

DEFENCE

CHAPTER TWO RESOURCING

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2004-05 BUDGET SUMMARY

Total resourcing available to Defence in 2004-05 is \$18,684m, comprising departmental funding of \$16,348m and a further \$2,337m for the administered appropriation. The total departmental funding allocation of \$16,348m (serial 7), which represents 1.9 per cent of Gross Domestic Product, is the most common way of measuring Defence's budget, and is consistent with the presentation of the 2000 Defence White Paper (refer to page 39 for the various ways in which the Defence budget can be presented).

The total level of departmental funding of \$16,348m represents:

- an increase of \$725m compared with the projected result of 2003-04; and
- an increase of \$405m in 2004-05 compared with the Forward Estimate published at the time of the *Portfolio Budget Statements 2003-04* (page 19).

In real terms, these variations are much greater when the transfer of the Military Compensation function to the Department of Veterans' Affairs from 2004-05 onwards (-\$168.3m) and exchange rate savings (-\$324.1m) are taken into account.

Total Defence resourcing is summarised in Table 2.1.

Table 2.1: Total Defence Resourcing

Serial No	2003-04 Projected Result \$'000	2004-05 Budget Estimate \$'000	2005-06 Forward Estimate \$'000	2006-07 Forward Estimate \$'000	2007-08 Forward Estimate \$'000	
	Departmental					
1	14,569,666	Revenue from Government for Price of Outputs	15,625,941	15,254,845	15,807,771	16,600,178
2	617,634	Equity Injection	299,025	876,037	1,103,867	1,319,381
3	15,187,300	Total Revenue from Government (1+2)	15,924,966	16,130,882	16,911,638	17,919,559
4	328,791	Own-Source Revenue ⁽¹⁾	330,562	339,629	343,126	349,991
5	106,484	Net Capital Receipts	91,980	40,000	40,000	40,000
6	435,275	Sub Total	422,542	379,629	383,126	389,991
7	15,622,575	Total Departmental Funding (3+6)	16,347,508	16,510,511	17,294,764	18,309,550
	Administered					
8	2,016,900	Administered appropriation ⁽²⁾	2,336,900	2,436,900	2,436,900	2,636,900
9	17,639,475	Total Defence Resourcing (7+8)	18,684,408	18,947,411	19,731,664	20,946,450

Notes

1. Own-source revenue (serial 4) excludes 'assets now recognised' revenue and 'net gains from sales of assets' revenue.
2. The Administered appropriation (serial 8) of \$2,336.9m covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed by the Department of Finance and Administration (Commonwealth Superannuation) and the Defence Housing Authority (housing subsidies) on Defence's behalf.

2004-05 BUDGET MEASURES

New budget measures are set against the background of a changing strategic landscape, which has seen terrorism and the proliferation of weapons of mass destruction assume new prominence and the continuation of some adverse trends in our immediate neighbourhood. At the same time, there have been continuing increases in the tempo of operations, increased demands on major capabilities and pressures on essential training, maintenance and the reintegration of capabilities after operations. The budget measures announced by the Government, totalling \$522.5m in 2004-05 and \$1,830.2m over the forward estimates, address these issues. Details are shown in Table 2.2 and described in more detail in Table 2.3. Table 2.3 shows the movements in Defence funding since the last budget, including those adjustments agreed in the 2003-04 Additional Estimates. Serial numbers are provided against each of the measures explanations below for ease of reference with Table 2.3.

Table 2.2: Summary of New Budget Measures Disclosed in the 2004-05 Budget

	Defence Outcome	2004-05 Budget Estimate \$m	2005-06 Forward Estimate \$m	2006-07 Forward Estimate \$m	2007-08 Forward Estimate \$m	Total \$m
Logistics – continuation of funding	2,3,4	-	-	-	205.3	205.3
Logistics – additional funding	2,3,4	142.1	146.7	158.4	163.1	610.3
Military personnel – supplementation	2,3,4	6.8	57.0	-6.5	22.7	80.0
Personnel initiatives – continuation	2,3,4	-	-	10.6	10.8	21.4
Personnel initiatives – expansion of rental assistance	2,3,4	-	59.3	91.1	92.9	243.3
Personnel initiatives – improvements to living-in accommodation	2,3,4	2.0	12.5	37.1	61.6	113.1
Accommodation – supplementation for the purchase of Defence Housing Authority services	2,3,4	108.0	88.0	-	-	196.0
Papua New Guinea Defence Force – funding to support downsizing	5	14.6	2.7	-	-	17.3
Coastal Surveillance – continuation	1	16.0	-	-	-	16.0
Defence Procurement Review – implementation of recommendations	Various	17.5	5.0	5.0	5.0	32.5
Property sales – costs	Various	57.3	-	-	-	57.3
Point Nepean Community Trust – establishment	Various	5.0	-	-	-	5.0
Defence Capability Review – operational cost savings	Various	0.0	-80.0	-97.4	-109.1	-286.5
Iraq – funding for operations and rehabilitation activities	Various	124.6	3.0	4.0	-	131.6
East Timor – support to the United Nations mission	Various	16.0	4.1	-	-	20.1
Estate upkeep	Various	-	90.0	100.0	110.0	300.0
Investing in Australia's Security – increased funding to intelligence agencies	6	10.3	12.2	12.3	12.6	47.4
Investing in Australia's Security – enhanced regional consequence management training	6	-	-	-	-	-
Investing in Australia's Security – enhanced regional training and exercise programme	6	-	-	-	-	-

Investing in Australia's Security – enhanced regional cooperation	6	-	-	-	-	-
Investing in Australia's Security – critical infrastructure protection	6	1.7	1.8	1.8	1.8	7.1
Melbourne 2006 Commonwealth Games - contribution	Various	0.6	11.4	1.0	-	13.0
Total		522.5	413.7	317.4	576.4	1,830.2

Logistics – continuation of funding (Serial 13 in Table 2.3)

The Government will provide \$205.3 million in 2007-08 for logistics support to help enable the Australian Defence Force to sustain current levels of operational tempo and to meet specific preparedness targets. This decision will provide funding for a range of platforms and equipment, including:

- F/A-18 fighter aircraft fleet;
- C-130J Hercules transport aircraft;
- Collins-class submarines; and
- Explosive ordnance stocks, including those required for enhanced training of Army personnel.

This funding represents a continuation of the \$1.145 billion provided in the 2003-04 Budget for logistics. This funding is in addition to the \$27 billion over 10 years provided as part of the Government's *Defence 2000* White Paper. The White Paper funding was provided primarily to undertake the equipment acquisitions and upgrades necessary to enhance the capabilities of the Australian Defence Force.

See also the related expense measure titled *Logistics - additional funding* in the Defence portfolio.

Logistics – additional funding (Serial 14 in Table 2.3)

The Government will provide an additional \$610.3 million over four years for logistics support to the Australian Defence Force. The increased funding will enable enhanced maintenance, refits and/or planned upgrades for a range of key platforms and equipment to ensure the Australian Defence Force sustains its capabilities and meet preparedness requirements. The specific platforms and equipment to benefit from the funding include:

- Afloat Support (HMAS *Success* refit);
- Maritime Patrol Aircraft (P-3C Orions);
- Anzac Frigates;
- Training Aircraft (PC-9);
- Naval Aviation;
- Army Aviation (Black Hawk helicopters);
- Army Surveillance;
- Army Battlefield Combat Support System; and
- Transport Aircraft (C-130H Hercules).

The supplementation stems from a Defence-wide review of logistics funding aimed at ensuring the Australian Defence Force's platforms and equipment are resourced to help sustain performance at the current levels of preparedness.

See also the related expense measure titled *Logistics - continuation of funding* in the Defence portfolio.

Military personnel – supplementation (Serial 15 in Table 2.3)

The Government will provide \$80 million over four years to meet increasing Australian Defence Force personnel costs. The additional funding will help Defence continue to offer competitive levels of remuneration, including non-salary entitlements, such as health, housing and compensation. This will assist in both attracting and retaining suitably skilled military personnel for the Australian Defence Force.

This measure is in addition to the Government's *Defence 2000* White Paper which funded two per cent per annum real growth in Defence's per capita personnel costs over the 2004-05 to 2010-11 period.

Personnel initiatives – continuation (Serial 16 in Table 2.3)

The Government will provide \$21.4 million over 2006-07 and 2007-08 to continue a number of personnel initiatives that have proven highly effective in improving conditions for Australian Defence Force members and their families. These initiatives include the provision of childcare places and support to spouses.

A number of other personnel initiatives are also being funded in this Budget. See also the related expense measures titled *Personnel initiatives – expansion of rental assistance* and *Personnel initiatives – improvements to living-in accommodation* in the Defence portfolio.

Personnel initiatives – expansion of rental assistance (Serial 17 in Table 2.3)

The Government will provide \$243.3 million over three years from 2005-06 to help provide greater flexibility for Australian Defence Force members without dependants in their accommodation arrangements. This measure will increase the number of members without dependants receiving rent assistance from 4,500 to around 10,600 by 2006. Rent assistance has been successful in improving the accommodation available to members without dependants, which in turn is likely to improve retention.

A number of other personnel initiatives are also being funded in this Budget. See also the related expense measures titled *Personnel initiatives – continuation* and *Personnel initiatives – improvements to living-in accommodation* in the Defence portfolio.

Personnel initiatives – improvements to living-in accommodation (Serial 18 in Table 2.3)

The Government will provide \$113.1 million over four years for the renewal and repair of living-in accommodation for Australian Defence Force members without dependants. Funding in 2004-05 will allow the most effective means of improving the standard of accommodation to be determined.

A number of other personnel initiatives are also being funded in this Budget. See the related expense measures titled *Personnel initiatives – continuation* and *Personnel initiatives – expansion of rental assistance* in the Defence portfolio.

Accommodation – supplementation for the purchase of Defence Housing Authority services (Serial 19 in Table 2.3)

The Government will provide the Department of Defence with additional funding of \$108 million in 2004-05 and \$88 million in 2005-06 to meet increased rental costs associated with commercialising Defence Housing Authority operations in line with the Government's competitive neutrality policy. The additional funding is expected to be budget neutral as the Defence Housing Authority will return additional funds to the Government through increased dividends and tax equivalent payments.

Papua New Guinea Defence Force – funding to support downsizing (Serial 20 in Table 2.3)

The Government will provide \$20.3 million (including \$6.7 million in 2003-04) to assist the downsizing of the Papua New Guinea Defence Force. Of the funds provided in 2003-04, \$3 million will be absorbed from within existing funding from the Defence Cooperation Programme.

This measure represents the planned second tranche of funding to support the Papua New Guinea Defence Force reform programme and builds upon the first tranche of \$20 million provided in 2001-02.

Coastal surveillance – continuation (Serial 21 in Table 2.3)

The Government will provide \$16 million in 2004-05 for Australian Defence Force deployment costs associated with the continuation of coastal surveillance of Australia's northern approaches to help detect and deter unauthorised boat arrivals.

Defence Procurement Review – implementation of recommendations (Serial 22 in Table 2.3)

The Government will provide \$32.5 million over five years (including \$5.3 million in 2003-04) to improve capability development and acquisition processes within the Department of Defence. These improvements were recommended by the Defence Procurement Review (also known as the Kinnaird Review). They include the establishment of a Capability Development Group within the department and the development and operation of the Defence Materiel Organisation as a prescribed agency under the *Financial Management and Accountability Act 1997*.

Property sales – costs (Serial 23 in Table 2.3)

The Government has provided \$31.8 million in 2003-04 for the costs associated with selling surplus Defence properties in 2003-04.

The Government will also provide \$25.5 million in 2004-05 to meet the estimated net costs of selling surplus properties in 2004-05. This will involve applying a lower Defence property sales target threshold, above which Defence is entitled to retain the proceeds of property sales for other uses.

Point Nepean Community Trust – establishment (Serial 24 in Table 2.3)

The Government has committed \$5 million in 2003-04 to establish the Point Nepean Community Trust. The Trust has been established to manage former Defence land at Point

Nepean in the interests of the community. The Trust will be responsible for preserving the environment and heritage values of the site.

Defence Capability Review – operational cost savings (Serial 25 in Table 2.3)

Operational cost savings of \$286.5 million (including capital of \$67.5 million) over three years will be achieved from changes to capability decided by the Government as part of the comprehensive Defence Capability Review. The capability changes include the early retirement of the F-111 fleet and the retirement of two mine hunters and two frigates. The savings continue beyond 2007-08.

Iraq – funding for operations and rehabilitation activities (Serial 26 in Table 2.3)

The Government will provide \$131.6 million for the Australian Defence Force's contribution to Iraqi stabilisation and reconstruction. This will allow for continuation of the deployment through financial year 2004-05. The funding for 2005-06 and 2006-07 covers the cost of repatriation and remediation of equipment. The current timeframe for, and composition of, Operation CATALYST will be kept under review.

East Timor – support to the United Nations mission (Serial 27 in Table 2.3)

The Government will provide \$26.7 million over two years to fund an expected extension of the Australian Defence Force and Australian Federal Police contribution to the United Nations mission in East Timor. This funding will cover operational costs as well as repatriation and remediation of Defence equipment. Of this funding, the Government has committed \$20.1 million to the Department of Defence.

Estate upkeep (Serial 28 in Table 2.3)

The Government will provide \$300 million over three years from 2005-06 to meet increasing costs of maintaining the Defence estate. The additional funding will help Defence to increase its rate of effort in maintaining facilities such as airfields, fuel farms and Defence bases. Funding will also be used for accelerated asbestos remediation, and to meet increased environmental and occupational health and safety regulatory requirements.

Investing in Australia's Security – increased funding to intelligence agencies (Serial 29 in Table 2.3)

The Government will provide additional funding of \$227.8 million (including \$31.5 million capital funding) over four years to intelligence agencies to enhance Australia's counter-terrorism capabilities and strengthen our ability to protect against possible threats to Australia's national security. This funding provides resources for these agencies to improve their capacity to provide analysis and assessment of high priority areas to meet increased operational demands.

This is a cross portfolio measure, with funding to be provided to the Australian Secret Intelligence Service, Australian Security Intelligence Organisation, Department of Defence and the Office of National Assessments.

The Government has provided \$47.4 million over four years for the Department of Defence to establish a regional Special Forces/Counter-Terrorism network with its regional counterparts.

Investing in Australia's Security – enhanced regional consequence management training

The Government will provide \$0.7 million over four years to extend its counter-terrorism consequence management training with regional countries.

This measure will involve funding of \$0.1 million in 2004-05, \$0.2 million in 2005-06, \$0.2 million in 2006-07 and \$0.2 million in 2007-08. This measure is being fully absorbed within the existing resourcing of the Department of Defence.

Investing in Australia's Security – enhanced regional training and exercise programme

The Government will provide an additional \$1.6 million over four years to expand the Department of Defence's regional training and exercise programme.

This measure will involve funding of \$0.1 million in 2004-05, \$0.5 million in 2005-06, \$0.5 million in 2006-07 and \$0.5 million in 2007-08. This measure is being fully absorbed within the existing resourcing of the Department of Defence.

Investing in Australia's Security – enhanced regional cooperation

The Government will provide \$0.8 million over four years to the Department of Defence to enhance cooperation with its regional counterparts on regional counter-terrorism issues.

This measure will involve funding of \$0.2 million in each year from 2004-05 to 2007-08.

This measure is being fully absorbed within the existing resourcing of the Department of Defence.

Investing in Australia's Security - critical infrastructure protection (Serial 30 in Table 2.3)

The Government will provide funding of \$50.2 million (including \$1.7 million capital funding) over four years as part of continuing efforts to ensure there are adequate levels of protective security in respect of critical infrastructure, minimal single potential points of failure and rapid, tested recovery arrangements. This funding provides resources for nine Government agencies for a range of activities to progress three key areas of critical infrastructure protection. They are:

- national coordination and leadership – including activities such as the provision of expanded Secretariat support to the Trusted Information Sharing Network for Critical Infrastructure;
- infrastructure vulnerability identification, analysis and remediation – including activities such as the testing of Australian Government and private sector national information infrastructure; and
- infrastructure interdependence modelling and analysis – including activities to model and analyse interdependencies between different critical systems and networks.

The Government will assume a leadership role in these three core areas of activity, working in partnership with the States and industry to progress critical infrastructure protection.

The Government has provided \$7.1 million over four years to the Department of Defence to fund its intelligence contribution to this whole-of-government initiative.

Melbourne 2006 Commonwealth Games – contribution (Serial 31 in Table 2.3)

The Government will provide a package of assistance totalling \$272.5 million over four years from 2003-04 to 2006-07 to contribute to the staging of the Melbourne Commonwealth Games (M2006) to be held from 15-26 March 2006.

The assistance package includes \$139.8 million (including \$40 million in 2003-04) in new funding over the four years as a contribution to meeting the costs of the Games. The Government will also provide \$132.7 million in services and support which will be absorbed within existing resources.

Funding includes a grant of \$102.9 million to the Victorian Government for specific M2006 initiatives. These include \$40 million for the Opening and Closing Ceremonies, \$15 million for the Queen's Baton Relay, \$18.2 million for the M2006 Volunteer Programme, \$10 million for the Elite Athletes with a Disability Programme, \$7.5 million to provide airfare subsidies for athletes from developing countries participating in M2006, and \$6 million towards the costs of the M2006 Cultural Programme.

Funding of \$84.8 million will be provided over three years to provide security services and support to ensure a safe and secure M2006. Of this, \$56.5 million will be funded from existing resources.

Funding of \$27.1 million (including capital of \$0.2 million) over three years will be provided for non-security related services associated with staging M2006, of which \$18.5 million will be provided from existing resources. Activities involved include pre-event drug testing of international athletes, sporting programmes for people with disabilities, provision of aviation safety information and increased trade and investment promotion activities.

The Australian Sports Commission will provide an estimated \$55.3 million in direct assistance for M2006 sports through existing programmes over two years from 2004-05. Significant indirect assistance is also provided to support athletes, coaches and support staff of M2006 sports.

Visa application costs will be waived for Commonwealth Games Family Members, resulting in revenue forgone of \$1.4 million. Exemptions from Income and Withholding Tax for the Commonwealth Games Federation, estimated at \$1 million, were recorded as a measure, *Income tax exemption for the Commonwealth Games Federation*, in the 2002-03 *Mid-Year Economic and Fiscal Outlook*.

Of this funding, the Government has committed \$13.0 million over three years to the Department of Defence to provide security support.

Budget estimates – enhanced quality and timeliness

The Government will provide \$88.5 million over four years (including \$24.8 million in 2003-04) to implement the Budget Estimates and Framework Review recommendations that were endorsed by the Government in 2002. This amount includes \$1.4 million in capital funding.

Provision for this purpose was made in the Contingency Reserve in the 2003-04 Budget pending consideration of funding for individual agencies.

This funding is in addition to the \$3.6 million specifically provided to the Foreign Affairs and Trade and Employment and Workplace Relations portfolios in the 2003-04 Budget, and \$54.4 million provided to the Department of Finance and Administration was recorded as a measure in the *Mid-Year Economic and Fiscal Outlook 2002-03*.

The Department of Defence has been supplemented \$18.1 million over five years from 2003-04 for its involvement in this activity as reported in the *Portfolio Additional Estimates Statements 2003-04* (page 8).

Other Budget Adjustments

The Government has agreed to a number of other budget adjustments in addition to the new measures detailed above, including reprogramming of funds, offsetting adjustments between appropriations, price and exchange movements and other adjustments. These adjustments are discussed below.

Reprogramming of the Defence Capital Program (Serial 32 in Table 2.3)

The Government has agreed to reprogram \$884.0m from the forward estimates to across the period 2009-10 to 2013-14, reflecting a reappraisal of Defence's currently planned funding levels. Chapter three provides details.

Adjustment to the Capital/Operating Mix of the Investment Program (Serial 33 in Table 2.3)

The Government has agreed to adjust the split between the capital and operating elements of the investment program across the forward estimates to ensure expenditure is brought to account in accordance with Australian Accounting Standards. The adjustment does not represent a reduction in investment spending, but a re-classification of expenditure in respect of Defence's investment program.

Comcover Premium Increase (Serial 34 in Table 2.3)

The Government has provided \$11.7m in 2004-05 to partially offset the increase in Comcover premiums.

Transfer of Military Compensation Scheme funding (SRCA) to the Department of Veterans' Affairs (Serial 35 in Table 2.3)

The *Military Rehabilitation and Compensation Bill 2003* and the *Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Bill 2003* (MRC (C&T) Bill) passed by the Parliament on 1 April 2004, provide for the establishment of the new Military Rehabilitation and Compensation scheme. The new scheme significantly reforms the existing arrangement of two separate military compensation schemes under multiple sources of legislation including the *Veterans' Entitlements Act 1986* and the *Safety Rehabilitation and Compensation Act 1988* (SRCA).

Additionally, some aspects of compensation for ADF personnel are provided through Defence Determination 2003/21, made under Section 58B of the Defence Act. The Determination is being amended to effect the transfer of responsibility for these payments to the Secretary of the Department of Veterans' Affairs.

Effective from 1 July 2004, the Department of Veterans' Affairs will be the single administrative body for all forms of ADF compensation under the old and the new

schemes. The transfer of responsibility necessitates the transfer to the Department of Veterans' Affairs of funding associated with the administration and payment of benefits under the SRC Act and the Defence Act.

Price Indexation (Serial 36 in Table 2.3)

The Government has approved a revision to price parameters provided in the 2003-04 Additional Estimates reflecting movements in the gross non-farm domestic product deflator of 2.5 per cent (\$220.7m).

Foreign Exchange Adjustments (Serial 37 in Table 2.3)

Defence is required to return to the Government surplus foreign exchange supplementation. This surplus reflects the difference between parameters provided in the 2004-05 Budget and those on which the previous Forward Estimates (as reflected in the *Portfolio Additional Estimates Statements 2003-04*) were based (\$324.1m).

Other Adjustments (Serial 38 in Table 2.3)

The budget contains a number of other minor and technical adjustments.

Movement in Funding (Revenue) provided by the Government

Table 1.4 (page 21) of the *Portfolio Budget Statements 2003-04* provided details of how Defence's total revenue from appropriations had varied by Government decision since the release of the White Paper. Table 2.3 shows further movements in funding since then.

Table 2.3: Defence Revenue from Government⁽¹⁾⁽²⁾⁽³⁾

Serial No.		2003-04	2004-05	Variation	2005-06	2006-07	2007-08
		\$m	\$m	\$m	\$m	\$m	\$m
1	Funding Base as a Consequence of 2003-04 Budget	15,418.8	15,595.4	176.6	15,848.3	16,808.0	
	2003-04 Additional Estimates						
2	Operation Anode Net additional cost for the first 90 days (Additional Funding)	111.0	22.3	-88.8	-	-	
3	National Threat Assessment Centre (NTAC) supplementation	0.7	0.5	-0.2	0.5	0.5	
4	Operation Bastille/Falconer/Catalyst revised phasings	-50.7	36.9	87.6	13.8	-	
5	Operation Bel Isi II - Reimbursement of 2002-03 expenditure and additional funding	9.5	-	-9.5	-	-	
6	Budget Estimates and Framework Review Supplementation	4.6	3.8	-0.9	3.5	3.1	
7	Operating Lease Supplementation	24.8	21.9	-2.9	22.2	22.9	
8	Comcover Premium increase	11.7	-	-11.7	-	-	
9	Funding for Other Current Operations (Return of uncommitted funds – Operation Citadel)	-27.6	-	27.6	-	-	
10	Locally Engaged Staff Transfer	3.3	3.5	0.2	3.5	3.6	
11	Price Indexation	75.0	76.2	1.5	78.1	82.8	
12	Foreign Exchange Adjustments	-295.2	-	295.2	-	-	
	2003-04 Published PAES	15,285.9	15,760.5	474.6	15,970.0	16,920.9	17,425.7
	2004-05 Budget Adjustments						
	Budget Measures:						
13	Logistics – continuation of funding	-	-	-	-	-	205.3
14	Logistics – additional funding	-	142.1	142.1	146.7	158.4	163.1
15	Military personnel – supplementation	-	6.8	6.8	57.0	-6.5	22.7
16	Personnel initiatives – continuation	-	-	-	-	10.6	10.8

17	Personnel initiatives – expansion of rental assistance	-	-	-	59.3	91.1	92.9
18	Personnel initiatives – improvements to living-in accommodation	-	2.0	2.0	12.5	37.1	61.6
19	Accommodation – supplementation for the purchase of Defence Housing Authority services	-	108.0	108.0	88.0	-	-
20	Papua New Guinea Defence Force – funding to support downsizing	-	14.6	14.6	2.7	-	-
21	Coastal Surveillance – continuation – Relex II	-	16.0	16.0	-	-	-
22	Defence Procurement Review – implementation of recommendations	-	17.5	17.5	5.0	5.0	5.0
23	Property sales – costs	-	31.8	31.8	-	-	-
24	Point Nepean Community Trust - establishment	-	5.0	5.0	-	-	-
25	Defence Capability Review – operational cost savings	-	-	-	-80.0	-97.4	-109.1
26	Iraq – funding for operations and rehabilitation activities	-	124.6	124.6	3.0	4.0	-
27	East Timor – support to the United Nations mission	-	16.0	16.0	4.1	-	-
28	Estate upkeep	-	-	-	90.0	100.0	110.0
29	Investing in Australia's Security – increased funding to intelligence agencies	-	10.3	10.3	12.2	12.3	12.6
30	Investing in Australia's Security – critical infrastructure protection	-	1.7	1.7	1.8	1.8	1.8
31	Melbourne 2006 Commonwealth Games – contribution	-	0.6	0.6	11.4	1.0	-
Other Budget Adjustments:							
32	Reprogramming of the Defence Capital Program	-	-74.0	-74.0	-303.0	-374.0	-133.0
33	Adjustment to the Capital/Operating Mix of the Investment Program	-	-	-	-	-	-
34	Comcover Premium increase	-	11.7	11.7	-	-	-
35	DVA Transfer of Military Compensation	-	-168.3	-168.3	-174.4	-184.1	-193.9
36	Price Indexation	-	220.7	220.7	223.5	230.3	243.0
37	Foreign Exchange Adjustments	-88.7	-324.1	-235.4	-	-	-
38	Other Adjustments	-9.9	1.5	11.4	1.1	1.1	1.1
Published 2004-05 PBS (refer serial 3 of Table 2.1)		15,187.3	15,925.0	737.7	16,130.9	16,911.6	17,919.6

Notes

1. Funding from Government is the sum of revenue for price of outputs and the equity injection.
2. The funding baseline at each published budget milestone reflects the Forward Estimates at that time.
3. Funding in 2004-05 includes \$65.8m reimbursed to Defence for expenditure in 2003-04, which was drawn from Defence's cash reserves. Refer to Table 2.8: Use of Cash (Appropriation Receivable).

Summary of Net Additional Costs of Current Operations

The ADF has approximately 2,000 personnel deployed on more than ten operations around the world that include border protection, United Nations operations, coalition operations and third country deployments. The projected result for current operations, including Force Generation for East Timor, in 2003-04 is \$960.6m, \$38.8m less than the total allocation. The Government has agreed to reprogram the \$38.8m to 2004-05 (\$36.3m) and 2005-06 (\$2.5m). Including decisions from prior budgets, the Government has provided \$762.8m in 2004-05 to cover the net additional costs of these operations including Force Generation for East Timor. Details are shown in Table 2.4.

Table 2.4: Revised Net Additional Cost of Current Operations

Operation	2003-04	2003-04	Variation	2004-05	2005-06	2006-07
	Budget	Projected Result		Budget	Forward Estimate	Forward Estimate
	\$m	\$m	\$m	\$m	\$m	\$m
Deployment costs	233.1	157.0	-76.1	27.1	4.1	-
Force generation costs	319.9	384.9	65.0	448.9	448.9	448.9
Sub total East Timor	553.0	541.9	-11.1	476.0	453.0	448.9
Bastille/Falconer/Catalyst	282.9	255.2	-27.7	212.5	19.3	4.0
Anode	111.1	111.1	-	22.2	-	-
Slipper	-5.0	-5.0	-	-	-	-
Relax II	17.8	17.8	-	16.0	-	-
Bel Isi II	5.0	5.0	-	-	-	-
Safebase	34.6	34.6	-	36.1	-	-
Total	999.4	960.6	-38.8	762.8	472.3	452.9

Operation Citadel

Operation Citadel was established to replace Operation Tanager following East Timor's independence in May 2002. Its objective was to contribute to the United Nations support to East Timor. In addition, the Government, as part of the White Paper, announced ongoing funding for Force Generation to sustain two battalion groups, provide for an additional airfield defence squadron and meet the increased costs of supporting operations. The extra forces, which involved an increase of 3,000 positions for the Army and 555 for the Air Force, were to ensure the ADF could deal with contingencies such as East Timor into the future.

In accordance with the most recent Force Extraction plan for the current commitment, the Government has agreed to reprogram \$11.1m from 2003-04 to 2004-05. After allowing for the reprogramming of \$11.1m, the projected result for 2003-04 is \$157.0m or \$65.0m less than last published in the *Portfolio Additional Estimates Statements 2003-04* (page 9). The estimates for deployment costs were overstated at this time, and those for Force Generation were understated. Overall, both elements of East Timor funding will be managed within the revised allocation of \$541.9m.

Australia has been a lead participant in successive UN missions in East Timor to date. The United Nations is in the process of planning for a one-year extension of the current UN mission in East Timor beyond May 2004. A possible Australian contribution to the UN peacekeeping force is expected to form a major part of the extended UN Mission. To reflect this contribution, the Government has provided supplementation of \$20.1m over two financial years. Table 2.5 details the 2003-04 projected result and forward estimates.

Table 2.5: Revised Net Additional Cost of Operation Citadel

	2001-02 Actual	2002-03 Actual	2003-04 Budget	2003-04 Projected Result	Variation	2004-05 Forward Estimate	2005-06 Forward Estimate	2006-07 Forward Estimate
	\$m	\$m	\$m	\$m		\$m	\$m	\$m
East Timor deployment	187.5	172.4	233.1	157.0	-76.1	11.1	-	-
Force Generation	445.4	406.9	319.9	384.9	65.0	448.9	448.9	448.9
Sub total existing deployment	632.9	579.3	553.0	541.9	-11.1	460.0	448.9	448.9
Supplementation for post-UNMISSET mission	-	-	-	-	-	16.0	4.1	0.0
Total	632.9	579.3	553.0	541.9	-11.1	476.0	453.0	448.9

Operations Bastille/Falconer/Catalyst

Operations Bastille and Falconer were Australia's predeployment to the Middle East and its contribution to the United States-led war in Iraq. In July 2003 the ADF transitioned into Operation Catalyst. Operation Catalyst is the ADF's contribution to developing a secure environment in Iraq, assisting national rehabilitation and facilitating the transition to Iraqi self-government. The net additional cost of all three operations as published in the *Portfolio Additional Estimates Statements 2003-04* (page 11) was estimated at \$644.7m including \$197.2m for Operation Catalyst. Included in this estimate was a contingency amount of \$6.8m.

Since the 2003-04 Additional Estimates, the Government has approved extensions to the P-3C Orion and air traffic controller deployments and the deployment of training forces to help train the new Iraqi military forces. Based on current expenditure trends, Defence expects to be able to absorb the net additional costs associated with these additional commitments within the original estimate of \$644.7m including the \$6.8m contingency.

In the context of the 2004-05 Budget, the Government also agreed to Defence reprogramming \$27.7m from 2003-04 to 2004-05 (\$25.2m) and 2005-06 (\$2.5m). This funding relates to the repatriation and remediation of specialist equipment and aircraft deployed during the operational phase of Operations Bastille/Falconer/Catalyst.

The Government has also announced that the ADF's contribution to the continued rehabilitation and stabilisation of Iraq post hand-over to the new Iraqi Government will continue through financial year 2004-05, for which the Government has provided supplementation of \$131.6m over three financial years.

Defence now expects that the net additional cost of all three operations will total \$776.3m as shown in Table 2.6.

Table 2.6: Revised Net Additional Cost of Operations Bastille/Falconer/Catalyst

	2002-03 Actual	2003-04 Projected Result	2004-05 Budget	2005-06 Forward Estimate	2006-07 Forward Estimate	Total
	\$m	\$m	\$m	\$m	\$m	
Agreed allocations as per <i>Portfolio Additional Estimates Statements 2003-04</i> (page 11)	285.3	282.9	62.7	13.8	-	644.7
Re-phasing agreed	-	-27.7	25.2	2.5	-	0.0
Revised allocations	285.3	255.2	87.9	16.3	-	644.7
Continuation of the rehabilitation of Iraq	-	-	124.6	3.0	4.0	131.6
Total	285.3	255.2	212.5	19.3	4.0	776.3

Operation Anode

Operation Anode is the Defence contribution to the Regional Assistance Mission Solomon Islands. In the 2003-04 Additional Estimates, the Government provided Defence with supplementation totalling \$133.3m spread over two financial years, of which \$111.1m is required in 2003-04 and \$22.2m in 2004-05. At this stage the estimates remain unchanged but will be reviewed at the end of the 2003-04 financial year.

Operation Relex II

Operation Relex II provides air and surface patrols across Australian's northern approaches to deter unauthorised boat arrivals. The Government provided \$17.8m in 2003-04 for this activity. The planned ADF force commitment to Operation Relex II in 2004-05 is similar to that of 2003-04, including one Frigate, one P-3C Orion maritime patrol aircraft, two Fremantle-class patrol boats and Army transit security elements. The net additional costs estimated at \$16.0m in 2004-05.

Operation Bel Isi II

Operation Bel Isi II commenced in 1998 with the objective of supporting the regional Peace Monitoring Group to monitor and report on the maintenance of the cease-fire in Bougainville. The ADF involvement in Operation Bel Isi II ceased in August 2003. Defence was supplemented \$5.0m in the 2003-04 Additional Estimates to cover the estimated cost of the operation post 30 June 2003. The final outcome will be reviewed at the end of the 2003-04 financial year.

Operation Safebase

The Government provided an additional \$34.6m in 2003-04 and \$36.1m for 2004-05, to continue the enhanced protective security measures for Defence personnel and facilities (Operation Safebase). The funds are being applied mainly to increase guarding, patrolling and protective searches. The additional allocation of \$70.7m brings the Government's total commitment on enhanced protective security for Defence personnel and facilities to \$138.8m since the events of 11 September 2001. At this stage, the estimates remain unchanged but will be reviewed at the end of the 2003-04 financial year.

Appropriations

The total appropriations for Defence in the 2004-05 budget are \$18,684m, as shown in Table 2.1. Table 2.7 shows the total appropriations for Defence for 2004-05 split across the seven Government outcomes, by administered expenses, cost of output appropriation and departmental equity injection.

Table 2.7: Appropriations and Other Revenue

Outcome	Departmental (Price of Outputs) (\$'000)					Administered (\$'000)			(\$'000) Total Appropriations (I=E+H)	
	Revenue from Government (Appropriations)			Receipts ⁽¹⁾ (D)	Price of Outputs (E=C+D)	(F) Annual Approps	(G) Special Approps	(H=F+G) Total Approps		
	(A)	(B)	(C=A+B) Total							
	Bill No 1	Special Approps								
Outcome 1: Command of Operations	677,155	-	677,155	80,760	757,915	-	-	-	757,915	
Outcome 2: Navy Capability	4,336,333	-	4,336,333	76,847	4,413,180	-	-	-	4,413,180	
Outcome 3: Army Capability	5,297,660	-	5,297,660	158,203	5,455,863	-	-	-	5,455,863	
Outcome 4: Air Force Capability	4,631,217	-	4,631,217	93,658	4,724,875	-	-	-	4,724,875	
Outcome 5: Strategic Policy	247,259	-	247,259	7,629	254,888	-	-	-	254,888	
Outcome 6: Intelligence	436,317	-	436,317	5,445	441,762	-	-	-	441,762	
Outcome 7: Administered	-	-	-	-	-	-	2,336,900	2,336,900	2,336,900	
Total	15,625,941	-	15,625,941	422,542	16,048,483	-	2,336,900	2,336,900	18,385,383	
									Departmental Capital (equity injection) (serial 2, Table 2.1)	299,025
									Administered Assets and Liabilities	-
									Total Appropriations (serial 9, Table 2.1)	18,684,408

Note

- Receipts comprise the sale of goods and services (\$246m), cash receipts from other revenue (\$85m), and net proceeds from the sale of property, plant and equipment (\$92m), as set out in the budgeted cash flows statement, with GST receipts from customers being excluded.

Use of Cash Reserves

In implementing the recommendations of the Government's Budget Estimates and Framework Review, Defence implemented an 'as required' cash drawdown system in February 2003. Defence's cash reserves are now held as a receivable by the Department of Finance and Administration and, rather than maintain large cash balances in its accounts, Defence will draw on these cash reserves to meet existing liabilities as they fall due in future years. Defence plans to have cash reserves totalling \$641.0m held as a receivable at the end of 2003-04, which the Government has agreed can be drawn down to meet existing employee and other liabilities as payments become due. Defence's employee liabilities are expected to be \$3,758m as at 30 June 2004 (refer to Table 2.13), which will reduce after the transfer of \$1,701m to the Department of Veterans' Affairs in relation to accrued military compensation provisions.

Table 2.8: Use of Cash (Appropriation Receivable)

2003-04 Use of Cash Reserves		2004-05	2005-06	2006-07	2007-08
Projected		Budget	Forward	Forward	Forward
Result		Estimate	Estimate	Estimate	Estimate
\$m		\$m	\$m	\$m	\$m
870.201	Opening balance of reserves to receivables held by Department of Finance and Administration ⁽¹⁾	640.915	778.982	723.882	648.582
-46.900	Cash used to reduce employee liabilities	-34.800	-52.600	-75.300	-97.000
112.900	Use of cash for Operation Bastille and returned from budget in 2003-04	-	-	-	-
14.600	Use cash reserve for Bougainville and returned from budget in 2003-04	-	-	-	-
42.540	Provision to meet future liabilities ⁽²⁾	143.367	-	-	-
0.846	Transfer from the Department of Foreign Affairs and Trade for employee liabilities of Locally Engaged Staff	-	-	-	-
-26.916	Return of excess 2002-03 current operations funding	-	-	-	-
-3.600	Mulwala tendering costs	-	-	-	-
11.100	Operation Citadel rephasing	-11.100	-	-	-
27.700	Operation Catalyst rephasing	-25.200	-2.500	-	-
-5.300	Reimbursement of Defence Procurement Review implementation costs	5.300	-	-	-
-20.000	Reimbursement of Commercialisation of DHA costs	20.000	-	-	-
-3.700	Reimbursement of part of the second tranche of the Papua New Guinea Defence Reform Program	3.700	-	-	-
-95.756	Access to 2002-03 property proceeds (part) ⁽³⁾	-	-	-	-
-5.000	Reimbursement of Point Nepean community grant costs	5.000	-	-	-
-31.800	Reimbursement of Property disposal costs from 2003-04	31.800	-	-	-
500.000	Forecast Capital underspend in 2003-04	-	-	-	-
-700.000	Reprogramming of capital expenditure (including \$200m held in cash reserves at the end of 2002-03)	-	-	-	-
640.915	Sub total: Appropriation Receivable	778.982	723.882	648.582	551.582

Notes

1. Includes the \$200m in capital funds not spent in 2002-03.
2. Cash set aside to enable Defence to meet future liabilities.
3. Use of cash retained by Defence from the proceeds of property sales in 2002-03 to meet operating cost pressures.

Methods of Presenting the Defence Budget

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

Method 1: Defence Resourcing

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

The Defence resourcing method is derived as follows:

	2004-05	Reference
	\$m	
Appropriation from Government for price of outputs	15,626	Table 2.1, Serial 1
Appropriation for equity injection	299	Table 2.1, Serial 2
Own-source revenue	331	Table 2.1, Serial 4
Net capital receipts	92	Table 2.1, Serial 5
Total Department Resourcing	16,348	Table 2.1, Serial 7

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

Method 2: Underlying Cash Balance Impact

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

A figure of \$15.314b is used in the Treasury budget overview and the Treasurer's budget speech and is derived as follows:

	2004-05	Reference
	\$m	
Underlying cash baseline ⁽¹⁾	13,268	Department of Finance and Administration
Logistics – additional funding	142	Table 2.3, Serial 14
Military Personnel – supplementation	7	Table 2.3, Serial 15
Personnel Initiatives – improvements to living-in accommodation	2	Table 2.3, Serial 18
Papua New Guinea Defence Force – funding to support downsizing	11	Table 2.3, Serial 20
Coastal Surveillance – continuation – Relex II	16	Table 2.3, Serial 21
Defence Procurement Review – implementation of recommendations	12	Table 2.3, Serial 22
Property sales – costs	26	Table 2.3, Serial 23

Iraq – funding for operations and rehabilitation activities	125	Table 2.3, Serial 26
East Timor – support to the United Nations mission	16	Table 2.3, Serial 27
National security – increased funding to intelligence agencies	10	Table 2.3, Serial 29
Critical Infrastructure Protection	2	Table 2.3, Serial 30
Australian Government contribution to the costs of staging the Melbourne 2006 Commonwealth Games	1	Table 2.3, Serial 31
White Paper Funding Increase	1,676	Table 1.2
Total Defence Funding	15,314	Treasury, Budget Overview and Treasurer’s Budget Speech

Note

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

Method 3: Defence Function

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

	2004-05 \$m	Reference
Defence (AAS 31) Expenses ⁽¹⁾	14,254	Department of Finance and Administration
Investment in specialist military equipment	2,869	Department of Finance and Administration
Specialist military equipment depreciation	-2,367	Table 2.16
Net sales value of assets sold	-231	Table 3.1
Net write-down of non-financial assets	-100	Table 2.12
Total Defence Function Expense	14,425	Statement 6, Budget Paper No. 1

Note

1. Australian Accounting Standards 31 – Financial Reporting by Governments.

Revised Financial Performance 2004-05

Defence is anticipating a surplus of \$21.3m in 2004-05. This surplus represents reimbursement to Defence for a number of items that were funded initially from within its cash reserves in 2003-04 (\$65.8m) offset by retention of a portion of the 2004-05 property sales proceeds to meet property disposal related costs totalling \$25.5m and expenditure of \$19.1m relating to the rephasing of funding for Operations Citadel and Catalyst. Details are shown in Table 2.9.

Table 2.9: Variation in Planned Financial Performance 2004-05⁽¹⁾

	2004-05			
	Previous Estimate ⁽²⁾	Budgeted Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
REVENUE				
Revenues from ordinary activities				
Revenue from Government	14,929,723	15,625,941	696,218	4.7
Sales of goods and services	242,093	245,670	3,577	1.5
Revenue from sale of assets	242,312	230,980	-11,332	-4.7
Other	86,250	86,892	642	0.7
Revenue from ordinary activities	15,500,378	16,189,483	689,105	4.4
EXPENSE				
Expenses from ordinary activities (excluding borrowing cost expense)				
Employees ⁽³⁾	6,777,338	6,710,346	-66,992	-1.0
Suppliers	5,362,434	6,109,274	746,840	13.9
Grants	1,911	1,250	-661	-34.6
Depreciation and amortisation	2,984,937	2,984,937	-	-
Value of assets sold	242,312	230,980	-11,332	-4.7
Write down of assets	100,000	100,000	-	-
Expenses from ordinary activities (excluding borrowing cost expense)	15,468,932	16,136,787	667,855	4.3
Borrowing cost expense	31,446	31,446	-	-
Net surplus	-	21,250	21,250	100

Notes

1. See also Table 2.12.
2. As reported in the *Portfolio Additional Estimates Statements 2003-04* (page 55).
3. Employee expenses are referred to in Table 5.4.

Revenue has increased by \$689.1m due mainly to:

- increased revenue from the Government for the operating expense component of activities outlined below (\$696.2m); and
- reduced anticipated revenue from the 2004-05 property sales program (-\$11.3m).

Expenses have increased by \$667.9m due mainly to the measures and other technical adjustments outlined in the financial overview including:

- reclassification of a portion of the capital budget as operating expenses (\$186.4m);
- revision to price parameters provided in the 2003-04 Additional Estimates process (\$172.7m);

- supplementation for logistics cost pressures (\$142.1m);
- supplementation for the net additional costs of Operation Catalyst (2004-05 element) (\$124.6m);
- supplementation for higher charges to Defence from the Defence Housing Authority, arising from the application of competitive neutrality principles (\$88.0m); and
- transfer of the Military Compensation function to the Department of Veterans' Affairs (-\$168.3m).

Revised Financial Position 2004-05

Compared with the 2004-05 previous estimate, Defence's net assets are estimated to decrease by \$498.1m, as shown in Table 2.10.

Table 2.10: Revised Financial Position 2004-05⁽¹⁾

	2004-05			
	Previous Estimate ⁽²⁾	Budget Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
ASSETS				
Financial Assets				
Cash	99,557	-90,443	-190,000	-190.8
Receivables	1,358,178	1,061,322	-296,856	-21.9
Total Financial Assets	1,457,735	970,879	-486,856	-33.4
Non-Financial Assets				
Land and Buildings	8,912,396	8,923,728	11,332	0.1
Infrastructure plant and equipment	37,892,245	36,258,966	-1,633,279	-4.3
Intangibles	85,847	85,847	-	-
Heritage and Cultural	19,047	19,047	-	-
Inventories	3,749,395	3,836,895	87,500	2.3
Other	718,548	718,548	-	-
Total Non-Financial Assets	51,377,478	49,843,031	-1,534,447	-3.0
Total ASSETS	52,835,213	50,813,910	-2,021,303	-3.8
LIABILITIES				
Debt				
Leases	317,570	317,570	-	-
Total Debt	317,570	317,570	-	-
Provisions and Payables				
Employees and other provisions	3,478,248	1,955,018	-1,523,230	-43.8
Suppliers payables	1,200,066	1,200,066	-	-
Other payables	373,729	373,729	-	-
Total Provisions and Payables	5,052,043	3,528,813	-1,523,230	-30.2
Total LIABILITIES	5,369,613	3,846,383	-1,523,230	-28.4
NET ASSETS	47,465,600	46,967,527	-498,073	-1.0

EQUITY

Capital	2,945,499	1,661,852	1,283,647	-43.6
Reserves	7,247,911	7,247,911	-	-
Accumulated surpluses	37,272,190	38,057,764	785,574	2.1
TOTAL EQUITY	47,465,600	46,967,527	-498,073	-1.0

Notes

1. See also Table 2.13.
2. As reported in the *Portfolio Additional Estimates Statements 2003-04* (page 56).

Total assets are estimated to decrease by \$2,021.3m or 3.8 per cent due mainly to:

- the reprogramming of \$700m in capital underspends (\$200m arising from 2002-03 and \$500m from 2003-04) to the period beyond 2007-08. Funds will be reappropriated in relevant years;
- variations in exchange rate levels (-\$412.8m);
- reclassification of a portion of the capital budget as operating expenses (-\$344.7m); and
- revised depreciation estimates (-\$265.0m).

Total liabilities are estimated to decrease by \$1,523.2m, reflecting:

- increased liability arising from corrections to long service and annual leave liabilities and the transfer of the three per cent productivity liability from the Administered statements to Defence's Departmental statements (\$368.2m);
- recognition of the discharge of the 27th pay liability in 2004-05 (-\$190.0m); and
- transfer of the Military Compensation function and associated projected liability to the Department of Veterans' Affairs (-\$1,701.4m).

Revised Cash Flows 2004-05

The difference in cash flow projections between the 2004-05 previous estimate and the 2004-05 Budget reflect the combined impact (both operating expense and capital) of the funding adjustments outlined in the financial overview. The reduction of \$495.1m in purchase of specialist military equipment predominantly reflects the return of foreign exchange savings to the Budget and the re-categorisation of some capital expenditure to the capital program as an operating expense to reflect Australian Accounting Standards. Details are shown in Table 2.11.

Table 2.11: Variation in Cash Flows 2004-05⁽¹⁾

	2004-05			
	Previous Estimate ⁽²⁾	Budget Estimate	Variation	Variation
	\$'000	\$'000	\$'000	%
CASH RECEIPTS				
Appropriations from Government	14,929,723	15,625,941	696,218	4.7
Sales of goods and services	262,913	266,798	3,885	1.5
Net GST refund	851,109	872,561	21,452	2.5
Other	84,250	84,892	642	0.8
Cash transfer from Official Public Account	34,800	71,100	36,300	104.3
Proceeds from sales of property, plant and equipment	242,312	230,980	-11,332	-4.7
Equity appropriation	830,804	299,025	-531,779	-64.0
Total Cash Receipts	17,235,911	17,451,297	215,386	1.2
CASH PAYMENTS				
Employees	6,689,073	6,812,081	123,008	1.8
Suppliers	5,341,872	6,110,472	768,600	14.4
Grants	1,911	1,250	-661	-34.6
Other	31,446	31,446	-	-
Cash transfer to Official Public Account	143,367	209,167	65,800	45.9
Purchase of specialist military equipment	3,370,074	2,874,945	-495,129	-14.7
Purchase of Inventory	832,016	840,586	8,570	1.0
Purchase of property, plant and equipment	636,713	608,743	-27,970	-4.4
Repayments of debt	13,607	13,607	-	-
Capital withdrawal	175,832	139,000	-36,832	-20.9
Total Cash Payments	17,235,911	17,641,297	405,386	2.4
Net Increase/(Decrease) in Cash Held	-	-190,000	-190,000	-100.0
Cash at 1 July	99,557	99,557	-	-
Cash at 30 June	99,557	-90,443	-190,000	-190.8

Notes

1. See also Table 2.14.
2. As reported in the *Portfolio Additional Estimates Statements 2003-04* (page 57).

At this stage, funding for the 27th payday in 2004-05 is not included. The Government has agreed that Defence can bring forward a proposal for consideration in the 2004-05 Additional Estimates. The \$190m decrease in cash held reflects the need to make that payment, pending resolution in the 2004-05 Additional Estimates process.

BUDGETED FINANCIAL STATEMENTS

This section provides the budgeted financial statements for Defence. They have been prepared consistent with the Government's financial budgeting and reporting framework. They consist of the following statements and accompanying notes for both departmental and administered performance.

Budgeted Statement of Financial Performance (Budgeted Operating Statement)

This statement provides a picture of the expected financial results for Defence by identifying revenues and expenses over 2004-05 and the forward estimates. This highlights whether Defence is operating at a sustainable level in the short-term.

Budgeted Statement of Financial Position (Budgeted Balance Sheet)

This shows the projected financial position of Defence for 2004-05 and the forward estimates. It enables decision-makers to track the management of Defence's assets and liabilities.

Budgeted Statement of Cash Flows (Budgeted Cash Flow Statement)

The budgeted statement of cash flows categorises expected cash flows arising from operating activities, investing activities and financing activities.

Capital Budget Statement

This shows all proposed capital expenditure and receipts during the budget year and the forward estimates. It also shows how new asset acquisitions are funded by appropriation for outputs, by equity injections or loans, or by sales of existing assets.

Non-Financial Assets – Summary of Movement

This statement shows movement in non-financial assets in the budget year.

Schedule of Budgeted Revenues and Expenses Administered on Behalf of Government.

This schedule identifies the main revenues and expenses Defence administers on behalf of the Government.

Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government.

This schedule shows the main assets and liabilities Defence administers on behalf of the Government.

Schedule of Budgeted Administered Cash Flows

This schedule shows cash flows Defence administers on behalf of the Government.

Schedule of Administered Capital Budget

This schedule has been excluded as Defence does not have any administered capital budget items.

Schedule of Administered Non-Financial Assets – Summary of Movement

This schedule has been excluded as Defence does not administer any non-financial assets.

Table 2.12: Budgeted Statement of Financial Performance⁽¹⁾

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
	REVENUES						
14,569,666	Revenues from Government	14,929,723	15,625,941	4.7	15,254,845	15,807,771	16,600,178
243,085	Sales of goods and services	242,093	245,670	1.5	251,200	253,449	258,993
-	Interest	-	-	-	-	-	-
306,384	Revenue from sales of assets	242,312	230,980	(4.7)	40,000	40,000	40,000
278,000	Assets now recognised	-	-	-	-	-	-
87,706	Other	86,250	86,892	0.7	88,429	89,677	90,998
15,484,841	Total Revenues	15,500,378	16,189,483	4.4	15,634,474	16,190,897	16,990,169
	EXPENSES						
6,932,305	Employees ⁽²⁾	6,777,338	6,710,346	(1.0)	6,993,119	7,118,766	7,197,428
5,552,967	Suppliers	5,362,434	6,109,274	13.9	5,726,334	6,062,832	6,696,137
1,874	Grants	1,911	1,250	(34.6)	1,275	1,301	1,327
3,091,654	Depreciation and amortisation	2,984,937	2,984,937	-	2,742,171	2,835,282	2,928,394
306,384	Value of assets sold	242,312	230,980	(4.7)	40,000	40,000	40,000
378,000	Write-down of assets	100,000	100,000	-	100,000	100,000	100,000
-	Other	-	-	-	-	-	-
16,263,184	Total Expenses	15,468,932	16,136,787	4.3	15,602,899	16,158,181	16,963,286
31,263	Borrowing cost expense	31,446	31,446	-	32,075	32,716	26,883
(809,606)	Net Operating Result	-	21,250	100.0	(500)	-	-
	Equity Interests						
37,144,689	Accumulated surpluses at 1 July	37,272,189	36,335,083	(2.5)	36,356,333	36,355,833	36,355,833
36,335,083	Total Available for Appropriation	37,272,189	36,356,333	(2.5)	36,355,833	36,355,833	36,355,833
-	Change in accounting policy	-	-	-	-	-	-
-	Capital withdrawal	-	-	-	-	-	-
36,335,083	Accumulated Surpluses as at 30 June	37,272,189	36,356,333	(2.5)	36,355,833	36,355,833	36,355,833

Notes

1. See also Table 2.9.
2. Employee expenses are referred to in Table 5.4.

Table 2.13: Budgeted Statement of Financial Position⁽¹⁾

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
	ASSETS						
	Financial Assets						
99,557	Cash	99,557	(90,433)	(190.8)	(90,443)	(90,443)	(90,443)
923,255	Receivables	1,358,178	1,061,322	(21.9)	1,006,222	930,922	833,922
1,022,812	Total Financial Assets	1,457,735	970,879	(33.4)	915,779	840,479	743,479
	Non-Financial Assets						
9,129,857	Land and buildings	8,912,396	8,923,728	0.1	8,873,234	8,817,185	8,756,376
35,873,509	Infrastructure, plant and equipment	37,892,245	36,258,966	(4.3)	37,362,407	38,601,479	40,080,577
130,637	Intangibles	85,847	85,847	-	65,663	44,769	23,166
19,047	Heritage and Cultural	19,047	19,047	-	19,047	19,047	19,047
3,886,800	Inventories	3,749,395	3,836,895	2.3	3,763,612	3,788,731	3,796,831
718,548	Other	718,548	718,548	-	718,548	718,548	718,548
49,758,398	Total Non-Financial Assets⁽²⁾	51,377,478	49,843,031	(3.0)	50,802,511	51,989,759	53,394,545
50,781,210	Total Assets	52,835,213	50,813,910	(3.8)	51,718,290	52,830,238	54,138,024
	LIABILITIES						
	Debt						
331,177	Leases	317,570	317,570	-	303,090	287,670	271,310
331,177	Total Debt	317,570	317,570	-	303,090	287,670	271,310
	Provisions and Payables						
3,758,183	Employees	3,478,248	1,955,018	(43.8)	1,895,861	1,807,792	1,694,847
1,200,066	Suppliers	1,200,066	1,200,066	-	1,200,066	1,200,066	1,200,066
373,729	Other	373,729	373,729	-	373,729	373,729	373,729
5,331,978	Total Provisions and Payables	5,052,043	3,528,813	(30.2)	3,469,656	3,381,587	3,268,642
5,663,155	Total Liabilities	5,369,613	3,846,383	(28.4)	3,772,746	3,669,257	3,539,952
45,118,055	Net Assets	47,465,600	46,967,527	(1.0)	47,945,544	49,160,981	50,598,072
	EQUITY						
1,501,827	Capital	2,945,499	1,661,852	(43.6)	2,537,889	3,641,756	4,961,137
7,281,144	Reserves	7,247,911	7,247,911	-	7,247,911	7,247,911	7,247,911
36,335,084	Accumulated surpluses	37,272,190	38,057,764	2.1	38,159,744	38,271,314	38,389,024
45,118,055	Total Equity	47,465,600	46,967,527	(1.0)	47,945,544	49,160,981	50,598,072
	Represented by:						
2,024,551	Current assets	1,962,474	1,964,958	0.1	1,898,611	1,827,166	1,731,409
48,756,659	Non-current assets	50,872,739	48,848,952	(4.0)	49,819,679	51,003,072	52,406,615
2,868,562	Current liabilities	2,462,218	2,233,182	(9.3)	2,211,972	2,180,556	2,140,354
2,794,593	Non-current liabilities	2,907,395	1,613,200	(44.5)	1,560,774	1,488,701	1,399,598

Notes

1. See also Table 2.10.
2. Refer to Table 2.16 for a detailed breakdown of land and buildings, infrastructure, plant and equipment, intangibles and heritage and cultural assets.

Table 2.14: Budgeted Statement of Cash Flows⁽¹⁾

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
OPERATING ACTIVITIES							
14,569,666	Appropriations from Government	14,929,723	15,625,941	4.7	15,254,845	15,807,771	16,600,178
263,991	Sales of goods and services	262,913	266,798	1.5	267,624	269,924	275,828
-	Interest	-	-	-	-	-	-
794,868	Net GST refund	851,109	872,561	2.5	844,694	903,808	988,403
85,706	Other	84,250	84,892	0.8	88,429	89,677	90,998
938,972	Cash transfer from Official Public Account	34,800	71,100	104.3	55,100	75,300	97,000
16,653,203	Total cash received	16,162,795	16,921,292	4.7	16,510,692	17,146,480	18,052,407
6,491,833	Employees	6,689,073	6,812,081	1.8	6,949,796	7,095,265	7,192,663
5,509,433	Suppliers	5,341,872	6,110,472	14.4	5,654,842	6,008,449	6,780,906
1,874	Grants	1,911	1,250	(34.6)	1,275	1,301	1,327
107,154	Inventory	108,162	109,276	1.0	111,713	129,972	120,714
31,263	Other	31,446	31,446	-	32,075	32,716	26,883
709,686	Cash transfer to Official Public Account	143,367	209,167	45.9	-	-	-
12,851,243	Total cash used	12,315,831	13,273,692	7.8	12,749,701	13,267,703	14,122,493
3,801,960	Net cash from/(to) Operating Activities	3,846,964	3,647,600	(5.2)	3,760,991	3,878,777	3,929,914
INVESTING ACTIVITIES							
306,384	Proceeds from sales of property, plant and equipment	242,312	230,980	(4.7)	40,000	40,000	40,000
306,384	Total cash received	242,312	230,980	(4.7)	40,000	40,000	40,000
2,585,499	Purchase of specialist military equipment	3,370,074	2,874,945 ⁽²⁾	(14.7)	3,325,512	3,658,838	3,977,148
483,991	Purchase of property, plant and equipment	636,713	608,743 ⁽²⁾	(4.4)	589,422	478,573	487,932
717,111	Purchase of Inventory	723,854	731,310	1.0	747,614	869,813	807,855
3,786,601	Total cash used	4,730,641	4,214,998	(10.9)	4,662,548	5,007,224	5,272,935
(3,480,217)	Net cash from/(to) investing activities	(4,488,329)	(3,984,018)	(11.2)	(4,622,548)	(4,967,224)	(5,232,935)
FINANCING ACTIVITIES							
617,634	Equity appropriation	830,804	299,025	(64.0)	876,037	1,103,867	1,319,381
617,634	Total cash received	830,804	299,025	(64.0)	876,037	1,103,867	1,319,381

Budgeted Financial Statements

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
12,561	Repayments of debt	13,607	13,607	-	14,480	15,420	16,360
926,816	Capital withdrawal	175,832	139,000	(20.9)	-	-	-
939,377	Total cash used	189,439	152,607	(19.4)	14,480	15,420	16,360
(321,743)	Net Cash from/(to) financing activities	641,365	146,418	(77.2)	861,557	1,088,447	1,303,021
	Net Increase/ (Decrease) in Cash Held	-	(190,000)	(100.0)	-	-	-
99,557	Cash at 1 July	99,557	99,557	-	(90,443)	(90,443)	(90,443)
99,557	Cash at 30 June	99,557	(90,443)	(190.8)	(90,443)	(90,443)	(90,443)

Notes

1. See also Table 2.11.
2. Purchase of Specialist Military Equipment and Property plant and Equipment equals the Total of Gross value additions in Table 2.16 and Total Capital Payments in Table 2.15.

Table 2.15: Capital Budget Statement

2003-04 Projected Result	2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000
CAPITAL EXPENDITURE						
2,585,499	3,370,074	2,874,945	(14.7)	3,325,512	3,658,838	3,977,148
483,991	636,713	608,743	(4.4)	589,422	478,573	487,932
3,069,490	4,006,787	3,483,688	(13.1)	3,914,934	4,137,411	4,465,080
Funded from:						
617,634	830,804	299,025	(64.0)	876,037	1,103,867	1,319,381
2,345,372	3,109,503	3,092,683	(0.5)	2,998,897	2,993,544	3,105,699
106,484	66,480	91,980	38.4	40,000	40,000	40,000
3,069,490	4,006,787	3,483,688	(13.1)	3,914,934	4,137,411	4,465,080
CAPITAL RECEIPTS						
-	-	-	-	-	-	-
306,384	242,312	230,980	(4.7)	40,000	40,000	40,000
(199,900)	(175,832)	(139,000)	(20.9)	-	-	-
106,484	66,480	91,980	38.4	40,000	40,000	40,000

Notes

- Total Capital Payments equates to Purchases of Specialist Military Equipment and Property, plant and equipment in Table 2.14.
- Total Capital Funding and Net Capital Receipts cross reference to Table 3.3.

Table 2.16: Non-Financial Assets – Summary of Movement

Revised Budget Year 2004-05	Land	Buildings	Commercial Vehicles, Other Equipment and Infrastructure	Specialist Military Equipment	Software	Other Intangibles	Heritage and Cultural	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
GROSS VALUE								
Gross value as at 30 June 2004	2,313,335	9,772,081	7,441,691	55,057,663	149,532	133,891	19,047	74,887,240
Gross value – additions	-	219,302	387,723	2,874,945	-	1,718	-	3,483,688 ⁽¹⁾
Gross value – revaluations	-	(33,233)	-	-	-	-	-	(33,233)
Gross value – disposals	(80,970)	(142,108)	(118,270)	(39,934)	-	-	-	(381,282)
Gross value – write-offs	-	-	-	(100,000)	-	-	-	(100,000)
Gross value – other movements	-	-	-	-	-	-	-	-
Gross Value as at 30 June 2005	2,232,365	9,816,042	7,711,144	57,792,674	149,532	135,609	19,047	77,856,413
ACCUMULATED DEPRECIATION/AMORTISATION								
Accumulated depreciation/amortisation as at 30 June 2004	-	2,955,559	2,591,297	24,034,548	70,780	82,006	-	29,734,190
Depreciation/amortisation on assets held at the beginning of the year	-	221,617	349,466	2,367,346	18,486	28,022	-	2,984,937
Accumulated depreciation/amortisation on assets disposed through the year	-	(52,497)	(63,641)	(34,164)	-	-	-	(150,302)
Accumulated depreciation/amortisation as at 30 June 2005	-	3,124,679	2,877,122	26,367,730	89,266	110,028	-	32,568,825
Written Down Value as at 30 June 2005⁽²⁾	2,232,365	6,691,363	4,834,022	31,424,944	60,266	25,581	19,047	45,287,588

Notes

- Total of 'Gross value—additions' equals purchase of Specialist Military Equipment and Property, Plant and Equipment in Table 2.14.
- The written-down values are represented in Table 2.13.

Table 2.17: Schedule of Budgeted Revenues and Expenses Administered on Behalf of Government

2003-04 Projected Result	2004-05 Previous Estimate	2004-05 Budget Estimate	Variation	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'000
Revenues Administered on Behalf of Government						
229,364	144,900	45,047	(68.9)	13,203	17,465	21,264
580,683	563,389	603,389	7.1	661,389	712,389	755,389
Total revenues administered on behalf of Government						
810,047	708,289	648,436	(8.5)	674,592	729,854	776,653
Expenses Administered on Behalf of Government						
2,009,400	2,321,200	2,329,400	0.4	2,429,400	2,429,400	2,629,400
7,500	7,400	7,500	1.4	7,500	7,500	7,500
-	-	-	-	-	-	-
Total expenses administered on behalf of Government						
2,016,900	2,328,600	2,336,900	0.4	2,436,900	2,436,900	2,636,900

Table 2.18: Schedule of Budgeted Assets and Liabilities Administered on Behalf of Government

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation %	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000		\$'000	\$'000	\$'000
Assets Administered on Behalf of Government							
-	Cash	80,226	-	(100.0)	-	-	-
25,000	Receivables	10,000	10,000	-	-	-	-
1,258,883	Investments	1,258,883	1,258,883	-	1,258,883	1,258,883	1,258,883
74,016	Other Non-Financial Assets	74,018	74,016	-	74,016	74,016	74,016
Total assets administered on behalf of Government							
1,357,899		1,423,127	1,342,899	(5.6)	1,332,899	1,332,899	1,332,899
Liabilities Administered on Behalf of Government							
28,680,000	Military benefits	29,800,000	29,580,000	(0.7)	30,580,000	31,480,000	32,580,000
Total liabilities administered on behalf of Government							
28,680,000		29,800,000	29,580,000	(0.7)	30,580,000	31,480,000	32,580,000
Represented by:							
25,000	Current assets	90,226	10,000	(88.9)	-	-	-
1,332,899	Non-current assets	1,332,901	1,332,899	-	1,332,899	1,332,899	1,332,899
-	Current liabilities	-	-	-	-	-	-
28,680,000	Non-current liabilities	29,800,000	29,580,000	(0.7)	30,580,000	31,480,000	32,580,000

Table 2.19: Schedule of Budgeted Administered Cash Flows

2003-04 Projected Result		2004-05 Previous Estimate	2004-05 Budget Estimate	Variation %	2005-06 Forward Estimate	2006-07 Forward Estimate	2007-08 Forward Estimate
\$'000		\$'000	\$'000	%	\$'000	\$'000	\$'000
OPERATING ACTIVITIES							
Cash Received							
	Cash from the Official Public Account	1,428,600	1,436,900	0.6	1,436,900	1,536,900	1,536,900
1,216,900	Interest and dividends	144,900	45,047	(68.9)	13,203	17,465	21,264
229,364	Other	578,389	618,389	6.9	671,389	712,389	755,389
606,629							
2,052,893	Total Cash Received	2,151,889	2,100,336	(2.4)	2,121,492	2,266,754	2,313,553
Cash Used							
1,209,400	Military benefits	1,421,200	1,429,400	0.6	1,429,400	1,529,400	1,529,400
7,500	Subsidies	7,400	7,500	1.4	7,500	7,500	7,500
	Cash to the Official Public Account	723,289	663,436	(8.3)	684,592	729,854	776,653
916,383	Other	-	-	-	-	-	-
-							
2,133,283	Total Cash Used	2,151,889	2,100,336	(2.4)	2,121,492	2,266,754	2,313,553
(80,390)	Net cash from/(to) operating activities Net (decrease) / increase in cash held	-	-	-	-	-	-
(80,226)	Cash at the beginning of the reporting period	80,226	-	-	-	-	-
80,226							
-	Cash at the end of the reporting period	80,226	-	(100.0)	-	-	-

NOTES TO THE BUDGETED FINANCIAL STATEMENTS

Note 1 - Key Accounting Policies

1.1 Budgeted Financial Statements Overview

Budgeted financial statements have been included to show the planned financial performance over the 2004-05 budget year, and each of the following forward years from 2005-06 to 2007-08.

Budgeted statements of financial performance, financial position, and cash flows and a budgeted capital statement are provided to show the revenues, expenses, assets, liabilities and equity of Defence. These budgeted statements contain estimates prepared in accordance with the requirements of the Government's financial budgeting and reporting framework.

The projected results for 2003-04, shown in the portfolio budget statements for comparative purposes, are based on estimates at the time these portfolio budget statements were prepared and are not necessarily estimates determined during the *Portfolio Additional Estimates Statements 2003-04*. These estimates include pressures and opportunities that have arisen during, or are foreseen for the remainder of, the 2003-04 financial year. Audited financial results for Defence will be provided in the annual report following the completion of the financial year.

1.2 Comparative figures and variations

In recognition of the budget development and scrutiny process, variations explained in the budgeted financial statements are between the budget and the previously published forward estimate for 2004-05 (*Portfolio Additional Estimates Statements 2003-04*) unless otherwise noted. This most recent previous estimate for 2004-05 is also included in these budgeted financial statements for comparative purposes.

1.3 Rounding

Unless otherwise stated, the convention used in these budgeted financial statements is to round amounts to the nearest \$'000. Totals are the sum of unrounded figures.

1.4 Budgeted Departmental Financial Statements and Schedule of Budgeted Administered Activity

Note that the term '*budgeted financial statements*' and '*statements of*' are used interchangeably.

Under the Australian Government's accrual-based budgeting framework, and consistent with Australian Accounting Standards, transactions that agencies

control (Departmental transactions) are separately budgeted for and reported, compared to transactions that agencies do not have control over (Administered transactions). This ensures that agencies are only held fully accountable for the transactions over which they have control.

- Departmental expenses include employee and supplier expenses and other administrative costs, which are incurred by Defence in providing its goods and services.
- Administered items are revenues, expenses, assets and liabilities that are managed by Defence on behalf of the Government according to set Government directions and which Defence does not have management control. These include Military Superannuation contributions, payments received from the United Nations and foreign governments, bank interest and dividends paid by the Defence Housing Authority.

1.5 Appropriations in the accrual budgeting framework

Under the Australian Government's accrual budgeting framework, separate annual appropriations are provided for:

- Departmental price of outcomes appropriations (represent the Government's funding for outcomes from agencies);
- Departmental capital appropriations (representing investments by the Government for either additional equity or loans in agencies);
- Administered expense appropriations (representing estimated Administered expenses relating to an existing outcome, a new outcome or a Specific Purpose Payment to the states); and
- Administered capital appropriations (represent increases in Administered equity through funding non-expense Administered payments).

Special appropriations fund the majority of payments from the Consolidated Revenue Fund (especially those that are entitlement driven or involve transfers to State governments).

1.6 Basis of Accounting

The Budgeted statements have been prepared in accordance with:

- The Financial Management and Accountability Orders under the authority of section 63 of the *Financial Management and Accountability Act 1997*;
- Australian Accounting Standards (AAS) and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB); and
- Consensus Views of the Urgent Issues Group.

The Budgeted Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historic cost convention, except for certain assets which, as noted (refer to items 1.15 and

1.16), are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or financial position.

Revenues and expenses are recognised in the Statement of Financial Performance when, and only when, the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

Administered revenues, expenses, assets and liabilities and cash flows reported in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19) are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated.

1.7 Changes in Accounting Policy

The accounting policies used in the preparation of these budgeted financial statements are consistent with those used in 2002-03, except in respect of raising the threshold for grouping assets from \$1,000 to \$2,000.

1.8 Revenue

Revenues from Government

Departmental outputs appropriation for the year (less any savings offered up in Portfolio Additional Estimate Statements) are recognised as revenue, except for certain amounts which relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

From 2002-03, Defence elected to operate on an 'as required' drawdown basis that may result in undrawn appropriations as at 30 June 2004 that will be reflected as a receivable. This receivable is available for drawdown to meet future obligations.

Other Revenue

Revenue from the delivery of goods and the rendering of services is recognised by reference to the stage of completion of contracts or other agreements to provide goods or services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction. Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

Under the Transactional Banking arrangements adopted 1 July 1999, Defence manages its own cash bank accounts in line with the Department of Finance and Administration's 'as required' drawdown arrangements.

Interest revenue is recognised as it is earned, on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established.

1.9 Transactions with the Government

Equity Injection

Equity injection represents an additional contribution to Defence by the Government, which is over and above the revenue from Government for the price of outcomes. Equity injections are used entirely to fund capital expenditure. The Finance Ministers' Orders require that amounts of appropriations designated as 'equity injections' (less any savings offered up in the Portfolio Additional Estimate Statements) are recognised directly in Contributed Equity as at 1 July or later date of effect of the appropriation.

1.10 Employee Benefits

Defence's workforce comprises two employment components: Australian Public Service (APS, ie civilians) and Australian Defence Force (ADF, ie military) personnel. Employee benefits for each workforce component are based on the relevant employment agreements and legislation.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries (including non-monetary benefits), annual leave and sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts. The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of Defence is estimated to be less than the annual entitlement for sick leave. The leave liabilities are calculated on the basis of employees' remuneration, including Defence's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for long service leave is determined by reference to the work of an actuary. The estimate of the value of the liability takes into account attrition rates and pay increases through promotion and inflation.

The liability for annual leave for APS employees reflects the value of total annual leave entitlements of all such employees and is recognised at the nominal amount. All annual leave for APS employees is current. The liability in respect of annual leave for ADF personnel reflects an estimate of the total value of annual leave entitlements. The liability is recognised as the best estimate of the nominal amount required to settle the obligation as at the reporting date. All annual leave for ADF is current.

Superannuation

Permanently appointed APS employees and the Department contribute to the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). These schemes are defined benefit superannuation plans for APS employees. No liability is shown for APS superannuation in the Statement of Financial Position as the employer superannuation contributions by Defence fully extinguish the accruing liability, which is assumed by the Commonwealth, and is reported by the Department of Finance and Administration, with the administration being conducted by ComSuper. For APS employees who are not members of the CSS or PSS the Department makes an employer superannuation contribution to their nominated fund.

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contributions, pension payments, DFRDB member contributions and the provision for unfunded superannuation are reflected in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19).

Military Workers' Compensation

The Military Rehabilitation and Compensation Bill 2003 and the Military Rehabilitation and Compensation (Consequential and Transitional Provisions) Bill 2003 (MRC(C&T) Bill) passed by the Parliament on 1 April 2004, provide for the establishment of the new Military Rehabilitation and Compensation scheme. The new scheme significantly reforms the existing arrangement of two separate military compensation schemes under multiple sources of legislation including the Veterans' Entitlements Act 1986 and the Safety Rehabilitation and Compensation Act 1988 (SRCA). Effective from 1 July 2004, the Department of Veterans' Affairs will be the single administrative body for all forms of ADF compensation under the old and the new schemes.

Employee Workplace Agreements

As a result of workplace agreements in place for Defence employees, a number of pay increases for both APS and ADF personnel are due to be paid in ensuing years. The current military agreement is for a period of 18 months from 7 November 2002 until 6 May 2004. The last pay rise was three per cent from 3 July 2003. The APS Certified Agreement expires on 31 December 2006. The pay rises are two per cent from 1 January 2004, four per cent from 4 November 2004, two per cent from 2 June 2005 and two per cent from 12 January 2006. Remuneration for executives (being members of the Senior Executive Service or equivalent) is subject to individual agreements.

1.11 Asbestos Related Disease Exposure

An inter-departmental committee chaired by the Department of Finance and Administration commissioned Trowbridge Deloitte to perform an actuarial

study on the nature and extent of the Australian Government's liability for Asbestos-Related Diseases. The Actuarial Assessment of the Australian Government Asbestos-Related Disease Exposure report, which was finalised in October 2003, involved collecting extensive data on individual Australian Government claims, modeling the various sources of claims and conducting interviews with various Australian Government agencies involved in managing the claims.

The provision is based on the best estimate of Defence's potential exposure, consistent with the requirement of AASB 1044, Provisions, Contingent Assets and Contingent Liabilities. In making the best estimate of the consideration required to settle the provision, the Actuary has applied independent expertise and has used existing historical data, as well as similar claims elsewhere. The estimate represents the present value of future compensation payments on both future reported claims and currently open claims, including defendant legal costs. In the financial statements Defence is required to gross-up the liability and disclose the assets.

1.12 Cash

Cash means notes and coins held, as well as any deposits held at call with a bank or financial institution. Changed cash management procedures during 2002-03 required Defence to adopt an 'as required' drawdown approach to appropriations. This has reduced the amount of cash held by Defence. Undrawn appropriation is represented as a receivable from the Commonwealth.

1.13 Acquisition of Assets

Assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. With the exception of specialist military equipment, assets acquired at no cost or for nominal consideration are initially recognised as assets and revenues at their fair value as at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor agency's accounts immediately prior to the restructuring.

1.14 Property, Plant and Equipment including Land, Buildings and Infrastructure

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Budgeted Statement of Financial Position where they meet the capitalisation threshold. Individual items will be capitalised where the individual value is equal to or exceeds \$10,000. Grouped assets will be capitalised for items of homogenous nature within a single class where the individual item values equal or exceed \$2,000 (2003: \$1,000) and the class group value equals or exceeds \$50,000 (2003: \$50,000).

Asset valuation

From 1 July 2002 Commonwealth agencies and authorities are required to use the cost basis (for specialist military equipment and intangibles) or the fair value basis (for other, infrastructure, plant and equipment) to measure Property, Plant and Equipment. The shift from the deprival method of valuation to fair value occurred gradually over a three-year period. Fair value essentially reflects the current market value of an asset.

Revaluations

In accordance with Schedule 1 of the Financial Management and Accountability (Financial Statements 2003-2004) Orders and AASB 1041 Revaluation of Non-Current Assets, all non-current assets are valued on the fair value basis from 1 July 2002, with the exception of specialist military equipment, which is currently valued on the basis of historical costs.

Property, plant and equipment, except for assets under construction and specialist military equipment with values greater than established revaluation thresholds, are revalued progressively in successive three-year cycles. All current progressive revaluation cycles commenced on 1 July 2002 and will conclude by 30 June 2005.

Assets within each class acquired after the valuation of the asset type in the current revaluation cycle are reported at cost for the duration of the cycle unless significant changes in the value of the asset have occurred, in which case the asset will be subject to revaluation or indexation.

Assets under construction are not revalued but are accounted for at cost. In addition to reviewing expenditures from the point of rollout into service, assets under construction expenditures are now also considered on a whole of life basis.

All valuations are conducted by an independent qualified valuer.

Depreciation and Amortisation

Depreciable property, plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to Defence using, in all cases, the straight-line method of depreciation from the time they are first

held ready for use. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements and the unexpired period of the lease.

Depreciation and amortisation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Asset Disposals

The gain or loss on disposal of property, plant and equipment is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal.

New disclosure requirements from 2002-03 require the proceeds from asset sales to be separately disclosed from the net book value of assets sold. Therefore the gross position is disclosed in the Budgeted Statement of Financial Performance.

1.15 Inventory

Defence does not ordinarily hold inventory for sale. Sales recorded represent disposal of inventory, surplus to requirements, and minor fuel sales. Inventory has been brought to account at weighted average cost since 2001-02.

Costs incurred in bringing each item of inventory (primarily explosive ordnance and general stores) to its present location and condition, that are capable of being allocated on a reasonable basis, are assigned on a weighted average cost basis.

Previously, as historic cost was not available in all instances, inventory was brought to account at average cost, replacement cost or at last purchase price.

Inventory is considered obsolete based upon the nature of current inventory levels and expected usage of such assets in the achievement of Defence's Outcomes.

1.16 Investments

Investments held on behalf of the Commonwealth are included as administered assets and are brought to account as the value of the Commonwealth's share as at 30 June 1997 of the net assets of the entity, except where there has been a return of equity to the owner (the Government). This is a requirement of the Finance Ministers' Orders. Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole of government level.

1.17 Taxation

Defence's activities are exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST). Defence is able to claim input credits for goods and services tax incorporated within the costs of assets and supplies purchased by Defence.

Revenues, expenses and assets are recognised net of GST except:

- where the amount of GST incurred is not recoverable from the Australian Taxation Office (in these circumstances GST is recognised as part of the cost of acquisition of the asset or part of the item of expense); and
- for receivables and payables (which are shown inclusive of GST in the Budgeted Statement of Financial Position).

1.18 Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Where a non-current asset is acquired by means of a finance lease, the asset is capitalised at the present value of minimum lease payments at the inception of the lease and a liability recognised for the same amount. Leased assets are amortised over the period of the lease. Operating lease payments are expensed on a basis, which is representative of the pattern of benefits derived from the leased assets.

1.19 Bad and Doubtful Debts

The provision for bad and doubtful debts is based on an analysis of the expected realisation of outstanding debts and write-off experience from prior years. Bad debts are written-off as they are identified. No provision is made for Australian Government or Foreign Government debtors as they are deemed to be collectable.

1.20 Insurance

Defence has insured for key insurable risks through the Government's insurable risk managed fund, called Comcover. Workers compensation for civilians is insured through the Government's Comcare Australia. Defence meets the benefit costs for military compensation on an emerging cost basis.

1.21 Schedule of Budgeted Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19) and related notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application to the greatest extent possible of Australian Accounting Standards, Accounting Interpretations and UIG Consensus Views.

Administered appropriations received or receivable from the Official Public Account are not reported as administered revenues or assets respectively. Similarly, administered receipts transferred or transferable to the Official Public

Account are not reported as administered expenses or payables. These transactions or balances are internal to the Administered entity.

Accounting policies that are relevant to administered activities only of Defence are disclosed below.

Administered Revenue

All administered revenues are revenues relating to the core operating activities performed by Defence on behalf of the Commonwealth. Administered revenues comprise Military Superannuation contributions, payments received from the United Nations and foreign governments, bank interest and dividends paid by the Defence Housing Authority.

Administered Expenses

All administered expenses are expenses relating to the core operating activities performed by Defence on behalf of the Commonwealth. Administered expenses comprise unfunded Military Superannuation benefits, ADF Housing Subsidies, ADF Retention Benefits and foreign exchange losses.

Administered Investments

Each Commonwealth department is required to show an Administered investment in each *Commonwealth Authority and Company (CAC) Act 1997* entity within their portfolio. These Administered investments should be valued at the Commonwealth's ownership interest in the net assets of those CAC entities, fixed at a notional acquisition date of 30 June 1997.

Military Retention Benefits

Certain categories of ADF personnel who are members of the Military Superannuation Benefits Scheme (MSBS) and have had 15 years of service receive Retention Benefits as an incentive for continued service. From 1 July 2002, Retention Benefit payments are recorded as prepayments instead of expenses. The change has been made to recognise the nature of these payments.

Military Superannuation

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contribution revenue, pension and lump sum payments, the provision for unfunded DFRDB and MSBS superannuation and DFRDB member contribution revenue are reflected in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19).

The DFRDB is a fully unfunded scheme but the MSBS is a partly funded scheme. MSBS member contributions are paid into the MSBS Fund that is controlled by the MSBS Board and are therefore not reflected in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19). The Commonwealth on behalf of the MSBS Fund makes funded benefit payments to members of the scheme and the Commonwealth is reimbursed by the Fund for these payments.

The Australian Government Actuary (AGA) estimates the unfunded provisions and expected future cash flows as at 30 June each year. These estimates are reflected in the Schedules of Administered Items (Tables 2.17, 2.18 and 2.19). The AGA completes a full review of the unfunded liabilities (a Long Term Cost Report) every three years. The most recent Long Term Cost Report was completed as at 30 June 2002. ComSuper administers MSBS and DFRDB benefit payments on behalf of Defence. These payments are made using Defence Special Appropriations.

Note 2 - Budgeted Statement of Financial Performance - Variations in Estimates

This note provides explanations for the material variations between the 2004-05 budget and the previous 2004-05 forward estimates as published in the *Portfolio Additional Estimates Statements 2003-04* for Defence.

Departmental Statements

Budgeted Statement of Financial Performance

Appropriations from Government

The cost to the Government of Defence's outcomes directly equates to the full operating costs of inputs used by Defence during the year in delivering the outcomes. Defence's remaining funding requirements for the year are provided as new equity injection. Defence's budgeted cash flow statement shows how total cash received by Defence during the year is used to meet operating, investing and financing costs.

The cost of Defence's outcomes to the Government for 2004-05 is expected to increase by \$696.2m predominantly due to new budget measures and a number of other technical adjustments including:

- reclassification of a portion of the capital budget as operating expenses (\$186.4m);
- revision to price parameters (\$168.4m);
- supplementation for logistics cost pressures (\$142.1m);
- supplementation for Operation Catalyst (\$124.6m);
- supplementation for costs associated with the commercialisation of the Defence Housing Authority (\$108.0m);
- reimbursement of 2003-04 property disposal costs (\$31.8m);
- supplementation for the Defence Procurement Review (\$17.5m);
- supplementation for Operation Citadel (\$16.2m);
- continuation of funding for Operation Relex II (\$16.0m);
- supplementation for the second tranche of funding to support the downsizing of Papua New Guinea Defence Force (\$14.6m);
- supplementation for the Comcover premium increase (\$11.7m);
- supplementation for national security capabilities (\$10.3m); and
- transfer of Military Compensation and associated liability to the Department of Veterans' Affairs (-\$168.3m).

Equity

The equity injection from the Government has decreased by \$531.8m mainly due to the:

- price and exchange movements (\$52.2m);
- foreign exchange movements (-\$324.1m);
- reclassification of a portion of the capital budget as operating expenses (-\$186.4m); and
- revisions and rephasing of Defence Capability Plan expenditure (-\$74.0m).

Sales of Goods and Services

The estimate for sales of goods and services has increased by \$3.6m from previous estimates due to movements in price parameters.

Employee Expenses

Employee expenses have decreased by \$67.0m from previous estimates mainly due to:

- adjustments relating to price and exchange movements (\$91.3m);
- supplementation for costs associated with the commercialisation of the Defence Housing Authority (\$88.0m);
- additional supplementation for Operation Catalyst (\$46.7m);
- ongoing refinements to the cost of the workforce (-\$169.2m); and
- transfer of Military Compensation to the Department of Veterans' Affairs (-\$143.3m).

Suppliers Expenses

Suppliers expenses have increased by \$746.8m from previous estimates mainly due to:

- reclassification of a portion of the capital budget as operating expenses (\$186.4m);
- ongoing refinements to the estimates (\$169.9m);
- supplementation for logistics cost pressures (\$142.1m);
- rephasing and additional supplementation for Operation Catalyst (\$85.4m);
- price movements (\$81.4m);
- supplementation for 2004-05 property disposal costs (\$25.5m);
- continuation of funding and rephasing of Operation Citadel (\$23.2m);
- continuation of funding for Operation Relex II (\$15.6m);
- supplementation for the Comcover premium increase (\$11.7m);

- supplementation for the second tranche of funding to support the downsizing of the Papua New Guinea Defence Force (\$10.9m); and
- transfer of Military Compensation to the Department of Veterans' Affairs (-\$25.0m).

Budgeted Statement of Financial Position

Cash and Receivables

The \$190m decrease in cash held from the previous budget estimate reflects the need to make the payment for the 27th payday in 2004-05. The Government has agreed that Defence can bring forward a proposal for consideration of this matter in the 2004-05 Additional Estimates.

Receivables have decreased by \$296.9m from the previous budget estimate as a result of:

- reprogramming of \$200 million in capital expenditure not utilised in 2002-03 (-\$200m); and
- use of cash retained from the proceeds of property sales in 2002-03 (-\$95.8m).

Infrastructure, Plant and Equipment

Infrastructure, Plant and Equipment has decreased by \$1,633.3m from previous estimates, as a result of:

- reprogramming of the 2003-04 projected capital underspend to be re-appropriated beyond 2007-08 (-\$500.0m);
- revised exchange rate projections (-\$412.8m);
- reclassification of a portion of the capital budget as operating expenses (-\$344.7m);
- revised depreciation estimates (-\$265.0m); and
- revision and reprogramming of the Defence Capability Plan expenditure (-\$74.0m).

Employees and Other Provisions

Employees and other provisions has decreased by \$1,523.2m from previous estimates, as a result of:

- adjustments arising from corrections to Long Service and Annual leave liabilities and the transfer of the three per cent productivity liability from the Administered statements to Defence's Departmental statements (\$368.2m);
- transfer of Military Compensation to the Department of Veterans' Affairs (-\$1,701.4m); and
- recognition of the discharge of the 27th pay liability in 2004-05 (-\$190.0m).

Budgeted Statement of Cash Flows

In general, the explanation of variations in cash flows associated with operating items is included under the relevant statement of financial performance item above. Reasons for other material variations elsewhere are outlined below.

Net GST Refund

Defence is registered as an Australian business and therefore is able to claim input tax credits from the Australian Taxation Office.

Proceeds from Sales of Property, Plant and Equipment

Proceeds from the sale of property, plant and equipment have decreased by \$11.3m from previous estimates, reflecting the revision of the 2004-05 property sales target.

Capital Withdrawal

Capital withdrawal, which represents the return of property sales proceeds to the Government, has decreased by \$36.8m from the previous estimate reflecting revised property sales target for 2004-05.

Administered Statements

Interest and Dividends

Interest and dividends has decreased by \$99.9m from previous estimates, reflecting the revised estimate of dividends from the Defence Housing Authority.

Other Revenues

Other revenues administered on behalf of Government have increased by \$40.0m from the previous estimate, reflecting the revised estimate of military superannuation contributions.

Cash

Cash has reduced to zero reflecting the return of the cash from items administered by Defence to Government.

Note 3 – Summary of Estimated Special Account Balances

Table 2.20: Summary of Estimated Special Account Balances⁽¹⁾⁽²⁾

	Opening Balance 2004-05 ⁽³⁾ 2003-04	Receipts 2004-05 2003-04	Payments 2004-05 2003-04	Adjustments 2004-05 2003-04	Closing Balance 2004-05 2003-04
	\$'000	\$'000	\$'000	\$'000	\$'000
Services for Other Governments (SOG) and Non-Agency Bodies – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	84,812 <i>72,068</i> ⁽⁵⁾	85,000 <i>57,999</i>	65,000 <i>45,255</i>	- -	104,812 <i>84,812</i>
Defence Endowments – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	255 <i>264</i>	6 <i>15</i>	15 <i>24</i>	- -	246 <i>255</i>
Fedorczenko Legacy Fund – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	155 <i>149</i>	6 <i>6</i>	11 <i>0</i>	- -	150 <i>155</i>
Other Trust Monies – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	36,140 <i>10,885</i>	19,300 <i>26,921</i>	4,000 <i>1,666</i>	- -	51,440 <i>36,140</i>
Young Endeavour Youth Program – <i>Financial Management and Accountability Act 1997</i> ⁽⁴⁾	1,406 <i>2,035</i>	810 <i>901</i>	151 <i>1,530</i>	- -	2,065 <i>1,406</i>
Total Special Accounts	122,768 <i>85,401</i>	105,122 <i>85,842</i>	69,177 <i>48,475</i>	- -	158,713 <i>122,768</i>

Notes

1. 2004-05 revised estimates in bold.
2. 2003-04 projected outcome in italics.
3. The revised opening balance for 2004-05 is the expected actual closing balance for 2003-04.
4. These are Departmental special accounts.
5. The SOG balance in the future (2003-04 and onwards) will include Comcare money. This is because Defence does not have a Ministerial determination for Comcare and therefore it cannot be disclosed separately in this note to the financial statements.

DISCRETIONARY GRANTS

Discretionary grants are payments made to organisations or individuals at the discretion of the Portfolio Minister or Department of Defence. Grant recipients must satisfy eligibility and/or reporting requirements, and may be subject to certain conditions.

Discretionary grants in Defence:

- are one-off *ad hoc* grants (no grants extend beyond a 12-month period);
- can be grants-in-kind or services-in-kind rather than grant payments;
- include awards, gifts and departmental (non-legislated) rebate schemes; and
- are funded either from Defence's administrative or departmental expenses.

The Government requires Defence to report on all discretionary grant approvals. Table 2.10 provides information on grants approved for 2004-05.

Table 2.21: Discretionary Grants

Title of Grant Program	Total Grants 2004-05 \$'000
Army Military History Research Grants Scheme	50
Defence Family Support Funding Program	1,128
Grant to the Royal United Services Institute of Australia	75
Total	1,253

Army Military History Research Grants Scheme

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

Defence Family Support Funding Program

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

Grant to the Royal United Services Institute of Australia

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

PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEFENCE HOUSING AUTHORITY

Control Arrangements

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

The only change to the board is the replacement of Air Vice Marshal C Spence with Air Vice Marshal R McLennan as an ADF representative.

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

Chairman	Mr P V Jones AM;
Managing Director	Mr K T Lyon;
Commercial Director	Mr T J R O'Brien AM;
Commercial Director	Mr J D C O'Grady;
Commercial Director	Ms B Boezeman AO;
Commercial Director	Mr W L Stokes;
ADF representative	Rear Admiral B L Adams AM RAN;
ADF representative	Rear Admiral R Moffitt RAN;
ADF representative	Major General F X Roberts AM;
ADF representative	Air Vice Marshal R McLennan;
Department of Defence representative	Dr R Neumann; and
Defence Families Australia representative	Mrs C Waller.

Resourcing

The 2004-05 estimate for the purchase of services from the Defence Housing Authority is \$378.1m, compared with the estimate of \$349.4m in 2003-04, an increase of \$28.7m. This covers the housing and relocation services and the Defence Home Loan Scheme for ADF members. The major reason for the significant increase in the cost of services is land taxes and stamp duty that will be incurred by Defence from 2004-05 onwards.

Review of Governance Arrangements

In February 2004, an inter-departmental committee was established to review the Defence Housing Authority's governance arrangements. The committee consisted of representatives from the departments of Defence, Finance and Administration, Treasury, and the Prime Minister and Cabinet. It was co-chaired by Defence and Finance and Administration.

The review aimed to recommend to the Ministers for Defence and Finance and Administration an improved legislative framework for the Defence Housing

Authority to deliver housing effectively and efficiently to meet the operational needs of the ADF and Defence. The committee also considered the long-term viability of the Defence Housing Authority as a Government Business Enterprise.

The main governance items assessed by the committee were the legal structure and board composition of the Defence Housing Authority, expansion of its services, and the inconsistencies between the *Defence Housing Authority Act 1987* and the *Commonwealth Authorities and Companies Act 1987*.

The committee's terms of reference did not include privatisation of the Defence Housing Authority, ADF entitlements, housing standards or Defence housing policy.

The Committee first met in early March and is expected to present its findings to the Minister of Defence and the Minister of Finance and Administration at the end of May 2004.