.

DEFENCE ACCRUAL-BASED OUTPUT MANAGEMENT

In April 1997, the Government decided to implement an accrual-based outcomes and outputs framework for the Commonwealth from 1999-2000. This initiative forms part of a broader reform agenda to develop a more output-focused, performance-oriented culture within the public sector.

In response, Defence is developing a new integrated performance and resource management framework that meets the Government's requirements, and also builds on and integrates a number of current reforms and initiatives in Defence management. The new framework is designed to place Defence in a better position to conduct its business into the future, including through more integrated planning, budgeting, evaluation and reporting processes, better quality data for strategic planning and decision-making purposes, and planning based on Government-endorsed outputs and agreed performance levels.

As a significant element of the new resource framework, work is progressing to support the development of the 1999-2003 Five Year Defence Program in an accrual and output format. While Defence has been preparing accrual-based annual Financial Statements for a number of years, accrual-based budget development presents a number of challenges for Defence. With assets currently valued at some \$38 billion, much of this comprising specialised military equipment and the associated facilities and inventory required to deliver combat capability, and liabilities of some \$1 billion, Defence has the most extensive balance sheet of all general government sector agencies. Defence also has the most extensive capital investment program, which has implications for the funding of replacement and new capabilities. To ensure a successful transition, work is focused on developing appropriate resource management policies, business processes and rules, systems development, awareness, education and training, and change management.

While expecting to be ready by 1 July 1999 to meet necessary whole-of-government and Defence requirements, the size of the task and the time required to put replacement and upgraded corporate

systems in place will result unavoidably in a stepped approach to the new framework. This is consistent with the approach being developed by the Department of Finance and Administration whereby the full requirements of the new accrual-based output management framework will not be introduced until 2000-2001 or later.

PERFORMANCE REPORTING AND EVALUATION

Performance Information Review

The Defence Performance Information Review was conducted jointly with the Department of Finance in 1996-97 and a joint report, endorsed by both departments, was presented to the Ministers for Defence and Finance in July 1997. It identified many deficiencies in Defence performance information, and has led to the initiatives described below.

Performance Management Framework

A new performance management framework is being developed to provide a comprehensive and planned performance management environment and culture in which the contribution each element of the Defence organisation makes to higher-level objectives and outputs is identified, performance information is collected and aggregated to inform decision making and managers are held accountable.

The full performance framework is planned to be implemented by 1 July 1999, to fit in with a number of other related initiatives including accrual-based output budgeting, accounting and reporting.

Performance Reports

Program Managers now report biannually, in March and September, on their Program's performance to the Defence Management Committee.

A Capability Assessment Report is being developed for each Defence output. The reports will describe the current level of capability of the output – readiness, sustainability and effectiveness for various roles – as well as identifying approved and proposed options for varying the capability. They are intended to inform long-term planning and subsequently the Five Year Defence Program and the budget.

Portfolio Evaluation Strategy

The Defence Portfolio Evaluation Strategy, endorsed by the Defence Audit and Program Evaluation Committee in December 1997, is designed to enhance evaluation as an integral part of the Defence performance management framework. It flows directly from the Government's performance management principles and complements continuous performance monitoring by ensuring the targeted utilisation of evaluation as a more precise tool to assist in effective management.

Portfolio evaluations for FY1998-99, endorsed by the Defence Management Committee in April 1998, are Minor Capital Equipment Procurement; Operation of the Defence Community Organisation; Use of Legal Reserve Panels in Defence (subject to staff availability); Processes for Accounting for Uniformed Personnel and Management of Service Salaries; Interaction between Strategic Workforce and Capability Planning; and Financial Management Skills within Defence.

External Scrutiny

During 1997-98, the Auditor-General reported on Performance Management of Defence Inventory and the New Submarine Project. Other audit reports expected to be tabled before the end of the financial year are Life-Cycle Costing in Defence and the Commercial Support Program. The status of Defence's implementation of the agreed recommendations will be summarised in the 1997-98 Annual Report.

1998-99 BUDGET SUMMARY

OVERVIEW

The Government has committed to retain Defence funding for the 1998-99 Budget and the 1999-2002 Forward Estimates at the levels agreed in the 1997-98 Budget, ie. Defence Function outlays are planned to be maintained in real terms during this period. The estimated Defence Function Budget outlay of \$10,945.5m for 1998-99 represents an increase of \$589.2m over the Defence Function outlay estimated outcome of \$10,356.2m for 1997-98.

The Defence Budget share of Gross Domestic Product for 1998-99 is estimated to be 1.9%, which is the same proportion forecast in 1997-98. Defence outlays are estimated to be 8.7% of 1998-99 Commonwealth Outlays compared to the estimated outcome of 8.4% in 1997-98.

While the real level of Defence funding has been maintained in 1998-99, Defence is required to absorb within existing outlays any additional costs and expenditure pressures arising from Defence and Government-related initiatives. Examples include the transition and implementation costs of the Defence Reform Program, and costs associated with peace monitoring operations on Bougainville and the Ottawa Treaty on anti-personnel landmines.

In 1998-99, \$2,727.0m is planned to be spent on new major capital equipment. Projects approved by the Government in the Budget include upgrades for the Hornet front-line fighters, M113 Armoured Personnel Carriers and hydrographic survey equipment, and the acquisition of 'Penguin' anti-ship missiles for the Anzac ship helicopters, electronic navigation systems for RAN ships, equipment to facilitate helicopter operations from amphibious ships, spares for F-111G strike aircraft and a deployable intelligence database for use by operational headquarters.

Significant events in this year's major capital equipment program in previously approved projects include the delivery of the third Collins class submarine (NUSHIP *Waller*), delivery of the first coastal minehunter (NUSHIP *Huon*), and delivery of the hydrographic ships (NUSHIPs *Leeuwin* and *Melville*) and the first C130-J aircraft. Activity continues on the development of the Lead-In Fighter and Anzac helicopter, and the update of the P-3C Maritime Patrol aircraft to extend their life beyond 2010.

\$458.1m is planned to be spent in 1998-99 on major capital facilities projects. New major capital facilities initiatives approved in the Budget include the further redevelopment of Townsville's Lavarack Barracks (home of the ADF Ready Deployment Force), the development of new and updated facilities at RAAF Bases Townsville, Darwin and Amberley and the redevelopment of HMAS Albatross to meet helicopter, maritime support and training requirements. Continuing major capital facilities projects address the Army presence in the north in Darwin, the Russell redevelopment in Canberra, the development of HMAS Stirling in Western Australia and RAAF Bases Darwin and Tindal in the Northern Territory.

The total planned average personnel strength for 1998-99 is 101,309, a decrease of 1,474 from the estimated outcome for 1997-98 of 102,783. The 1998-99 estimate is comprised of 54,035 permanent Defence Force members, 30,143 Reserves and 17,131 civilians (including 89 trust account staff).

Summary of 1997-98 and 1998-99 Defence Estimates

The following table provides a summary of the 1997-98 and 1998-99 Defence Estimates and explains in broad terms the variations between those estimates. It provides a reconciliation between the 1998-99

Defence Function outlay total of \$10,945.5m presented in the Budget papers and the estimated Defence Portfolio outlay for 1998-99 of \$12,109.7m. Defence manages its resources to the Defence Function Outlay total and it is at this level that the Defence Budget is traditionally presented. An explanation of the difference between Function and Portfolio outlays is provided in the note to the table.

Table 4: Summary of 1997-98 and 1998-99 Defence Estimates

	1997-98 Budget Estimate	1997-98 Revised Estimate	1997-98 Estimated Outcome	1998-99 Budget Estimate	Variation 98-99 Budget less 97-98 Outcome
	\$'000	\$'000	\$'000	\$'000	\$'000
Defence Portfolio Appropriations	12,065,510	12,124,100	12,064,489	12,766,045	701,556
Defence Portfolio Receipts offset within Outlays	-635,844	-652,130	-652,430	-656,336	-3,906
Total Defence Portfolio Outlays	11,429,666	11,471,970	11,412,059	12,109,709	697,650
Less non-Defence Function Appropriations	1,104,268	1,124,136	1,139,741	1,240,444	100,703
Less non-Defence Function Receipts	-81,751	-86,274	-86,274	-78,686	7,588
Plus Other Portfolio Receipts	-2,351	-2,351	-2,351	-2,494	-143
Total Defence Function Outlays	10,404,798	10,431,757	10,356,241	10,945,457	589,216

Notes:

1. Defence Portfolio Appropriations are composed of funds listed within Appropriation Bill No.1 as appropriated to the Department of Defence, and include Special Appropriations for DFRDB, MSBS and the Home Loans Assistance; and a portion of Department of Employment, Education, Training and Youth Affairs for employment subsidies for trainees.
2. Defence Portfolio Receipts shown in the table only represent those Department of Defence Receipts which are offset within outlays. Other Receipts (eg. DHA and ADI Dividends to the Commonwealth) are not included as, although they are Department of Defence Receipts, they are only credited to the Consolidated Revenue Fund and are not offset within outlays. The total therefore does not align with the presentation in Budget Paper No. 4 'Estimates of Other Receipts'.
3. The non-Defence Function appropriations and receipts are composed of Australian Defence Force superannuation payments and contributions (DFRDB and MSBS) and the Young Endeavour Youth Scheme. While these outlays lie within the Defence Portfolio, they are not classified as part of the Defence Function.
4. Other Portfolio receipts that contribute to the Defence Function relate to Finance Portfolio Receipts representing the repayment of borrowings in relation to the Commonwealth/State Housing Agreement and DHA Housing.

Derivation of the 1998-99 Budget Defence Function Outlay

Under established Defence budget arrangements, the last complete financial year's outcome is used as the base for calculating Defence budget outlays. The 1996-97 outcome was therefore used as the base for determining the 1998-99 Defence Budget. The Budget is also presented in full 'outturn' prices (see User Guide for explanation of 'outturn' prices) and Defence outlay is made up of expenditure or appropriations less receipts. The calculation of the Defence outlay for 1998-99 takes into account three elements:

- a. The 'above the line' component of Defence Outlays. Defence has discretion in the allocation of these resources to Program activities. The 'above the line' component accounts for the bulk of Defence outlays. The 1996-97 base is updated to reflect the price and exchange rate parameters, and is then adjusted to reflect agreed additions or subtractions which did not form part of the 1996-97 outlay. This adjusted 1996-97 outlay then forms the base for the application of the real growth planning guidance, 0% for 1998-99.
- b. Adjustments to the Defence 'above the line' base that are not subject to the real growth adjustment. After the real growth calculation, further adjustments are made for additional items which did not form part of the 1996-97 outlay. Examples include the impact of rescheduling capital equipment expenditure from 1996-97 to 1998-99 and 1999-2000; the flow-on of previous price and exchange adjustments; financial carryovers between years; revised Accrual Based Superannuation payments due to revised employer contributions rates; devolved funding for overseas properties; and Defence's share of asset sales proceeds.
- c. The 'below the line' component of Defence Outlays. Once the 'above the line' base has been established, estimates for 'below the line' items are added to determine total Defence outlays. This element consists of discrete funding amounts that relate to the undertaking of specific activities. 'Below the line' adjustments may have either 'continuing' or 'one-time' impacts on Outlays:
 - Continuing adjustments include a range of expenditure and receipt items - for example, compensation and legal costs are adjusted annually depending on Program requirements.
 - 'One-time' adjustments normally only have a one or two year impact on Defence Outlays. Supplementation provided must be returned if not required. Funding provided for peacekeeping activities has required a number of 'one-time' adjustments in recent years.

Table 5 demonstrates that, although there is no real growth adjustment from 1996-97 to 1997-98 and beyond, there can be substantial movements in the Defence 'bottom line' funding position. This primarily reflects movements in below the line items which do not form part of the real growth calculation.

Table 5: Derivation of 1998–99 Budget Estimate and 1999-2002 Forward Estimates ⁽¹⁾

	96-97 \$m	97-98 \$m	98-99 \$m	99-00 \$m	00-01 \$m	01-02 \$m
Above the Line Base - 1996-97 Outcome	9,874.0	9,874.0	9,874.0	9,874.0	9,874.0	9,874.0
Adjustments to Derive the Base for the Following Years						
Revised 1996-97 Price Parameters		-8.5	-8.5	-8.5	-8.5	-8.5
1997-98 Forecast Price and Exchange Adjustments		231.4	231.4	231.4	231.4	231.4
1998-99 Forecast Price and Exchange Adjustments			343.8	343.8	343.8	343.8
Reinstatement of reduction in 1996-97 due to revised parameters		64.7	64.7	64.7	64.7	64.7
Miscellaneous Adjustments		-0.8	-0.1	-0.1	-0.1	-0.1
Sub-Total	9,874.0	10,160.8	10,505.3	10,505.3	10,505.3	10,505.3
Adjustments to the Above the Line Base Not Subject to Real Growth Adjustments						
Rescheduling of Major Capital Equipment Expenditure:						
- Return of funding reduced in 1996-97			41.2	41.2		
- Add back 1996-97 one-off Reduction		81.7	81.7	81.7	81.7	81.7
Anticipated 1997-98 Carryover to 1998-99		-65.0	65.0			
Outturn price adjustment for 1996-97 reflected in 1997-98		-8.1				
Outturn exchange adjustment for 1996-97 reflected in 1997-98		28.5				
Forecast outturn price adjustment for 1997-98 reflected in 1998-99			-37.8			
Forecast outturn exchange adjustment for 1997-98 reflected in 1998-99			132.5			
Increased Accrual Based Superannuation due to revised employer contribution rates (1997-98 adjustment)		9.4	9.6	9.6	9.6	9.6
Increased Accrual Based Superannuation due to revised employer contribution rates (1998-99 adjustment)			8.0	8.0	8.0	8.0
Devolution of funding from the Department of Finance & Administration for the implementation of user charging for Commonwealth owned overseas properties		11.0	8.8	8.8	8.8	8.8

	96-97 \$m	97-98 \$m	98-99 \$m	99-00 \$m	00-01 \$m	01-02 \$m
Defence share of Newington Sale				6.0		
Miscellaneous Adjustments			1.3	1.3	1.4	1.4
(A) Revised Above the Line Base	9,874.0	10,218.3	10,815.6	10,661.9	10,614.8	10,614.8
Below the Line:						
Compensation and Legal Expenses	137.5	127.0	127.0	127.0	131.9	138.9
Peacekeeping/UN Deployments	1.1	0.3	-0.4			
Net Supplementation for Special Project	0.4	4.8	0.1	0.1		
Voyager Compensation	0.9	2.5	1.0	1.0	1.0	1.0
Compensation for Detriment Caused by Defective Administration	0.2	0.4	0.4	0.4	0.4	0.4
MSBS/DFRDB Actuarial Review	0.1	0.1				
Absorption of costs relating to Cockatoo Island	-17.9					
Superannuation Guarantee Charges and Levy	2.8	2.9	1.8	1.8	1.8	1.8
(B) Sub-Total Below the Line	125.2	137.9	129.9	130.2	135.0	142.0
(C) Final Outturn Price Adjustment to Align with Budget Papers ⁽²⁾				218.1	448.5	680.3
Total Defence Function Outlays (A+B+C)	9,999.2	10,356.2	10,945.5	11,010.2	11,198.3	11,437.0
ADF Superannuation: DFRDB and MSBS	965.7	1,051.5	1,159.9	1,049.4	1,076.0	1,066.6
Young Endeavour Youth Scheme	1.8	1.8	1.8	1.8	1.8	1.9
Proceeds from the sale of Avalon Airport Geelong	-1.5	0.1				
DoFA receipts	1.3	2.4	2.5	2.6	2.8	3.0
Total Defence Portfolio Outlays	10,966.6	11,412.1	12,109.7	12,064.0	12,279.0	12,508.4

Notes:

1. Totals may not add due to rounding.
2. Defence planning guidance is traditionally presented in a constant price basis (for example, the 1998-99 Budget & 1999-02 Forward Estimates are all in Budget 1998-99 prices and exchange rates). This final price adjustment is included to derive actual in-year dollars for future years to align Total Defence Function Outlays and Total Defence Portfolio Outlays with other Budget documentation.

The following table provides a reconciliation of Defence Portfolio Outlays by appropriation item.

Table 6: Reconciliation of Appropriation Bill No 1 - Defence Portfolio Summary ^{(1) (2) (3)}

Division / Appropriation Item	1997-98	1997-98	1997-98	1998-99	Variation	
	Budget	Revised	Estimated	Budget	98-99 Budget less	
	Estimate	Estimate	Outcome	Estimate	97-98 Outcome	%
	\$'000	\$'000	\$'000	\$'000	\$'000	%
DEFENCE FUNCTION OUTLAYS						
180 ADMINISTRATIVE						
180-01 RUNNING COSTS						
Service Personnel	3,260,832	3,264,832	3,250,336	3,237,873	-12,463	-0.4
Civilian Personnel	949,633	876,869	878,746	891,642	12,896	1.5
Administrative Expenses	1,213,269	1,224,328	1,204,816	1,176,394	-28,422	-2.4
Facilities Operations	223,523	232,044	234,950	230,505	-4,445	-1.9
Sub-Total Division 180-01	5,647,257	5,598,073	5,568,848	5,536,414	-32,434	-0.6
180-02 OTHER SERVICES						
Payment under SPA for ASTA Ltd	4,355	4,355	4,355	1,580	-2,775	-63.7
Payment for Defence Science Research Act of Grace Payments	705	615	540	632	92	17.0
Emergency Management Australia	108	108	108	117	9	8.3
Woomera Village - Operating Costs	6,829	6,829	6,829	6,785	-44	-0.6
Voyager Compensation	7,378	7,378	7,378	7,499	121	1.6
Compensation and Legal Services	2,500	2,500	2,500	1,000	-1,500	-60.0
Payment to UNSW for ADFA	125,451	137,571	127,040	127,030	-10	
Grants to Independent Organisations and Individuals	34,535	34,535	34,535	35,256	721	2.1
Compensation for Detriment caused by Defective Administration	1,035	1,701	1,701	1,558	-143	-8.4
Ex-Gratia Payments	350	350	350	350		
Ex-Gratia Payments		6,200	6,200	2,200	-4,000	-64.5
Sub-Total Division 180-02	183,246	202,142	191,536	184,007	-7,529	-3.9
181 EQUIPMENT & STORES	4,251,378	4,339,513	4,313,588	4,964,650	651,062	15.1
182 DEFENCE COOPERATION	67,853	71,853	63,603	67,403	3,800	6.0
183 DEFENCE PRODUCTION	17,849	17,849	17,849	17,887	38	0.2
184 PAYMENTS TO ADI LTD	1,167	1,167	1,167	50	-1,117	-95.7
185 DEFENCE FACILITIES	513,014	490,170	488,960	500,299	11,339	2.3
186 DEFENCE HOUSING	253,590	253,590	253,590	233,248	-20,342	-8.0
(A) Sub-Total	10,935,354	10,974,357	10,899,141	11,503,958	604,817	5.5

Division / Appropriation Item	1997-98	1997-98	1997-98	1998-99	Variation	
	Budget	Revised	Estimated	Budget	98-99 Budget less	
	Estimate	Estimate	Outcome	Estimate	97-98 Outcome	%
	\$'000	\$'000	\$'000	\$'000	\$'000	%
SPECIAL APPROPRIATIONS						
MSBS - Retention Benefit	20,388	20,867	20,867	16,043	-4,824	-23.1
Housing Loan Assistance Scheme	4,500	3,740	3,740	5,500	1,760	47.1
DEETYA Subsidies	1,000	1,000	1,000	100	-900	-90.0
(B) Sub-Total	25,888	25,607	25,607	21,643	-3,964	-15.5
(C) Total Expenditure on Defence Function Outlays (A+B)	10,961,242	10,999,964	10,924,748	11,525,601	600,853	5.5
(D) Total Defence Function Receipts and Trust Accounts Receipts	-556,444	-568,207	-568,507	-580,144	-11,637	2.0
(E) DEFENCE FUNCTION OUTLAYS (C+D)	10,404,798	10,431,757	10,356,241	10,945,457	589,216	5.7
NON-DEFENCE FUNCTION OUTLAYS						
Add Non-Defence Function Appropriations						
Young Endeavour	1,809	1,809	1,809	1,818	9	0.5
DFRDB Payments	932,267	970,332	970,332	1,071,511	101,179	10.4
MSBS Payments	170,192	151,995	167,600	167,115	-485	-0.3
(F) Sub-Total	1,104,268	1,124,136	1,139,741	1,240,444	100,703	8.8
Add Non-Defence Function Receipts						
DFRDB Contributions	-46,416	-48,227	-48,227	-42,192	6,035	-12.5
MSBS Contributions	-35,335	-38,167	-38,167	-36,494	1,673	-4.4
Sale of Avalon Airport Geelong		120	120		-120	-100.0
(G) Sub-Total	-81,751	-86,274	-86,274	-78,686	7,588	-8.8
DEFENCE FUNCTION, NON-DEFENCE PORTFOLIO RECEIPTS						
DoFA – Advance to States under Commonwealth-State Housing Agreement	-2,351	-2,351	-2,351	-2,494	-143	6.1
(H) Sub-Total	-2,351	-2,351	-2,351	-2,494	-143	6.1
DEFENCE PORTFOLIO OUTLAYS (E+F+G-H)	11,429,666	11,471,970	11,412,059	12,109,709	697,650	6.1

Notes:

- Defence Portfolio Appropriations are composed of funds listed within Appropriation Bills No. 1 and 3 and the Statement of Savings, as appropriated to the Department of Defence, and include Special Appropriations for DFRDB, MSBS and the Home Loans Assistance Scheme; and a proportion of Department of Employment, Education and Training and Youth Affairs funds for employment subsidies for trainees.
- Defence Portfolio receipts shown in the table only represent those Department of Defence receipts which are offset within outlays. Other receipts (eg. DHA and ADI dividends to the Commonwealth) are not included as they are credited to the Consolidated Revenue Fund and are not offset within Defence outlays.

3. The non-Defence Function appropriations and receipts are composed of ADF superannuation payments and contributions (DFRDB and MSBS) and the Young Endeavour Youth Scheme. While these outlays lie within the Defence Portfolio, they are not classified as part of the Defence Function.

The following table summarises Defence Function Outlays by Program for the 1997-98 and 1998-99 estimates, including the 1997-98 estimated outcome and variations to 1998-99.

Table 7: Defence Function Outlays by Program

Program	1997-98	1997-98	1997-98	1998-99	Variation	
	Budget	Revised	Estimated	Budget	98-99 Budget less	
	Estimate	Estimate	Outcome	Estimate	97-98 Estimate	%
	\$'000	\$'000	\$'000	\$'000	\$'000	%
1 Defence Headquarters	174,756	153,489	146,811	201,690	54,879	37.4
2 Navy ⁽¹⁾	717,685	710,526	735,694	786,223	50,529	6.9
3 Army	1,279,681	1,233,028	1,286,484	1,304,219	17,735	1.4
4 Air Force	778,439	713,712	739,207	741,784	2,577	0.3
5 Intelligence	136,962	124,444	138,999	141,432	2,433	1.8
6 Support Command	2,176,362	1,999,904	2,009,385	2,095,595	86,210	4.3
7 Joint Education & Training	102,294	94,222	100,876	102,906	2,030	2.0
8 Defence Personnel Executive ⁽²⁾	1,104,076	1,114,833	980,141	1,086,316	106,175	10.8
9 Acquisition ⁽³⁾	2,428,529	2,477,870	2,404,377	2,756,273	351,896	14.6
10 Science & Technology	230,300	219,723	206,548	207,503	955	0.5
11 Defence Estate	644,300	669,422	661,497	672,445	10,948	1.7
12 Corporate Information	69,586	213,306	220,912	250,351	29,439	13.3
13 Defence Corporate Support	510,868	656,948	671,860	584,497	-87,363	-13.0
14 Finance & Inspector-General ⁽⁴⁾	50,960	50,330	53,450	14,223	-39,227	-73.4
Total Defence Function Outlays	10,404,798	10,431,757	10,356,241	10,945,457	589,216	5.7

Notes:

1. Program 2 does not include Portfolio funding relating to the Young Endeavour Youth Scheme, which forms part of the Culture and Recreation Function.
2. Program 8 does not include Portfolio funding relating to ADF Superannuation (DFRDB/MSBS), which forms part of the Government Superannuation Benefits Function.
3. Program 9 does not include Portfolio funding relating to the sale of Avalon Airport Geelong.
4. This includes a net variation of -\$50.1m related to the management of Defence's Fringe Benefits Tax liability.

The following table summarises staffing numbers by Program for the 1997-98 and 1998-99 estimates, including the 1997-98 estimated outcome and variations to 1998-99.

Table 8: Staffing by Program

Program	1997-98	1997-98	1997-98	1998-99	Variation	
	Budget Estimate	Revised Estimate	Estimated Outcome	Budget Estimate	98-99 Budget less 97-98 Estimate	%
Personnel Numbers						
1 Defence Headquarters	1,076	1,106	1,308	1,311	3	0.2
2 Navy	11,440	11,929	12,856	11,458	602	5.1
3 Army	44,118	42,988	43,760	44,867	1,107	2.5
4 Air Force	13,385	11,293	11,217	11,306	89	0.8
5 Intelligence	1,491	1,453	1,439	1,491	52	3.6
6 Support Command	15,664	11,963	11,666	10,968	-698	-6.0
7 Joint Education & Training	1,335	1,349	1,409	1,423	14	1.0
8 Defence Personnel Executive ⁽¹⁾	5,380	7,358	6,021	5,699	-322	-5.3
9 Acquisition	2,298	2,304	2,131	2,057	-74	-3.5
10 Science & Technology	2,406	2,150	2,051	2,206	155	7.6
11 Defence Estate	507	761	700	574	-126	-18.0
12 Corporate Information	413	1,252	1,300	1,224	-76	-5.9
13 Defence Corporate Support ⁽¹⁾	4,387	7,869	7,518	5,340	-2,178	-29.0
14 Finance & Inspector-General	408	413	407	385	-22	-5.4
Anticipated DRP Reductions ⁽²⁾	-1,200					
Total Defence Staffing	104,308	102,988	102,783	101,309	-1,474	-1.4

Notes:

- Includes staff paid from trust accounts (104 at the 1997-98 Budget included in the Defence Personnel Executive Program and 99 for the 1997-98 Revised Estimate and Estimated Outcome and 89 for the 1998-99 Budget Estimate included in the Defence Corporate Support Program).
- This anticipated reduction was held centrally in the 1997-98 Additional Estimates. The reduction has been achieved by Programs, and is reflected in the 1997-98 Estimated Outcome.

Personnel

A summary of personnel estimates for 1997-98 and 1998-99 is provided in the following table. It shows that the planned Permanent Defence Force average funded strength (AFS) for 1998-99 is 54,035, a decrease of 1,713 from the Estimated Outcome for 1997-98 of 55,748. This decrease is due to general reductions caused by the DRP. The planned number of Reserves for 1998-99 is 30,143, an increase of 686 over the Estimated Outcome for 1997-98. Total civilian AFS is planned to decrease from an Estimated Outcome of 17,578 in 1997-98 to 17,131 in 1998-99, a reduction of 447. This reflects the impact of DRP reductions, which are partly offset by civilianisation and continued recruitment of base-level and graduate entrants.

Table 9: Summary of 1997-98 and 1998-99 Personnel Estimates

	Budget Estimate 1997-98	Revised Estimate 1997-98	Estimated Outcome 1997-98	Budget Estimate 1998-99	Variation 98-99 Budget less 97-98 Outcome	%
	Personnel Numbers (Average Strength)					
Permanent Forces						
- Navy	14,116	14,250	14,240	13,850	-390	-2.7
- Army	25,315	25,286	25,179	24,400	-779	-3.1
- Air Force	16,579	16,588	16,329	15,785	-544	-3.3
Total Permanent Forces	56,010	56,124	55,748	54,035	-1,713	-3.1
Reserves ⁽¹⁾						
- Navy	2,039	1,940	1,940	1,836	-104	-5.4
- Army	25,348	25,348	25,757	26,507	750	2.9
- Air Force	1,760	1,760	1,760	1,800	40	2.3
Total Reserves	29,147	29,048	29,457	30,143	686	2.3
Civilian	19,151	19,016	17,578	17,131	-447	-2.5
DRP Civilian Savings		-1,200				
Total Civilian	19,151	17,816	17,578	17,131	-447	-2.5
Total Staffing	104,308	102,988	102,783	101,309	-1,474	-1.4

Note:

1. Reserve numbers include Ready Reserve numbers.

The table opposite shows the trend in actual and estimated total Defence Function outlays over the period from 1993-94 to 2001-2002. It also provides Defence Function outlays as a percentage of total Commonwealth outlays and Gross Domestic Product. Defence outlays have declined and are projected to continue to decline over this period as a proportion of both of these aggregates.

Table 10: Defence Function Outlay Trends ^{(1) (2)}

	Actual Historic Prices				Estimated Outcome	Budget	Forward Estimates		
	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01	01-02
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Appropriations	10,314	10,338	10,605	10,611	10,925	11,526	11,524	11,757	12,015
Receipts and Trust Accounts	-568	-607	-594	-612	-569	-580	-514	-559	-578
Defence Function Outlay	9,746	9,731	10,011	9,999	10,356	10,946	11,010	11,198	11,437
	%	%	%	%	%	%	%	%	%
Nominal Change in Outlay over previous year	6.4	-0.2	2.9	-0.1	3.5	5.7	0.6	1.7	2.1
Reduction in the base level of Defence Outlays	-0.75	-0.5	-0.5	-0.5	0	0	0	0	0
Outlay as a proportion of:									
Total Commonwealth Outlay	8.5	8.0	7.9	7.8	8.4	8.7	8.6	8.1	7.3
Gross Domestic Product	2.3	2.1	2.0	1.9	1.9	1.9	1.8	1.7	1.7

Notes:

1. Table may not add due to rounding.
2. An explanation of the year-on-year variations in Defence Function Outlays across the Forward Estimates can be found in Table 5.

PROGRESS ON \$125m ADMINISTRATIVE SAVINGS INITIATIVES

In the 1996-97 Budget, the Department of Defence made a reduction in administrative expenditure totalling \$125m per annum, which has been reallocated to a range of capability related expenditure initiatives. Table 11 below outlines the programmed savings and the reallocations made. From next year, the unallocated savings will be added to DRP savings, for reinvestment in capability. Further details on these initiatives are available at Appendix 9.

Table 11: \$125m Redirected Administrative Savings Initiatives ^{(1) (2)}

Initiative Category	96-97	97-98	98-99	99-00	00-01	01-02
	Actual	Revised	Budget	Estimate		&
	\$'000	Estimate	Estimate	\$'000	\$'000	ongoing
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(A) Programmed Savings	125,976	140,204	135,749	135,749	135,749	135,749
Programmed Reallocation:						
Land Force Capabilities	24,880	98,870	72,810	48,990	6,750	1,360
Strike	53,960	31,180	82,300	26,990	4,940	3,180
Maritime and Air Defence	17,320	22,780	28,750	9,220	3,480	2,180
C ³ I	11,800	12,320	6,470	11,660	7,380	5,960
Personnel Initiatives	31,250	18,570	19,240	16,980	9,550	9,550
Other Government Initiatives	8,160	2,810	1,030	1,030	1,030	1,030
(B) Total Reallocation	147,370	186,530	210,600	114,870	33,130	23,260
Balance (A-B) ⁽³⁾	-21,394	-46,326	-74,851	20,879	102,619	112,489

Notes:

1. The \$125m Administrative Savings will appear in the 1998-99 PBS, Portfolio Additional Estimates Statements and the Defence Annual Report. From 1999-00 onwards, it will be subsumed in reporting on DRP progress.
2. All figures are 1998-99 prices.
3. Totals do not add to \$125m from 1999-00 onwards because the balance of funds remains unallocated. As the table indicates, the initiatives have projected gross expenditure levels in excess of the savings to be achieved. This strategy was adopted because of the uncertainty over the lead times and achievable expenditure spreads of some of the initiatives, and will ensure that overall expenditure on the package each year exceeds \$125m. Actual expenditure each year will be matched to funds available by cash management techniques, review of priorities or provision of extra funds from within overall Defence outlays.