

# **DEFENCE**

## **CHAPTER ONE OVERVIEW**

### **OVERVIEW**

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# OVERVIEW

## STRATEGIC OBJECTIVES AND ENVIRONMENT

### Strategic Objectives

The strategic principles set out in *Defence 2000 – Our Future Defence Force* (the Defence White Paper) and in *Australia's National Security: A Defence Update 2003* (the Defence Update 2003) remain a valid framework for addressing Australia's defence policy.

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

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

The Government continues to pursue these objectives by:

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

Defence needs to be able to perform four strategic tasks. These are to:

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

The first two tasks will determine the Australian Defence Force's (ADF) capability priorities, and will provide capabilities which may be drawn on to perform the other two tasks. The training and skill levels of the ADF will be suitable for providing the nucleus for an Australian-led coalition force, or for providing a commitment to other coalitions. Consequently, the ADF will be able to operate in the maritime, air and land environments both separately and jointly.

## Changing Strategic Environment

The Defence Update 2003, released in February 2003, reviewed Australia's security environment and highlighted the following issues:

- While the threat of direct military attack on Australia is less than it was in 2000, in other important ways certainty and predictability have decreased because the strategic advantage of Australia's geographical location does not protect it from threats such as terrorism, weapons of mass destruction, and the direct impact of global conflicts on its national interests.
- Numerous terrorist attacks throughout the world demonstrate that terrorism is more than just a transitory phenomenon and now includes a willingness and capability to inflict massive civilian casualties for strategic ends.
- Australia has been identified as a potential terrorist target. Militant extremist groups in our region are now large, active and capable, and are prepared to take up causes other than local issues.
- The threat of proliferation of weapons of mass destruction and their means of delivery, especially by rogue states and terrorists, remains a significant security challenge.
- Australia's region is more exposed to world events, including security threats, than it was previously. Some countries have made little progress against their daunting economic, political and social challenges. These challenges leave our nearer neighbours vulnerable to transnational threats, which can affect Australia's interests.

The priorities for Defence in this new strategic environment include the need to be able to respond to:

- a greater likelihood of participation in coalition operations with important niche capabilities, requiring increased interoperability, readiness and sustainability;
- increased calls on Defence for operations in our immediate neighbourhood; and
- the growth in scale of non-military threats (terrorism, illegal immigration, illegal fishing, drug smuggling) requiring ADF support for civil law enforcement.

## FORCE STRUCTURE

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

- a surface combatant force of six guided missile frigates, otherwise called FFGs (to be reduced to four from 2006), and five Anzac-class frigates (rising to eight by 2006), together with onboard helicopters;
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships and one heavy landing ship;
- a mine hunter force comprising six coastal mine hunters (two of which are to be placed in extended readiness from 2006) and a hydrographic force comprising two hydrographic ships;
- an afloat support force comprising one oil tanker (to be replaced by 2006 with a more environmentally-friendly double-hulled tanker) and one replenishment ship;
- five Army infantry battalions at 90-days readiness or less, supported by a range of armour, aviation, engineer, artillery, logistics and transport assets, and a number of lower-readiness formations and units able to provide personnel for sustainment and rotation;
- a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
- three Regional Surveillance Units;
- a special forces group consisting of a Special Air Service regiment, a regular commando regiment, a reserve commando regiment, an Incident Response Regiment and a combat service support company;
- an air combat force of three front-line F/A-18 squadrons and one operational F-111 squadron (to be retired from service by about 2010), supported by training squadrons, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements. Airborne early warning and control aircraft will be deployed from 2007 and new operational air-to-air refuelling aircraft from late 2006;
- a maritime patrol force of two P-3C Orion squadrons; and
- agencies responsible for intelligence collection and analysis.

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

## IMPLEMENTING THE WHITE PAPER

The Defence White Paper continues to set out the Government's long-term policy direction and the capability enhancement framework for Defence. It is a guide to developing proposals to enhance the ADF's capabilities in 2004-05 and in future years, and provides the framework for presentation of major capital investment proposals to the Government.

Defence's long-term plan to acquire the equipment necessary to meet the requirements set out in the White Paper is contained in the Defence Capability Plan. The Defence Capability Plan is updated regularly to ensure that it continues to reflect the effects of changes in Australia's strategic environment, changes in technology and any other requirements. The Defence Update 2003 foreshadowed that, while the principles set out in the White Paper remain sound, some re-balancing of capability and expenditure would be necessary. This re-balancing would not fundamentally alter the size, structure and roles of the ADF but would result in increased emphasis on readiness and mobility, on interoperability and on adjustment of some capabilities. The results of this re-balancing were announced by the Government in November 2003 and a public version of the updated Defence Capability Plan was released on 4 February 2004.

The most significant initiatives expected to be introduced in 2004-05, and other major milestones for the coming year, are summarised below. Additional detail on these initiatives can be found in the remaining chapters of the document.

### Initiatives to Improve Capability

#### Land Forces Goal

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

Defence's ability to meet the Government's aim will be enhanced in 2004-05 by:

- continued development of the Special Operations Command, including the expansion of the special operations headquarters, the establishment of a special operations service support company and an additional commando company;
- ongoing development of the second Tactical Assault Group, Incident Response Regiment and high readiness reserve elements to bolster the ADF's anti-terrorist capability;

- initial delivery of Tiger armed reconnaissance helicopters;
- initial delivery of Bushmaster vehicles;
- completion of the redevelopment of Oakey Base (Queensland); and
- acceptance of ground surveillance radars, and delivery of thermal surveillance and unattended ground sensor systems.

Defence will take steps in 2004-05 to further develop our land forces in future financial years by:

- managing a Foreign Military Sales case for the acquisition of the M1A1 Abrams tank system;
- signing a contract for additional troop-lift helicopters;
- developing an agreement with the United States Government to purchase additional Javelin direct fire guided weapons;
- releasing the request for tender for a tactical uninhabited aerial vehicle system; and
- continuing the redevelopment of Lavarack Barracks (Townsville, Queensland), the relocation of the 1<sup>st</sup> Aviation Regiment (Darwin, Northern Territory) and the development of the Bradshaw Training Area (Timber Creek, Northern Territory).

To further enhance the ADF's land capabilities, Defence will present proposals to the Government in 2004-05 for:

- upgrading the Chinook Helicopter engines; and
- investigating options for an assured, positive combat identification system for land forces.

## **Air Combat Goal**

The air combat goal is to protect Australia from air attack and control its air approaches to ensure the ADF can operate effectively against any hostile forces. The Government's aim is to maintain the air combat capability at a level at least comparable qualitatively to any in the region, and with a sufficient margin of superiority to provide an acceptable likelihood of success in combat. These forces should be large enough to provide a high level of confidence that we could defeat any credible air attack on Australia or in our approaches, and capable enough to provide options to deploy an air combat capability to support coalitions. They will also have the capacity to provide air defence and support for deployed ground and maritime forces in our immediate region. This capability will be further enhanced through the acquisition of two additional airborne early warning and control aircraft, equipping Australia with a fleet of six of the leading edge air and maritime surveillance aircraft.

Defence's ability to meet the Government's aim will be enhanced in 2004-05 by:

- finalising the introduction into service of the AIM-132 advanced short range air-to-air missile for the F/A-18 Hornets; and

- completing the base redevelopment of RAAF Darwin (Northern Territory) and RAAF Townsville (Queensland).

Defence's ability to meet the Government's aim beyond the next financial year will be enhanced through a range of activities in 2004-05 including:

- obtaining contract signature for the acquisition of new air-to-air refuelling aircraft; and
- continuing redevelopment of the facilities at RAAF Williamtown (New South Wales), and reinvestment in RAAF Richmond (New South Wales).

### **Maritime Forces Goal**

The Government's aim for Australia's maritime forces is to maintain an assured capability to detect and attack any major surface ships and to impose substantial constraints on hostile submarine operations in our extended maritime approaches. Our maritime forces also need the ability to support Australian forces deployed offshore, to contribute to maritime security in the wider region, to protect Australian ports from sea mines, and support civil law enforcement and coastal surveillance operations.

Defence's ability to meet the Government's aim will be enhanced in 2004-05 by:

- the delivery of the sixth of eight Anzac-class frigates, *HMAS Ballarat*;
- the return to service of the guided missile frigate, *HMAS Sydney*, after a significant upgrade;
- the ongoing delivery of Evolved SeaSparrow missiles to improve the self-protection of the Anzac-class and upgraded guided missile frigates;
- the ongoing delivery of the Super Seasprite helicopters;
- delivery of the final AP-3C upgraded Orion aircraft and additional enhanced AP-3C Orion electro-optic sensors;
- commencing the phasing in of the Armidale-class patrol boats to replace the Fremantle-class;
- progressing the acquisition of the *HMAS Westralia* replacement; and
- completing the base redevelopment of HMAS Albatross (Nowra, New South Wales) and RAAF Edinburgh (South Australia).

Defence's ability to meet the Government's aim beyond the next financial year will be enhanced through a range of activities in 2004-05 including:

- continuing the guided missile frigate upgrade program;
- completing the introduction into service of the AP-3C flight simulator; and
- initiating the installation of the mine and obstacle avoidance sonar on the Anzac-class frigates.



To further enhance the ADF's maritime capabilities, Defence will present proposals to the Government in 2004-05 including:

- acquiring new fire control radars for Anzac-class frigates;
- updating components of the AP-3C Orion electronic warfare system;
- developing a detailed design for the air warfare destroyer; and
- more detailed investigations of new amphibious ships.

### **Strike Goal**

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

Defence's ability to meet this goal will be improved in 2004-05 and beyond, through enhancements to Defence's special forces, surface combatants, submarines and AP-3C Orion aircraft. The Government has recently approved a bomb improvement program to enhance the ADF's all-weather, day and night strike capability.

To further enhance the ADF's strike capabilities, Defence will present proposals to the Government in 2004-05 including acquiring long range stand-off air-to-surface weapons for the AP-3C Orion and F/A-18 aircraft.

### **Information Goal**

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

Defence's ability to meet this goal will be enhanced in 2004-05 by:

- initial delivery of the air defence command and control system;
- delivery of battlefield command support system elements; and
- enhancement of specialist intelligence collection and analysis systems.

To further enhance the ADF's information capabilities, Defence will present proposals to the Government in 2004-05 including:

- establishing permanent connections between ADF and key allied command and control networks;
- enhancing Defence's logistics information systems;
- establishing tactical information exchange links between key platforms including Anzac-class frigates, the armed reconnaissance helicopters and the F/A-18s; and

- continuing the development of the Defence Network Operations Centre in Canberra.

## **People Goal**

The people goal is to ensure that Defence has the right people with the right skills and experience to provide the capabilities it needs to undertake complex military operations.

In 2004-05, Defence will pursue this goal through:

- continuing implementation of key *Strategic Workforce Planning Review 2003* recommendations to address major workforce challenges confronting Defence over the next ten years and to provide competitive remuneration, a challenging and diverse workplace, flexible working arrangements and quality health and safety management;
- developing the Defence People Plan to better prioritise human resource activities and expenditure to address capability risks identified in the Defence Workforce Plan;
- implementing agreed outcomes of the Nunn Review;
- implementing the new *ADF Workplace Remuneration Arrangement: 2004-2006* and the new *ADF Star Ranks' Remuneration Arrangement: 2004-2006*;
- implementing the new *Defence Employees' Certified Agreement 2004-2006*;
- developing targeted education and training programs, including e-learning;
- continuing to improve in the delivery of ADF health services, including ongoing implementation of the ADF mental health strategy and the injury prevention program;
- developing an integrated occupational health and safety management system guided by Defence's Occupational Health and Safety Strategic Plan; and
- developing strategies to better encourage ADF Cadet organisations to be a source of potential recruits for the ADF and further enhancing the ADF Cadet Scheme.

## **Initiatives to Improve the Provision of Advice and Decision Making**

Defence will continue to improve its advice to the Government for decision making through strengthening its business model and accountability arrangements and continuing to improve its budgeting and business systems and processes.

Accountability for results is made explicit through a Ministerial Directive to the Secretary of the Department of Defence and the Chief of the Defence Force, charters between the Secretary and Chief of the Defence Force and all Group

Heads, and organisational and individual performance agreements. The use of customer-supplier agreements between enabling Groups and internal customers will continue to strengthen accountability arrangements and make transparent the cost of services required to deliver Defence outputs.

The intended establishment of the Defence Materiel Organisation (DMO) as a prescribed agency from 1 July 2005 will focus renewed emphasis on establishing project and materiel support agreements between it and capability managers. The force element product-costing tool will also facilitate greater transparency in the costing of force elements and internal products and services. This will be augmented by strengthened reporting arrangements to the Government as part of the annual Defence Management and Finance Plan.

Key initiatives under way to improve advice to the Government include:

- implementing additional reporting arrangements to the Government as part of the annual ten-year Defence Management and Finance Plan, including:
  - setting out the key components of the budget by outcome and capital programs; any proposed changes in capability including preparedness (readiness and sustainment) or capability acquisition and the key pressures on the Defence budget and how they are to be managed,
  - separate disclosure in the plan of the DMO following its transition to a prescribed agency from 1 July 2005, including progress against schedule and budget for major acquisitions and as requested by Ministers,
  - an expanded range of performance measures and targets for inclusion within the 2005-15 plan, and
  - in conjunction with the Department of Finance and Administration, a review of possible further changes to the Defence outcome and output reporting structure.
- providing more comprehensive and more robust information on Defence Capability Plan projects in line with the recommendations of the Defence Procurement Review (the Kinnaird review);
- continuing to improve performance reporting to the Defence Committee, by providing better visibility of performance and highlighting underlying management issues;
- high-level oversight, under the Secretary's direction, of the financial statements reform agenda to ensure Defence meets the Government's requirement for auditable annual financial statements by 30 July 2004 (through Project Resolve);
- further developing the budget and output reporting information system to provide a ten-year budgeting capability with greater consistency and depth of financial information, as well as greater transparency of the

manner in which resources are used within the organisation. The system is also being used to meet Government-directed reporting requirements flowing from the Budget Estimates and Framework Review. Having implemented a standard Defence budgeting capability, the priority is to develop a capacity to automate monthly management and financial statements reports at the whole-of-Defence level, thus eliminating disparate systems and processes now required to perform these tasks;

- improving management of the Defence information environment including:
  - a review of the organisational arrangements, which includes the role and function of the Chief Information Officer's organisation, and
  - a stocktake of all current and planned expenditure on the maintenance and evolution of information technology capabilities aimed at consolidation and rationalisation of these projects.
- the successful implementation of a devolved defence delegation system (which places responsibility for delegation management to lower levels in the organisation through a formal process of appointments supported by competency standards, explicit business rules and responsibilities, and reporting/accountability regimes); and
- the successful implementation of a Regulation 10 approval regime, the approval process for spending public money in the next financial year or later.

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

A fundamental challenge for Defence is to live within its means, both now and into the future. In responding to this challenge, a 'culture of economy' is being established, augmented by business rules and accountability mechanisms. Ten-year Group budgets have been established, enabling Group Heads greater certainty in terms of planning and long-term resource allocation.

In 2004-05, Defence will:

- continue to absorb a range of cost pressures through a program of administrative savings (see Chapter Six for further details);
- continue to reform business processes and contractual arrangements through the Business Improvement Project, covering around 20 individual projects, some of which are already well advanced;
- implement the recommendations of the Defence Procurement Review, with the objective of transitioning the DMO to a prescribed agency by 1 July 2005; and
- continue a rolling program of zero-based budgets to functions and expenditure, and free up resources for other requirements, including essential replacement of information technology and administrative assets and upkeep of the Defence estate.

## **Initiatives to Enhance Strategic Relationships**

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

In 2004-05, Defence will:

- maintain and build upon security relationships in the Asia-Pacific region through a diverse range of cooperative defence activities and security dialogue;
- participate in peace support operations led by the United Nations;
- further develop Australia-United States defence cooperation, including through participation in coalition operations and the enhancement of ADF interoperability with United States forces;
- support global and regional efforts to reduce the security threat posed by terrorism and proliferation of weapons of mass destruction through international export control regimes and activities such as the Proliferation Security Initiative; and
- continue to support Government programs that are designed to improve governance and law and order in Papua New Guinea and the Pacific, through participation in coalition operations and continuation of Australia's Pacific patrol boat program.

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

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

In 2004-05, Defence will:

- continue its science and technology program to provide better support and advice to Defence, and contribute to national research priorities, including 'Safeguarding Australia';
- continue research, especially in transformational defence technologies, network-centric warfare, Defence experimentation, automation of the battlespace, reducing the cost of ownership and operations, and support to current ADF platforms;
- enhance its research program for defence against terrorism, particularly against chemical, biological, nuclear and radiological attack;
- continue the Capability and Technology Demonstrator program to investigate how new, technology-driven capabilities can be introduced into wider ADF service;

- enhance science and technology links with industry, universities, other government research agencies and international bodies, to broaden Defence's technical base;
- seek opportunities via commercialisation mechanisms for technology transfer to Australian industry to enhance industry's ability to provide support to Defence and to increase the national wealth; and
- continue implementing the *Defence and Industry Strategic Policy Statement 1998*.

## **Monitoring and Reporting**

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

## **Status of Defence White Paper Funding**

Defence's departmental funding in 2004-05 and beyond, continues to be based primarily on the allocations approved by the Government in the context of the Defence White Paper. This additional funding now totals \$28.1b over 13 years commencing in 2001-02 and represents the most specific long-term funding commitment for Defence for more than 25 years.

The additional White Paper funding is being applied to:

- the Defence Capability Plan, containing a program of capital investment in addition to the investment program already planned;
- provision for the net through-life support costs of the capability enhancements in the Defence Capability Plan;
- provision for two per cent real per capita growth in personnel costs from 2004-05 onwards, reflecting more accurately the cost of maintaining a highly skilled workforce in a sustainable way; and
- funding of a number of baseline cost pressures, including offsetting some of these through administrative savings.

Table 1.1 shows the revised allocation of White Paper funding in 2004-05 Budget prices and exchange rates.

After taking account of the reprogramming of the Defence Capability Plan agreed by the Government in the 2004-05 Budget, additional Defence White Paper funding already provided by the Government totals \$2.2b over the period 2001-02 to 2003-04. The 2004-05 Budget includes a further \$1.7b in White Paper funding, and an additional \$8.0b is included in the forward estimates. The remaining additional funding, totalling \$16.2b, is to be provided over the period to 2013-14.

Table 1.2 provides details of the White Paper funding allocations in 2004-05 prices, including the reprogramming of \$2,547m (comprising \$2,226m at current prices plus \$321m for price outturning in future years) in capital funds. Further details on reprogramming of capital funds are provided in Chapter Three.

**Table 1.1: Revised Defence White Paper Funding from 2001-02 to 2010-11 (Outturned 2004-05 prices)**

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b	\$b
Defence Funding from the Government	12.7	12.7	13.8	13.8	13.8	13.8	14.0	14.1	14.3	14.6	20.5 <sup>(1)</sup>	21.1 <sup>(1)</sup>	21.9 <sup>(1)</sup>	<b>201.1</b>
East Timor/Force Generation	0.7	0.6	0.5	0.5	0.5	0.4	0.5	0.5	0.5	0.5	0.5	0.5	0.5	<b>6.7</b>
Defence White Paper Increase <sup>(2)</sup>	0.5	0.9	0.8	1.7	1.9	2.7	3.4	4.3	5.2	5.9	0.4	0.3	0.2	<b>28.1</b>
<b>Total<sup>(3)</sup></b>	<b>13.8</b>	<b>14.2</b>	<b>15.2</b>	<b>15.9</b>	<b>16.1</b>	<b>16.9</b>	<b>17.9</b>	<b>18.8</b>	<b>20.0</b>	<b>21.0</b>	<b>21.4</b>	<b>21.9</b>	<b>22.7</b>	<b>235.9</b>

**Notes**

1. Funding guidance after 2010-11 is assumed to remain at zero real growth pending government consideration of the matter in the 2005-06 Budget context.
2. The Defence White Paper funding increase has been adjusted to reflect reprogramming of the Defence Capability Plan agreed in the 2004-05 Budget, shown in Table 1.2.
3. The figures for 2003-04 to 2007-08 are the same as those in Serial 3 in Table 2.1.

Table 1.2: Current White Paper Funding Allocations (Outturned, 2004-05 prices)

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total	
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Major Capital Equipment</b>															
	Original allocation	510	1,051	1,506	1,537	1,663	2,234	2,345	2,241	2,749	3,374	-	-	-	<b>19,210</b>
	Reprogramming	-	-200	-712	-273	-446	-462	-133	564	649	469	354	298	213	<b>321<sup>(1)</sup></b>
<b>A</b>	<b>Revised expenditure/allocation</b>	<b>510</b>	<b>851</b>	<b>794</b>	<b>1,264</b>	<b>1,217</b>	<b>1,772</b>	<b>2,212</b>	<b>2,806</b>	<b>3,397</b>	<b>3,843</b>	<b>354</b>	<b>298</b>	<b>213</b>	<b>19,531</b>
<b>Through-life Support Costs for Defence Capability Plan Projects</b>															
	Original allocation	-	-	-	193	234	284	418	500	591	630	-	-	-	<b>2,850</b>
<b>B</b>	<b>Revised allocation</b>	<b>-</b>	<b>8</b>	<b>21</b>	<b>60</b>	<b>172</b>	<b>278</b>	<b>418</b>	<b>513</b>	<b>674</b>	<b>705</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,850</b>
	Allocated	-	8	21	52	12	16	15	19	18	17	-	-	-	<b>150</b>
	Unallocated	-	-	-	8	160	262	403	494	655	688	-	-	-	<b>2,700</b>
<b>Two Per Cent Real Growth in Personnel Costs</b>															
	Allocated	-	-	-	236	253	270	289	309	326	391	-	-	-	<b>2,075</b>
	Unallocated	-	-	-	-	114	235	361	495	639	789	-	-	-	<b>2,634</b>
<b>C</b>	<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>236</b>	<b>367</b>	<b>505</b>	<b>650</b>	<b>805</b>	<b>965</b>	<b>1,180</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,709</b>
<b>D</b>	<b>Operating Baseline Adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>116</b>	<b>130</b>	<b>137</b>	<b>143</b>	<b>149</b>	<b>155</b>	<b>156</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>986</b>
	<b>Total (A+B+C+D)</b>	<b>510</b>	<b>859</b>	<b>815</b>	<b>1,676</b>	<b>1,887</b>	<b>2,693</b>	<b>3,423</b>	<b>4,273</b>	<b>5,191</b>	<b>5,884</b>	<b>354</b>	<b>298</b>	<b>213</b>	<b>28,076</b>

**Note**

1. The amount of \$321m is due to price outturning associated with the reprogramming of the Defence Capability Plan.



## **Major Capital Equipment**

The additional funding of \$19.5b for the Defence Capability Plan was allocated to the Unapproved Major Capital Equipment Program and is now part of the overall investment program. The additional funding was not for the entirety of the Defence Capability Plan funding but represented a top-up of the existing Major Capital Investment Program, which covers both the Unapproved Major Capital Equipment Program and the Approved Major Capital Equipment Program. Total additional expenditure to the end of 2003-04 is expected to be \$2,155m after allowing for reprogramming. Chapter Three provides more detail on the investment program.

## **Through-life Support Costs for Defence Capability Plan Projects**

The net through-life support costs of new capability acquired as part of the Defence Capability Plan are being progressively allocated as new equipment enters service. The funding is to ensure that sufficient trained personnel and operating costs are available to operate the equipment on delivery. The phasing of the provision has been adjusted to reflect revised delivery dates of the equipment and is now estimated at \$2.9b over the decade, of which \$150m has been allocated to date.

## **Two per cent Real Growth in Personnel Costs**

The provision of \$4.7b for the two per cent real per capita growth in personnel costs commences in 2004-05. Of this, \$2.1b has already been allocated to cover the cost of the initial increase under the new ADF Workplace Remuneration Agreement, the recent service allowance increase and increases in housing, compensation and health costs, which are rising at substantially higher rates than the non-farm gross domestic product deflator. An amount of \$2.6b remains unallocated and will be used to fund future salary, allowance and conditions of service increases as they arise, including health services, housing and Fringe Benefits Tax.

## **Operating Baseline Adjustment**

The \$1.5b included in the Defence White Paper as an operating baseline adjustment was allocated to meet unavoidable cost pressures identified through the White Paper process. This included offsetting shortfalls with planned Defence Reform Program savings and a contribution to logistics cost pressures caused by redirection of Defence Reform Program savings to fund the 50,000 ADF members. All funds have been allocated and this part of the White Paper funding is now considered complete.

## **CAPABILITY DEVELOPMENT**

Capability development is the process of ensuring future capability will match the Government's strategic objectives. Judgements need to be made concerning what mix of capability and what trade-offs between new and existing equipment are in the nation's interests. The Defence Procurement Review identified the need for further reform. The review recognised that the determination of strategic priorities for the defence and security of the nation had obvious implications for the development of defence capability. The review saw a need for further reform at each stage of the cycle of acquisition and whole-of-life management of the equipment that comprises the core of defence capability, and for Defence to clearly set out available capability options to develop and sustain ADF capabilities within a defined budget.

To serve as a single point of accountability for the capability process and to ensure that the capability process maintains a joint warfare focus, the Government announced on 22 December 2003 the formation of the Capability Development Group, which was established in February 2004.

Capability Development Group is responsible and accountable for assessing and defining what capabilities the ADF should have now and in the future. It is also responsible for taking capability proposals from initial government consideration and financial endorsement through to final approval by the Government.

As the organisation matures, it will have a close relationship with the DMO and oversight a number of recommendations arising from the Defence Procurement Review.

# ORGANISATIONAL STRUCTURE

## Senior Executive Changes

Mr Mick Roche, Under Secretary Defence Materiel, retired in August 2003. Dr Stephen Gumley was appointed as the Chief Executive Officer of the Defence Materiel Organisation in February 2004. Rear Admiral Kevin Scarce, AO, CSC acted in the position of Under Secretary Defence Materiel from August 2003 until his retirement in February 2004, with Air Vice Marshal Norman Gray filling the position for the brief period between Rear Admiral Scarce's retirement and Dr Gumley's commencing duty.

## Organisational Structure Changes

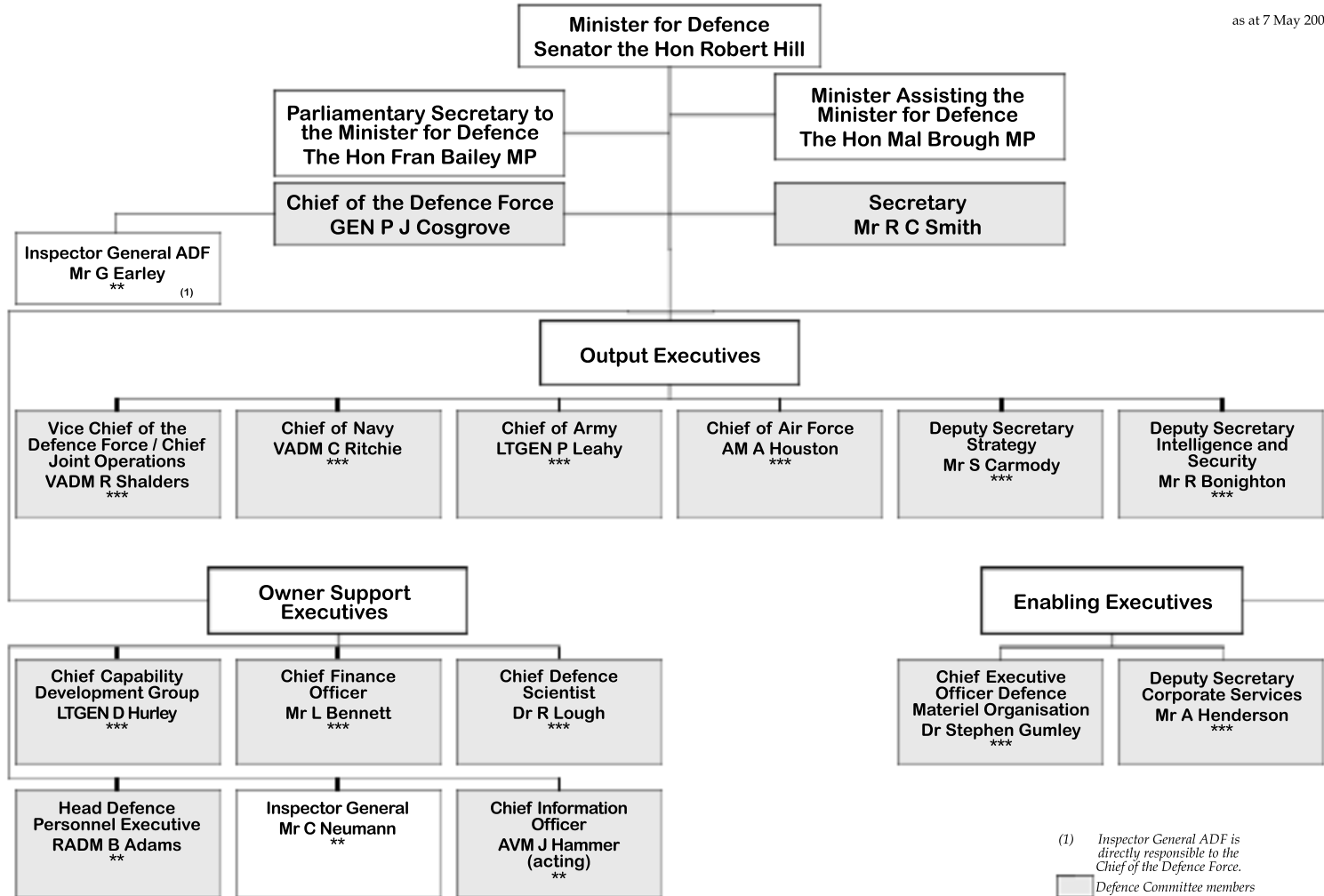
In March 2004, a new Joint Operations Command was formed, as a result of the Clarke and Molan reviews. Vice Admiral Russ Shalders was appointed the first Chief of Joint Operations, while continuing in his current position as the Vice Chief of the Defence Force. The Command will bring into one structure the Strategic Operations Division, Headquarters Australian Theatre, Headquarters Northern Command's operational responsibilities, Joint Logistics Command and the Deployable Joint Force Headquarters. The former Headquarters Australian Theatre will now become Headquarters Joint Operations Command under the command of Major General Mark Evans, who has been appointed as deputy to Vice Admiral Shalders. From 1 July 2004, the Joint Logistics component of the DMO will report to the Chief of Joint Operations. The Joint Logistics component provides strategic logistics advice and input into ADF planning. It will develop and manage ADF access to operational logistic services and develop policies, procedures and doctrine for the provision of joint logistic support.

In response to a recommendation of the Defence Procurement Review, the Capability Development Group was established in February 2004 and is headed by Lieutenant General David Hurley. It comprises Capability Systems Division, Capability Investment and Resources Division, Capability and Plans Branch, Directorate of Trials, and the AS/US Interoperability Review Team.

Also in February 2004, the Strategic Policy Group was renamed the Strategy Group. The Strategy Group now consists of three divisions: International Policy, Strategic Policy, and Ministerial Services and Public Affairs. The last of these divisions is an amalgamation of the former Public Affairs and Corporate Communication Group and Defence Improvement Division. The new division is headed by Mr Mark Cunliffe, previously the First Assistant Secretary Defence Improvement. Mr Cunliffe's new position title is First Assistant Secretary Ministerial Services and Public Affairs.

## Organisational Chart

The following chart depicts the structure of the organisation at May 2004.



(1) Inspector General ADF is directly responsible to the Chief of the Defence Force.

Defence Committee members