

DEFENCE

CHAPTER FOUR PLANNED OUTCOME PERFORMANCE

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DEFENCE OUTCOME AND OUTPUT STRUCTURE

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- 3.1 Capability for Special Forces Operations
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- 3.3 Capability for Light Infantry Operations
- 3.4 Capability for Army Aviation Operations
- 3.5 Capability for Ground-Based Air Defence
- 3.6 Capability for Combat Support Operations
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- 4.1 Capability for Air Combat Operations
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- 4.3 Capability for Surveillance and Response Operations⁽¹⁾
- 4.4 Capability for Air Lift

OUTCOME FIVE – Strategic Policy for the Defence of Australia and its Interests

OUTPUTS

- 5.1 Strategic and International Policy, Activities and Engagement
- 5.2 Military Strategy and Capability Analysis⁽²⁾

OUTCOME SIX – Intelligence for the Defence of Australia and its Interests

OUTPUT

- 6.1 Intelligence

OUTCOME SEVEN – Superannuation and Housing Support Services for Current and Retired Defence Personnel

OUTPUT

- 7.1 Superannuation and Housing Support Services for Current and Retired Defence Personnel

Notes

1. Following further refinement of the Business Efficiency Framework Review changes in 2003-04, Air Force Capability now has four outputs, from five in 2003-04. The new Output is Output 4.3 – Capability for Surveillance and Response Operations. This is the result of an amalgamation of the Capability for Strategic Surveillance (previously Output 4.3) and Capability for Maritime Patrol Aircraft (previously Output 4.4).
2. Outcome Five – Strategic Policy has two outputs. The second output, Output 5.2, has changed from Military Strategy and Strategic Operations to Military Strategy and Capability Analysis. This is to better reflect the change in responsibilities as a result of the Defence reorganisation.

COST OF DEFENCE OUTCOMES

NET COST OF DEFENCE OUTCOMES

Table 4a: Net Cost of Defence Outcomes

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	5,598,806	5,295,066	-303,740	5,560,616	5,632,475	5,911,510
Employees - Civilian	1,333,499	1,415,281	81,782	1,432,503	1,486,291	1,285,917
Sub total employees	6,932,305	6,710,347	-221,958	6,993,119	7,118,766	7,197,427
Supplier Expenses	4,695,659	5,218,782	523,123	4,793,722	5,088,165	5,775,667
Inventory Consumption	857,308	890,491	33,183	932,610	974,666	920,469
Sub total suppliers	5,552,967	6,109,273	556,306	5,726,332	6,062,831	6,696,136
Depreciation and amortisation	3,091,654	2,984,937	-106,717	2,742,171	2,835,282	2,928,394
Write down of assets	378,000	100,000	-278,000	100,000	100,000	100,000
Value of assets sold	306,384	230,980	-75,404	40,000	40,000	40,000
Other	-	-	-	-	-	-
Grants	1,874	1,250	-624	1,275	1,301	1,327
Borrowing cost expense	31,263	31,446	183	32,075	32,716	26,883
Total operating expenses from ordinary activities	16,294,447	16,168,233	-126,213	15,634,972	16,190,897	16,990,167
Revenues						
Sale of goods and services	243,085	245,670	2,585	251,200	253,449	258,993
Revenue from sale of assets	306,384	230,980	-75,404	40,000	40,000	40,000
Assets now recognised	278,000	-	-278,000	-	-	-
Other	87,706	86,892	-814	88,429	89,677	90,998
Total Own Source Revenue	915,175	563,542	-351,633	379,629	383,126	389,991
Net Cost of Defence Outcomes	15,379,271	15,604,691	225,420	15,255,343	15,807,771	16,600,176

COST SUMMARY OF DEFENCE OUTCOMES

Table 4b: Cost Summary of Defence Outcomes

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Departmental Outcomes						
Outcome One						
Command of Operations	810,463	693,745	-116,718	537,856	548,144	541,936
Outcome Two						
Navy Capability	4,211,238	4,325,674	114,436	4,271,729	4,468,284	4,746,483
Outcome Three						
Army Capability	5,279,527	5,287,403	7,876	5,288,670	5,476,524	5,724,203
Outcome Four						
Air Force Capability	4,444,792	4,620,321	175,529	4,494,448	4,628,296	4,874,650
Outcome Five						
Strategic Policy	220,143	242,556	22,414	231,067	237,840	256,413
Outcome Six						
Intelligence	413,109	434,992	21,883	431,573	448,683	456,490
Total Cost for Defence						
Departmental Outcomes⁽¹⁾	15,379,271	15,604,691	225,420	15,255,343	15,807,771	16,600,176
Administered Expenses						
Outcome Seven						
Superannuation and Housing						
Support Services for Current						
and Retired Defence						
Personnel	2,016,900	2,336,900	320,000	2,436,900	2,436,900	2,636,900

Note

1. Cross references to Table 4a.

Defence introduced a new Outcome and Output structure in 2003-04. The presentation of outcome and output costs in the portfolio budget statements, portfolio additional estimates statements and annual reports is supported by a sophisticated output attribution process. Defence continues to refine the business rules contained in the output attribution model in order to present as accurately as possible the cost of Defences outcome and outputs. Table 4c is provided to show the movement in outcome cost since the model was introduced in the 2003-04 Budget. Movements in outcome cost reflect, in the main, new budget measures agreed by the Government during this time, price and exchange rate variations, other technical adjustments including transfers of functions, resource allocation decisions by the Defence Committee to meet changing priorities, and refinements to the cost attribution business rules.

Table 4c: Movement in Defence's Outcome Costs Since 2003-04

Outcomes	Actual Result⁽¹⁾ 2002-03 \$'000	Adjusted Budget⁽²⁾ 2003-04 \$'000	Additional Estimate 2003-04 \$'000	Projected Result 2003-04 \$'000	Budget 2004-05 \$'000
Departmental Outcomes					
Outcome One					
Command of Operations	869,113	681,483	705,578	810,463	693,745
Outcome Two					
Navy Capability	3,568,172	4,087,698	4,027,285	4,211,238	4,325,674
Outcome Three					
Army Capability	4,981,368	4,845,019	4,885,945	5,279,527	5,287,403
Outcome Four					
Air Force Capability	4,158,122	4,003,694	4,207,085	4,444,792	4,620,321
Outcome Five					
Strategic Policy	178,823	213,429	213,198	220,143	242,556
Outcome Six					
Intelligence	316,984	403,085	412,967	413,109	434,992
Total Cost for Defence					
Departmental Outcomes	14,072,581	14,234,399	14,452,057	15,379,271	15,604,691⁽³⁾
Outcome Seven					
Superannuation and Housing Support Services for Current and Retired Defence Personnel	2,594,657	2,236,481	2,228,600	2,016,900	2,336,900
Total Outcomes	16,667,238	16,470,880	16,680,657	17,396,171	17,941,591

Notes

1. Excludes capital use charges which was discontinued in 2002-03.
2. The Budget Estimate as published in the *Portfolio Budget Statements 2003-04* included an estimate of the reimbursement of the 2002-03 operating expenses for Operations Bastille/Falconer (\$153.8m) and Bel Isi II (\$10.1m) of \$163.9m. To reflect the true cost to the Government in 2003-04 of Outcome One, an 'Adjusted Budget' column was developed which deletes the \$163.9m in order to facilitate like-for-like comparisons.
3. Cross references to the last column shown in Table 4d.

GROUP CONTRIBUTION TO DEFENCE OUTCOMES

Table 4d: Group Contribution to Defence Outcomes

	Outcome One Command of Operations	Outcome Two Navy Capability	Outcome Three Army Capability	Outcome Four Air Force Capability	Outcome Five Strategic Policy	Outcome Six Intelligence	Total for Defence Outcomes
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Headquarters Joint Operations							
Command	84,854	-	-	-	-	-	84,854
Navy	9,659	1,235,434	-	-	-	8,899	1,253,993
Army	-	-	2,292,564	-	-	-	2,292,564
Air Force	10,606	19,718	34,144	1,288,757	6,358	4,133	1,363,716
Defence Materiel Organisation	197,678	1,804,524	843,628	1,813,783	8,579	14,987	4,683,178
Corporate Services and							
Infrastructure Group	112,699	561,557	1,146,415	718,930	23,900	51,529	2,615,030
Defence Personnel Executive	29,737	147,819	305,281	171,725	15,048	18,907	688,518
Intelligence	872	7,494	13,489	7,813	440	272,684	302,792
Strategic Policy	339	429	406	406	142,201	339	144,119
Defence Science and Technology							
Organisation	32,601	71,932	48,141	94,590	18,694	20,742	286,699
Vice Chief of the Defence Force	2,261	14,133	17,230	14,024	2,386	1,831	51,865
Chief Finance Officer	7,507	82,608	159,745	77,516	4,690	5,571	337,637
Chief Information Officer	1,033	6,459	7,874	6,410	1,090	837	23,704
Secretary/Chief of the Defence							
Force	188	1,175	1,433	1,166	198	152	4,313
Former Public Affairs and							
Corporate Communication							
Division	658	3,334	4,064	3,308	563	432	12,359
Inspector General	482	3,009	3,669	2,986	508	390	11,044
Portfolio⁽¹⁾	202,571	366,047	409,321	418,907	17,901	33,559	1,448,307
Total Cost	693,745	4,325,674	5,287,403	4,620,321	242,556	434,992	15,604,691⁽²⁾

Notes

1. Portfolio includes funds to be allocated to Defence Groups following the announcement of the budget for new budget measures and price supplementation. It also includes funds being held centrally to meet the ADF Military Workforce Remuneration Arrangement and Defence Employees' Certified Agreement pay increases as they occur. It also includes other items such as funding for estate upkeep, information technology and administrative asset refreshment programs.

2. Reconciles to the 2004-05 budget figures in Table 4c.

EXPLANATION OF COMMON VARIATIONS ACROSS DEFENCE OUTCOMES

At the Senate Legislation Committee hearing in February 2004, Senators commented that it would be useful to show common variations that applied across more than one outcome, for ease of reference. Table 4e is provided to show the common variations between the 2003-04 forecast result and the 2004-05 budget across the various Defence Outcomes.

Table 4e: Explanation of Common Variations Across Defence Outcomes

Explanation of Variation	Outcome \$m						
	One	Two	Three	Four	Five	Six	Total
Military Employees							
Price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases.	5.0	66.1	133.3	66.3	2.6	3.2	276.5
Real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance.	1.0	13.1	26.4	13.1	0.5	0.6	54.7
Increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations.	0.2	3.0	6.1	3.0	0.1	0.1	12.6
Non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts.	-11.2	-87.9	-179.7	-90.4	-3.2	-3.9	-376.3
Transfer of military compensation function to the Department of Veterans' Affairs.	-2.6	-34.3	-69.0	-34.4	-1.3	-1.6	-143.3
Overestimate in accrual provisions in 2003-04 in relation to long service and annual leave and compensation.	-	-18.5	-24.5	-19.2	-	-	-62.2
Reclassification of rations costs to supplier expenses.	-	-14.2	-5.7	-8.2	-	-	-28.1
Civilian Employees							
Price indexation to cover the Defence Employees' Certified Agreement and other cost increases.	4.6	20.3	24.5	23.4	2.3	8.8	83.8
Real growth in civilian employee costs as provided for in the Defence White Paper.	1.4	6.2	7.5	7.2	0.7	2.7	25.7
Non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy.	-1.7	-7.2	-9.0	-8.2	-0.9	-3.1	-30.1
Increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract.	-	8.0	7.1	6.4	-	-	21.5
Suppliers							
Price indexation for supplier expenses.	11.8	51.2	49.2	52.3	4.8	6.4	175.7
Increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads.	6.9	29.6	28.5	30.3	2.8	3.7	101.8
Increased provision for support to core portfolio information systems.	3.7	16.1	15.5	16.5	1.5	2.0	55.3
Additional logistics support funding for maritime patrol aircraft (P3) to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	-	48.4	-	-	48.4
Increased purchase of information technology and administrative assets as part of Defence's asset refreshment program.	2.7	11.6	11.2	11.9	1.1	1.4	40.0
Through-life support costs for new equipment entering service.	2.4	10.5	10.1	10.7	1.0	1.3	36.0
Provision for through-life costs for new capital facilities.	1.0	8.3	12.9	7.7	-	0.2	30.2
Reclassification of rations costs from military employee expenses.	-	14.2	5.7	8.2	-	-	28.1

Additional logistics support funding for naval aviation to sustain current levels of operational tempo and meet specific preparedness targets.	-	21.1	-	-	-	-	21.1
Additional logistics support funding for Anzac-class frigates to sustain current levels of operational tempo and to meet specific preparedness targets.	-	19.4	-	-	-	-	19.4
Additional logistics support funding for transport aircraft (C-130H) to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	-	16.0	-	-	16.0
Additional logistics support funding for Army aviation to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	15.9	-	-	-	15.9
Increased insurance premium payments under Defence's insurance policy with Comcover.	0.8	3.4	3.3	3.5	0.3	0.4	11.7
Additional logistics support funding for training aircraft (PC-9) to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	-	8.7	-	-	8.7
Additional logistics support funding for Army surveillance to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	6.7	-	-	-	6.7
Additional logistics support funding for Battlefield Combat Support Systems to sustain current levels of operational tempo and to meet specific preparedness targets.	-	-	3.3	-	-	-	3.3
Transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs.	-1.7	-7.3	-7.0	-7.4	-0.7	-0.9	-25.0
Inventory Consumption							
Increase in Inventory Consumption reflecting the heightened operational tempo and increased logistics funding.	2.4	3.2	8.3	19.3	-	-	33.2
Depreciation							
Non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll outs.	-17.7	-37.5	-23.7	-42.8	-0.2	-2.7	-124.5
Write Down of Assets							
Expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base.	-8.2	-94.9	-58.4	-114.1	-1.2	-0.4	-277.2
Value of Assets Sold							
Reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.	-2.5	-20.1	-32.0	-19.9	-0.1	-0.6	-75.4
Sales of Goods and Services							
Price Indexation.	-2.9	-1.0	-2.0	-1.0	-0.5	-0.3	-7.8
Revenue from sale of Assets							
Reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.	2.5	20.1	32.0	19.9	0.1	0.6	75.4
Assets Now Recognised							
Reduction in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base.	8.7	104.4	46.1	114.0	0.7	0.6	274.5
Other Revenue							
Price Indexation.	-0.1	-2.5	-9.0	-2.9	-1.3	0.3	-15.5
TOTAL	6.4	104.5	33.6	138.3	10.0	18.9	310.9

OUTCOME ONE – COMMAND OF OPERATIONS

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

- Output 1.1 Command of Operations
- Output 1.2 Defence Force Military Operations and Exercises
- Output 1.3 Contribution to National Support Tasks

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

Successful Defence operations are underpinned by effective command capability and appropriate joint force preparedness. Defence maintains its command capability through joint headquarters with forces assigned under joint theatre command. The maritime force, land forces and air force capabilities maintained by the three Services are combined to provide joint forces. Joint force preparedness is developed in accordance with ADF preparedness requirements and evaluated through an exercise program.

On 16 March 2004, the Minister for Defence announced significant changes to the higher command and control of the ADF. These changes centered on the establishment of a new Joint Operations Command with the Vice Chief of the Defence Force appointed as the inaugural Chief of Joint Operations. Joint Operations Command consists of a headquarters (formerly Headquarters Australian Theatre), three environmental components (maritime, land and air), two specialist components (Special Operations and Joint Logistics) and a number of direct command units which provide functional support in the areas of intelligence, movements, joint training, strategic advice, welfare and northern operations.

Planned Performance

During 2004-05 current ADF operations in support of the Government's strategic objectives are expected to continue. ADF operations that will contribute to the security of our immediate neighbourhood in 2004-05 include:

- ongoing commitment to the United Nations' activities in East Timor or in support of Australia's Defence Cooperation Program initiatives;
- the conduct of maritime surveillance patrols in the northern Indian Ocean and South China Sea (Operation Gateway); and
- ongoing ADF support (Operation Anode) to the Coalition Police Forces element of the Regional Assistance Mission in the Solomon Islands to re-establish the rule of law will be at a lesser scale as the security situation improves and commercial logistic support arrangements are established post-July 2004.

ADF operations that will support Australia's wider interests in 2004-05 include:

- an ADF contribution (Operation Catalyst) to an Australian whole-of-government effort to assist with the rehabilitation of Iraq, through a coalition effort to develop a secure environment, assist national recovery programs and facilitate the transition to Iraqi self-government;
- a continued ADF commitment (Operation Slipper) to the United States-led operation against international terrorism; and
- ADF contributions to United Nations and other peacekeeping and humanitarian operations (Operations Paladin, Mazurka, Palate and Pomelo).

ADF peacetime national tasks that are expected to continue as regular or occasional tasks in 2004-05 include:

- operations to deter unauthorised boat arrivals, including air and surface patrols across the northern and western maritime approaches to Australia (Operation Relex II);
- ongoing operations to provide surveillance and law enforcement support to Coastwatch in northern Australia (Operation Cranberry);
- support to the Australian Fisheries Management Authority, when appropriate, in enforcing Australia's exclusive economic zone in the Southern Ocean (Operation Celesta);
- a range of cyclical maritime surveillance operations in Australia's region (Operations Burbage, Osteal, Estes, Mellin, Mistral and Solania). These operations are a lesser priority than Operation Relex II and will be conducted when surveillance capabilities are available; and
- Australian land surveillance and the collection of military geographic information (Operations Prowler and Beachcomber), although these are likely to remain dormant until resources become available.

These ongoing operations and their objectives are summarised in later tables.

ADF joint and combined exercises are conducted to train forces and to evaluate joint force capability. Combined exercises with allies and regional partners enhance and maintain close relationships and develop essential force interoperability. Combined exercises also contribute to the strategic goals of the Defence International Engagement Plan (see also Outcome Five). The ADF exercise program is inherently flexible and is likely to be adjusted to allow for strategic circumstances and participant availability during 2004-05. The ADF exercise program for 2004-05, detailing planning dates and exercise objectives, is included in later tables.

Extant ADF policy and internal instructions for Defence assistance to the civil community tasks include counter-disaster and emergency assistance. Small-scale tasks undertaken within local ADF resources are numerous and generally have minimal impact on ADF resources. Larger tasks involving coordinated activity with state or territory authorities or with Emergency Management Australia (in the Attorney-General's Department) may arise at short notice. Existing contingency plans are likely to remain appropriate in 2004-05.

Non-emergency assistance and non-emergency law enforcement excluding the use of force, is also likely to conform with historic levels of small tasks conducted within local ADF resources, where available.

Existing contingency plans for assistance to Commonwealth or state and territory Governments and their civil authorities in law enforcement tasks where there is the possibility that force may be required are also likely to remain appropriate in 2004-05.

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

Key Risks and Limitations

The key risks for command of operations are those that constrain commanders at any level in their ability to execute the Government-endorsed plan and to meet the designated operational end state.

Concurrent Operations

The Government's highest priorities will continue to be met, including commitment to the Middle East Area of Operations. The overall operational tempo is expected to decrease with a lower commitment of deployed forces in East Timor and the Solomon Islands. There will be a concerted effort to reconstitute capabilities in 2004-05.

Deficient Operational Preparedness

The high level of operational tempo in 2003-04 will constrain some training and consequent preparedness levels until reconstitution is complete.

Geographical Dispersion of Command Elements

Joint Operations Command is a geographically dispersed organisation with subcomponents located throughout the country. Physical collocation of units will not occur until the completion of the new headquarters for Joint Operations Command at Bungendore in New South Wales in 2007-08.

Logistic Support to Operations

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

Reduced Exercise Participation

The high operational tempo in 2003-04 restricted the availability of assets for joint and combined exercises scheduled in the Program of Major Service Activities. The range of available ADF core warfare skills must now be reinstated and confirmed by exercise evaluation.

Loss of Skills and Interoperability with Allies and Regional Partners

The loss of structured training activities with allies and regional partners in 2003-04 risks the degradation of combined operational skills and loss of interoperability.

Strategic Initiatives

Concurrent Operations

Risk mitigation will continue during 2004-05 through a strategic-level review of major operational commitments. The ADF contribution to operations will continue in accordance with Government direction. Reconstitution of capabilities will be prioritised to address critical areas to regain those capabilities eroded through concurrent demands.

Deficient Operational Preparedness

The ADF preparedness reporting system provides monthly assessment of capability options for the ADF to meet Government operational objectives. The reporting system identifies deficiencies and indicates remediation priorities. The system continues to be enhanced and will be further developed within the ADF exercise program during 2004-05.

Logistic Support

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

Reduced Exercise Participation

The Program of Major Service Activities is regularly reviewed and may be modified in response to changing priorities, world events and to meet specific training deficiencies. The development of Australian joint essential tasks will enable an improved assessment of joint capability through more rigorous performance measures.

Loss of Skills and Interoperability with Allies and Regional Partners

To mitigate this risk, critical exercises have been emphasised in the Program of Major Service Activities for 2004-05. Where possible, ADF elements will consider participation at a higher level of force commitment than was available in 2003-04.

Cost Summary of Outcome One

Table 4.1.1: Breakdown of Outcome One by Output

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 1.1 – Command of Operations ⁽¹⁾	375,310	357,871	-17,439	360,372	381,901	405,725
Output 1.2 – Defence Force Military Operations and Exercises ⁽²⁾	426,446	326,268	-100,178	169,374	157,604	127,135
Output 1.3 – Contribution to National Support Tasks ⁽³⁾	8,706	9,605	899	8,111	8,638	9,075
Total Cost of Outcome One	810,463	693,745	-116,718	537,857	548,143	541,934

Notes

1. Cross references to Table 4.1.3.
2. Cross references to Table 4.1.11.
3. Cross references to Table 4.1.13.

Net Cost of Outcome One

Table 4.1.2: Net Cost of Outcome One – Command of Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	225,648	156,253	-69,395	112,212	111,485	117,235
Employees - Civilian	76,725	75,851	-874	76,870	80,626	69,387
Sub total employees	302,373	232,104	-70,269	189,082	192,111	186,621
Supplier Expenses	456,174	422,814	-33,360	317,204	320,931	322,535
Inventory consumption	46,117	48,550	2,433	49,741	52,471	49,057
Sub total suppliers	502,291	471,364	-30,927	366,945	373,402	371,592
Depreciation and amortisation	80,254	62,609	-17,645	58,700	61,102	64,272
Write down of assets	11,220	3,005	-8,214	2,995	3,001	3,006
Value of assets sold	10,325	7,784	-2,541	1,320	1,296	1,292
Other	-	-	-	-	-	-
Grants	89	60	-30	61	64	65
Borrowing cost expense	1,462	1,468	6	1,497	1,527	1,255
Total operating expenses from ordinary activities	908,014	778,394	-129,620	620,601	632,503	628,102
Revenues						
Sale of goods and services	-74,968	-74,002	966	-78,283	-79,833	-81,593
Revenue from sale of assets	-10,325	-7,784	2,541	-1,320	-1,296	-1,292
Assets now recognised	-8,704	-	8,704	-	-	-
Other	-3,554	-2,863	691	-3,142	-3,231	-3,283
Total Own Source Revenues	-97,551	-84,649	12,902	-82,745	-84,360	-86,168
Net Cost of Outcome One ⁽¹⁾	810,463	693,745	-116,718	537,857	548,143	541,934

Note

1. Cross references to Table 4.1.1.

Significant Variations

The major variations to Outcome One are due to:

- A net decrease in military employee expenses (-\$69.4m) due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$5.0m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$1.0m),
 - increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$0.2m),

Outcome One - Command of Operations

- a reduction in current commitments in East Timor under Operation Citadel (-\$35.6m) and the Solomon Islands under Operation Anode (-\$31.3m), as these operations reduce in scope,
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$11.2m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$2.6m),
- a refinement in the 2004-05 Operation Relix estimates for ADF health expenditure (-\$0.6m), and
- other net variations (+\$5.7m).
- A net decrease in civilian employee expenses (-\$0.9m) due to:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$4.6m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$1.4m),
 - a reduction in current commitments in East Timor under Operation Citadel (-\$2.3m) and the Solomon Islands under Operation Anode (-\$0.4m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University New South Wales staff at the Australia Defence Force Academy (-\$1.7m),
 - civilian reduction program (-\$1.0m), and
 - other net variations (-\$1.5m).
- A net decrease in supplier expenses (-\$33.4m) due to:
 - an increase in Defence support and force generation costs attributed to Outcome One (+\$48m),
 - price indexation for supplier expenses (+\$11.8m),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$6.9m),
 - increased provision for support to core portfolio information systems (+\$3.7m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$2.7m),
 - through-life support costs for new equipment entering service (+\$2.4m),
 - provision for through-life costs for new capital facilities (+\$1.0m),

- increased insurance premium payments under Defence's insurance policy with Comcover (+\$0.8m),
- a reduction in current commitments in East Timor under Operation Citadel (-\$51.3m) and the Solomon Islands under Operation Anode (-\$53.0m), as these operations reduce in scope,
- the cessation of Operation Bel Isi II (-\$4.3m),
- a reduction in the 2004-05 Operation Relex estimates, based on 2003-04 experience (-\$2.6m),
- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$1.7m), and
- other net variations (+\$2.2m).
- Increase in inventory consumption reflecting the heightened operational tempo and increased logistics funding (+\$2.4m).
- A net decrease in depreciation and amortisation in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base offset by rescheduling and rephasing of asset roll-outs (-\$17.7m).
- Expected reductions in write-down of assets as Defence progressively improves tracking and reporting of its asset base (-\$8.2m).
- A net decrease in value of assets sold due to a reduction in the projected asset sales for 2004-05 due to a decreased property sales program and the completion of sale of APG radars (-\$2.5m).
- A net decrease in sale of goods and services (+\$1.0m) due to:
 - price indexation (-\$2.9m), and
 - other net variations (+\$3.9m).
- A net decrease in revenue from sale of assets due to a reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars (+\$2.5m).
- A net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$8.7m).
- A net decrease in other revenue (+\$0.7m) due to:
 - price indexation (-\$0.1m), and
 - other net variations (+\$0.8m).

OUTPUT STRUCTURE FOR OUTCOME ONE

Output 1.1 - Command of Operations

The Chief of Joint Operations is responsible for the delivery of Defence Outcome One – Command of Operations in defence of Australia and its interests. The Chief of Joint Operations commands Joint Operations in order to plan, control and conduct campaigns, operations, joint exercises and other activities on behalf of the Chief of the Defence Force.

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

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

Effective conduct of operations is also reliant on the effective contribution of logistic and supporting agencies.

Performance Targets
<ul style="list-style-type: none">• Australian operational concepts are developed to support ADF planning against credible contingencies.• Joint Operations Command provides guidance for joint force preparedness in accordance with the Chief of the Defence Force’s direction.• Command of ADF forces is effective and the Government’s strategic objectives for operations are achieved.• Phased implementation of new ADF operational command arrangements will commence.

Table 4.1.3: Net Cost of Output 1.1 – Command of Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 to 2005-06	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	95,647	92,157	-3,490	98,199	96,962	102,314
Employees - Civilian	52,799	54,007	1,209	54,891	57,821	49,647
Sub total employees	148,446	146,164	-2,281	153,090	154,783	151,961
Supplier Expenses	161,032	162,963	1,931	162,619	181,239	205,643
Inventory consumption	-2,272	-2,637	-366	-2,183	-2,532	-2,175
Sub total suppliers	158,760	160,326	1,566	160,436	178,707	203,468
Depreciation and amortisation	73,166	55,446	-17,720	51,181	52,829	55,120
Write down of assets	8,973	2,372	-6,601	2,362	2,367	2,373
Value of assets sold	7,292	5,498	-1,794	908	892	880
Other	-	-	-	-	-	-
Grants	75	50	-25	51	52	53
Borrowing cost expense	1,296	1,302	6	1,328	1,355	1,113
Total operating expenses from ordinary activities	398,007	371,158	-26,849	369,356	390,985	414,969
Revenues						
Sale of goods and services	-5,914	-6,234	-320	-6,480	-6,551	-6,697
Revenue from sale of assets	-7,292	-5,498	1,794	-908	-892	-880
Assets now recognised	-6,794	-	6,794	-	-	-
Other	-2,696	-1,555	1,141	-1,595	-1,641	-1,667
Total Own Source Revenues	-22,697	-13,287	9,410	-8,984	-9,084	-9,244
Net Cost of Output 1.1⁽¹⁾	375,310	357,871	-17,439	360,372	381,901	405,725

Note

1. Cross references to Table 4.1.1.

The variation in Output 1.1 is mainly due to a decrease in depreciation and amortisation in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base offset by rescheduling and rephasing of asset roll-outs.

Output 1.2 - Defence Force Military Operations and Exercises

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

ADF joint and combined exercises are included in the Program of Major Service Activities. Exercise objectives include training in warfighting and related skills,

confirmation of interoperability and joint capability and effective engagement with allies and regional partners.

Performance Targets	
<ul style="list-style-type: none"> • ADF operations meet Government directives. • Forces identified for operational tasks maintain required preparedness levels. • ADF forces are effectively deployed and sustained. • The Program of Major Service Activities is regularly reviewed and modified where required. • The major ADF exercise commitments for 2004-05 are met: <ul style="list-style-type: none"> – Exercise Rimpac, to improve interoperability with Pacific Rim Navies, – Exercise Bersama Lima, an exercise in conjunction with the Five Power Defence Arrangements nations, – Exercise Talisman Sabre 05, a combined exercise in Australia with United States forces, and – Exercise Joint Kiwi 05, a combined exercise in New Zealand with the New Zealand Defence Force. 	

ADF Operations

Table 4.1.12 in Output 1.3 contains details of operations in support of peacetime national tasks.

Table 4.1.4: Contributing to the Security of the Immediate Neighbourhood

Operation	Objective
Anode Commenced July 2003 Forces: ADF	To support the coalition police forces in restoring the rule of law in the Solomon Islands.
Citadel Commenced 2002 Forces: ADF	To contribute to United Nations support to East Timor.
Gateway Commenced 1981 Forces: Air Force	To conduct northern Indian Ocean and South China Sea maritime surveillance patrols.

Table 4.1.5: Supporting Wider Interests

Operation	Objective
Catalyst Commenced 2003 Forces: ADF	ADF contribution in support of the rehabilitation of Iraq.
Mazurka Commenced 1992 Forces: ADF	To provide personnel to the Multinational Force and Observers to monitor the security arrangements in the Sinai.
Paladin Commenced 1956 Forces: Army	To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervises, observes and reports on the various cease-fire arrangements, truces and peace treaties that have been negotiated between Israel and neighbouring Arab nations since 1948.

Operation	Objective
Palate Commenced 2003 Forces: Army	ADF support to the United Nations Assistance Mission in Afghanistan.
Pomelo Commenced 2001 Forces: Army	To contribute to United Nations peacekeeping efforts in Africa as part of the United Nations Mission in Ethiopia/Eritrea.
Slipper Commenced 2001 Forces: ADF	To contribute to the United States-led operation against international terrorism and to the Multinational Maritime Interception Force in the Persian Gulf.

Australian Defence Force Exercise Program

Exercises are presented in these statements under the following headings:

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

A number of exercises expected to be scheduled in the Program of Major Service Activities are yet to be confirmed. It is expected that further exercises will be scheduled for 2004-05 and these will be reported in the *Portfolio Additional Estimates Statements 2004-05*.

Table 4.1.6: ADF Joint Exercises

Exercise	Forces	Objective
Squadex 05 March 2005	ADF	To train core amphibious maritime and land command elements of the Amphibious Force Element.
Talisman Saber 05 May - June 2005	ADF	To exercise and appropriate joint and combined forces in a short warning, power projection live-fire and manoeuvre command post and field training exercise.

Table 4.1.7: Combined ADF/United States Exercises

Exercise	Australian Forces	Objective
Air Warrior II 2005 May 2005	Air Force	To train airlift and ground force crews in short-notice tactical operations and combat airlift.
Dugong 04 September 2004	Navy	To conduct combined mine counter measures diving and explosive ordnance disposal procedures exercise.
Extendex 04-4 September 2004	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Extendex 05-1 December 2004	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Extendex 05-2 March 2005	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Extendex 05-3 June 2005	Air Force	To conduct maritime patrol aircraft undersea warfare training.
Gold Eagle 04 June - July 04	Army	To further develop interoperability between the Australian Army and the United States Marine Corps in combined operations by conducting a field training or amphibious exercise.

Exercise	Australian Forces	Objective
Lone Arrow 05 March 2005	Air Force	To conduct C-130 aircraft training for selected combat airlift instructor aircrew.
Lungfish 04 July 2004	Navy, Air Force	To practise undersea warfare with joint and independent maritime patrol aircraft cooperation and to practise and develop combined Royal Australian Navy / United States Navy submarine operations.
Miracle Play 04 October 2004	Special Forces	To practise Australian and United States Special Forces in a combined special operations taskforce environment.
Red Flag 05 March - April 2005	Air Force	To conduct coalition conjoint air combat operations in a high density integrated air defence system.

Table 4.1.8: Combined ADF/Five Power Defence Arrangements Exercises

Exercise	Australian Forces	Participating Countries	Objective
Bersama Lima 04 September 2004	Navy, Air Force	Malaysia, New Zealand, Singapore, UK	To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint/combined maritime exercise.

Table 4.1.9: Combined ADF/New Zealand Exercises

Exercise	Australian Forces	Objective
ASWEX 04 November 2004	Navy, Air Force	To improve undersea warfare skills in all participating maritime units and exercise interoperability between maritime undersea warfare platforms.
Joint Kiwi 05 October 2004 - March 2005	ADF	To improve the standardisation of New Zealand and Australian defence capabilities.
Ocean Protector 04-2 July - August 2004	Navy, Air Force	To return the surface combatant, major amphibious and afloat support, submarine and mine countermeasures force element groups to the minimum level of capability following a reduced activity period.
Ocean Protector 05-1 February 2005	Navy, Air Force	To return the surface combatant, major amphibious and afloat support, submarine and mine countermeasures force element groups to the minimum level of capability following a reduced activity period.
PWO Sea Assessment Week 04-1 August 2004	Navy, Air Force	To ensure the ability of students to act as Defence Watch Principal War Officers at sea, by conducting training and subsequent assessment.
PWO Sea Assessment Week 04-2 November 2004	Navy, Air Force	To ensure the ability of students to act as Defence Watch Principal War Officers at sea, by conducting training and subsequent assessment.
Swift Eagle September 2004	ADF	To practise entry by air and sea and mid-intensity ground operations.

Table 4.1.10: Other Combined Exercises

Exercise	Australian Forces	Participating Countries	Objective
Austhai 04 September 04	Navy	Thailand	To develop basic interoperability in aspects of maritime warfare common to the Royal Australian Navy and Royal Thai Navy.
Goodwill 04 October 2004	Navy	Japan	To further develop interoperability with the Japanese Navy through the conduct of a sea exercise program.

Exercise	Australian Forces	Participating Countries	Objective
Joint Maritime Course 04-3 October – November 2004	Air Force	Canada, France, New Zealand, UK, US, Germany, Italy, Spain, Netherlands	To train participants in maritime warfare roles, including air, maritime surface, and subsurface power projection and battlespace dominance.
Lumbas 04 August 04	Navy	Philippines	To develop interoperability in coordinated or combined maritime patrol and surveillance operations between the Royal Australian Navy and Philippines Navy.
Mastex 04 September 2004	Navy	Malaysia	To improve the interoperability of the ADF and the Republic of Malaysian forces in combined maritime procedures and tactics.
Night Lion 2004 July - August 2004	Army	Singapore	To develop relations and enhance interoperability with Singapore's Special Forces.
Night Tiger 2004 July - August 2004	Army	Malaysia	To develop relations and enhance interoperability by conducting training with the Malaysian Special Forces.
Pacific Airlift Rally 2005 June 2005	Air Force	Bangladesh, Brunei, Canada, India, Indonesia, Japan, Laos, Malaysia, Mongolia, Philippines, PNG, Republic of Korea, Singapore, Thailand, US, Vietnam, Russia, Sri Lanka.	To enhance regional engagement and coalition airlift development through a military airlift symposium and command post exercise to exchange humanitarian airlift, airland and airdrop delivery techniques for specific regional aircraft.
Penguin 04 August 2004	Navy, Air Force	Brunei	To enhance interoperability between the Royal Australian Navy, Air Force and the Royal Brunei Navy by practising maritime patrol and surveillance procedures.
Pirap Jabiru 04 August - September 2004	ADF	Thailand	To develop the Royal Thai Air Force's and the ADF's understanding of the considerations in planning combined multi-dimensional peace operations at the strategic level.
Pitch Black 04 July - August 2004	Air Force	France, Singapore, Thailand, UK, US	To conduct a large-scale activity to exercise ADF and international participants in the tasking, planning and execution of offensive counter air operations in a Coalition environment.
RAN/RSN MCMEX 04 Western Pacific Naval Symposium (MCM) April - May 2004	Navy	Malaysia, New Zealand, Philippines, Singapore, Thailand, UK, US	To coordinate and enhance interoperability between the Royal Australian Navy and some regional navies by conducting a combined exercise.

Outcome One - Command of Operations

Exercise	Australian Forces	Participating Countries	Objective
Rimpac 04 June - July 2004	Navy, Air Force	Canada, Chile, Japan, Republic of Korea, Peru UK, US	To improve interoperability with regional forces to operate in coalition arrangements by conducting a combined maritime warfare exercise.
Singaroo 04 August 2004	ADF	Singapore	To improve the interoperability of the ADF and the republic of Singapore forces in combined maritime procedures and tactics.
Singaroo 05 April - May 2005	ADF	Singapore	To improve the interoperability of the ADF and the republic of Singapore forces in combined maritime procedures and tactics.
Taa Nok In Sii 04-2 September 2004	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and Air Force surveillance procedures.
Taa Nok In Sii 05-1 April 2005	Air Force	Thailand	To progressively develop Royal Thai Navy maritime air surveillance capability and combined Royal Thai Navy and Air Force surveillance procedures.
Tamex 04-3 September - October 2004	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Tamex 04-4 December 2004	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Tamex 05-1 March 2005	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Tamex 05-2 June 2005	Navy, Air Force	New Zealand or US	To practise combined maritime patrol aircraft undersea warfare operations and enhance interoperability with the United States Navy.
Vigilant Pacific 04 November 2004	ADF	Canada, UK, US	To refine command and control within a joint and combined environment.
Wyvern Sun 2004 July 2004	ADF	Thailand	To rehearse an ADF response to an offshore counter terrorist recovery incident.

Table 4.1.11: Net Cost of Output 1.2 – Defence Force Military Operations and Exercises

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	128,218	62,372	-65,847	12,214	12,649	12,896
Employees - Civilian	21,690	19,432	-2,258	19,490	20,202	17,485
Sub total employees	149,908	81,804	-68,104	31,704	32,851	30,381
Supplier Expenses	290,845	254,741	-36,104	151,174	135,989	112,601
Inventory consumption	48,389	51,187	2,799	51,924	55,003	51,232
Sub total suppliers	339,234	305,928	-33,306	203,098	190,992	163,833
Depreciation and amortisation	6,474	6,547	73	6,857	7,557	8,373
Write down of assets	2,058	582	-1,476	582	582	582
Value of assets sold	2,880	2,171	-709	392	384	392
Other	-	-	-	-	-	-
Grants	11	7	-4	7	9	8
Borrowing cost expense	123	122	-1	125	127	105
Total operating expenses from ordinary activities	500,688	397,161	-103,526	242,764	232,502	203,674
Revenues						
Sale of goods and services	-68,863	-67,569	1,293	-71,602	-73,079	-74,689
Revenue from sale of assets	-2,880	-2,171	709	-392	-384	-392
Assets now recognised	-1,765	-	1,765	-	-	-
Other	-734	-1,153	-419	-1,395	-1,435	-1,458
Total Own Source Revenues	-74,242	-70,893	3,348	-73,390	-74,898	-76,539
Net Cost of Output 1.2⁽¹⁾	426,446	326,268	-100,178	169,374	157,604	127,135

Note

1. Cross references to Table 4.1.1.

The variation in Output 1.2 is due to the reduced ADF commitment to operations (mainly Operations Citadel and Anode) in 2004-05 offset by price indexation, real growth in employee costs and other adjustments.

Output 1.3 - Contribution to National Support Tasks

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

The ADF also contributes to the civil surveillance program, providing maritime surveillance that is tasked routinely in accordance with Government direction.

Peacetime national tasks undertaken by the ADF may include the security of the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty, counter-terrorism responses, search and rescue and natural disaster relief.

Performance Targets	
•	The ADF contribution to peacetime national tasks meets Government directives.
•	Forces identified to provide Defence Assistance to the Civil Community, Defence Assistance to Civil Authorities and search and rescue maintain required preparedness levels.
•	ADF forces are effectively deployed and sustained.
•	The ADF response to requests for search and rescue and emergency assistance tasks are effectively managed and reported.
•	ADF support to the civil surveillance program, in consultation with Coastwatch, is provided at the following resource levels: <ul style="list-style-type: none"> – 250 flying hours by P-3C surveillance aircraft, – 240 Regional Force Surveillance Unit patrol days, and – 1,800 patrol boats days.
•	The ADF continues to conduct minor emergency and non-emergency assistance tasks from local resources, where feasible.
•	National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively managed and reported.
•	National support tasks undertaken by the ADF as Defence Assistance to Civil Authorities are effectively managed and reported.

ADF Operations

Table 4.1.4 in Output 1.2 contains details of operations contributing to the security of the immediate neighbourhood and operations supporting wider interests.

Table 4.1.12: Peacetime National Tasks

Operation	Objective
Beachcomber Commenced 1996 Forces: Navy and Army	To collect beach information in Australia for operational planning.
Burbage Commenced 1995 Forces: Navy and Air Force	To conduct Indian Ocean maritime surveillance patrols.
Celesta Commenced 2001 Forces: ADF	Overarching plan to conduct surface fisheries patrols in the Heard Island-McDonald Island Exclusive Economic Zone.
Cranberry Commenced 1997 Forces: ADF	To conduct surveillance in northern Australia.
Estes Commenced 1980 Forces: Navy	To conduct surface patrols in Bass Strait.
Gaberdine Commenced 2001 Forces: ADF	To provide support to the Department of Immigration and Multicultural and Indigenous Affairs to manage any increase in unauthorised boat arrivals.

Operation	Objective
Mellin Commenced 1995 Forces: Navy and Air Force	To contribute to Torres Strait and Timor Gap maritime surveillance patrols.
Mistral Commenced 1998 Forces: Navy and Air Force	To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by contributing to Southern Ocean fisheries patrols.
Osteal Commenced 1995 Forces: Navy and Air Force	To conduct Coral Sea maritime surveillance patrols.
Prowler Commenced 1996 Forces: Navy and Army	To collect military geographic information in northern Australia.
Relex II Commenced 2002 Forces: ADF	To conduct air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals.
Solania Commenced 1988 Forces: Navy and Air Force	To conduct South West Pacific maritime surveillance patrols.

Table 4.1.13: Net Cost of Output 1.3 – Contribution to National Support Tasks

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	1,783	1,724	-58	1,799	1,874	2,024
Employees - Civilian	2,237	2,412	175	2,490	2,603	2,255
Sub total employees	4,019	4,136	116	4,288	4,476	4,279
Supplier Expenses	4,297	5,110	813	3,413	3,703	4,291
Inventory consumption	-	-	-	-	-	-
Sub total suppliers	4,297	5,110	813	3,413	3,703	4,291
Depreciation and amortisation	614	616	2	662	717	778
Write down of assets	189	51	-137	51	51	51
Value of assets sold	153	115	-38	20	20	20
Other	-	-	-	-	-	-
Grants	4	3	-1	3	3	3
Borrowing cost expense	43	43	1	44	45	37
Total operating expenses from ordinary activities	9,319	10,074	755	8,482	9,016	9,460
Revenues						
Sale of goods and services	-191	-198	-7	-200	-203	-207
Revenue from sale of assets	-153	-115	38	-20	-20	-20
Assets now recognised	-144	-	144	-	-	-
Other	-124	-155	-31	-151	-155	-158
Total Own Source Revenues	-613	-469	144	-371	-378	-385
Net Cost of Output 1.3⁽¹⁾	8,706	9,605	899	8,111	8,638	9,075

Note

1. Cross reference to Table 4.1.1.

OUTCOME TWO – NAVY CAPABILITY

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

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

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

Planned Performance

In 2004-05, the Navy will continue to maintain support for the ADF's involvement in the global war on terror, maritime surveillance and associated border and offshore resource protection or enforcement tasks, peace monitoring, and hydrographic operations in accordance with the Hydrographic and Oceanographic Scheme (the national hydrographic surveying and charting program), also referred to as *HydrOcscheme 2003-06*.

In 2003-04, the Navy devoted considerable effort to reconstituting skills not exercised in recent operational roles and in the training and recuperation of its workforce. This thrust will continue in 2004-05. The Navy will continue to maintain sufficient combatant forces, amphibious and afloat support ships, submarines, and mine counter measures forces to deploy on operations, as required in military preparedness directives. The Navy will also devote effort to meeting international engagement and interoperability requirements with allied and regional maritime forces.

Area air warfare and anti-ship missile defence, afloat support and amphibious lift are the Navy's highest priority for capability development, followed by undersea and littoral warfare.

Key Risks and Limitations

Personnel

The Navy's uniformed workforce strength has been increasing since the second quarter of 2001, but shortages in some employment categories continue to be a risk to Navy capability. The Navy will maintain a strong focus on both retention and recruiting to address these issues.

Logistic Support

Accumulated logistics shortfalls have the potential to affect the long-term ability of the Navy to sustain the existing force structure.

Operations and Reconstitution of Forces on Completion

The nature and tempo of ADF operations undertaken during the last few years, in particular by the surface combatant and naval aviation force elements and consequent reduction of training assets and opportunities, has had an adverse impact upon some higher end warfighting skills within the Navy.

Air Warfare Capability

The ageing primary air warfare system of the surface combatant force remains suitable for a range of operations, but the ability of the surface combatant force to provide long-range air warfare protection for ADF forces in higher level contingencies is more problematic. The delivery of HMAS *Sydney* in late 2004 following upgrade and operational release, and ongoing delivery of new short range missiles for both the Anzac-class and upgraded guided missile frigates, are important early milestones in redressing the anti-ship missile defence deficiency within the surface combatant force.

Submarine

The overall submarine capability continues to improve following the operational release of the Collins-class submarines in the first quarter of 2004. Existing programs that will maintain the 'capability edge' in a region experiencing a proliferation of submarine and anti-submarine capabilities will remain a strong focus, as will retention and recruiting of submariners.

Anti-Ship Strike

The surface combatant force is well served with the Harpoon missile as an open ocean anti-ship weapon, but this system is less effective in the littoral. An upgrade program for the missile will redress this shortcoming. The Super Seasprite helicopter armed with the Penguin missile is an important element

that will deliver much improved littoral anti-ship strike, when it enters operational service in 2005.

Undersea Warfare

Improvements in the ability of maritime surface and air forces to provide anti-submarine protection for ADF forces or maritime trade in higher level contingencies will be achieved with the planned upgrades of the Seahawk helicopter, delivery of upgraded guided missile frigates with torpedo defence systems from late 2004, delivery of new lightweight torpedoes from 2007, and the continuous improvement of the Collins-class submarines.

Risk Mitigation

Personnel

The Navy's strategy is to recover personnel shortfalls through a concentrated effort to improve retention, recruitment and optimising trainee throughput, while sustaining operations. Initiatives are in place to target segments of the workforce that are difficult to recruit, including seaman, aviators, doctors and technical tradespeople. Additional retention strategies are being developed and are focused on the employment groups with significant shortfalls. Lead indicators show an optimistic forecast for 2004-05.

Logistic Support

Planned savings from offsets in force structure and supplementary funding will be provided to logistic support. The DMO and the Defence Science and Technology Organisation are developing ways of determining logistics cost drivers to inform strategies aimed at reducing current and future shortfalls.

Operations and Reconstitution of Forces on Completion

Measures already in place will continue to manage the operational and personnel tempo effects on preparedness. Personnel will be released for recreational leave and individual training, and assets will be concentrated for effective collective skills training. The recovery of the Navy's high-end warfighting skills will remain a major focus of the reconstitution program.

Air Warfare Capability

The Navy is introducing more capable sensor and weapon systems for both the Anzac-class and guided missile frigates. The upgrade programs will enhance the air warfare effectiveness of these units leading up to the planned introduction of the air warfare destroyer in 2013. The planned delivery of the Standard Missile Two, area air defence missile, in the guided missile frigates from 2008 will significantly improve the Navy's capability for air defence.

Submarine

Submarine capability enhancements will accrue, with major improvements to warfighting capabilities, through continued development of the combat system, sonar replacement, and the introduction into service of a new heavyweight torpedo.

Anti-Ship Strike

The introduction into service of the Super Seasprite helicopters, armed with the Penguin missile, will complement the open ocean capabilities of the Harpoon missile. Upgrading the Anzac-class frigates with a Harpoon capability, as well as the approved acquisition of an enhanced Harpoon missile, will further overcome deficiencies.

Undersea Warfare

A mid-life upgrade of the Seahawk helicopters will enhance their effectiveness in undersea warfare. The planned introduction into service of a new lightweight torpedo will enhance the effectiveness of air and surface anti-submarine assets, and improvements to the Collins-class submarines will increase their anti-submarine capability.

Cost Summary of Outcome Two

Table 4.2.1: Breakdown of Outcome Two by Output

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Output 2.1 – Capability for Major Surface Combatant Operations ⁽¹⁾	1,362,904	1,425,151	62,646	1,448,784	1,539,180	1,655,931
Output 2.2 – Capability for Naval Aviation Operations ⁽²⁾	485,629	507,679	22,050	504,910	523,563	558,242
Output 2.3 – Capability for Patrol Boat Operations ⁽³⁾	275,055	288,600	13,545	280,986	288,339	306,478
Output 2.4 – Capability for Submarine Operations ⁽⁴⁾	878,370	858,480	-19,891	809,469	833,127	868,795
Output 2.5 – Capability for Afloat Support ⁽⁵⁾	218,217	223,252	5,036	225,018	252,259	253,061
Output 2.6 – Capability for Mine Warfare ⁽⁶⁾	391,274	404,361	13,086	385,721	410,555	440,788
Output 2.7 – Capability for Amphibious Lift ⁽⁷⁾	366,381	371,605	5,224	377,614	373,612	398,573
Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations ⁽⁸⁾	233,407	246,547	13,140	239,226	247,649	264,617
Total Cost of Outcome Two⁽⁹⁾	4,211,238	4,325,674	114,436	4,271,729	4,468,284	4,746,483

Notes

1. Cross references to Table 4.2.3.
2. Cross references to Table 4.2.4.
3. Cross references to Table 4.2.5.
4. Cross references to Table 4.2.6.
5. Cross references to Table 4.2.7.
6. Cross references to Table 4.2.8.
7. Cross references to Table 4.2.9.
8. Cross references to Table 4.2.10.
9. Cross references to Table 4.2.2.

Net Cost of Outcome Two

Table 4.2.2: Net Cost of Outcome Two – Navy Capability

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	1,291,845	1,244,246	-47,599	1,331,580	1,361,346	1,425,624
Employees - Civilian	321,247	346,841	25,594	345,876	359,304	310,921
Sub total employees	1,613,092	1,591,087	-22,005	1,677,455	1,720,650	1,736,546
Supplier Expenses	1,358,265	1,491,678	133,413	1,401,553	1,507,808	1,747,784
Inventory Consumption	181,672	184,833	3,161	191,440	202,954	187,494
Sub total suppliers	1,539,936	1,676,510	136,574	1,592,993	1,710,762	1,935,277
Depreciation and amortisation	1,074,739	1,066,026	-8,713	1,007,838	1,043,158	1,083,002
Write down of assets	133,373	38,446	-94,928	38,456	38,412	38,327
Value of assets sold	81,713	61,601	-20,112	10,812	10,872	10,932
Other	-	-175	-175	-175	-175	-175
Grants	407	271	-136	278	286	292
Borrowing cost expense	5,432	5,414	-17	5,523	5,633	4,629
Total operating expenses from ordinary activities	4,448,691	4,439,180	-9,511	4,333,180	4,529,598	4,808,831
Revenues						
Sale of goods and services	-32,728	-34,416	-1,688	-36,307	-35,917	-36,677
Revenue from sale of assets	-81,713	-61,601	20,112	-10,812	-10,872	-10,932
Assets now recognised	-104,357	-	104,357	-	-	-
Other	-18,655	-17,489	1,166	-14,332	-14,525	-14,738
Total Own Source Revenues	-237,453	-113,506	123,947	-61,451	-61,314	-62,347
Net Cost of Outcome Two⁽¹⁾	4,211,238	4,325,674	114,436	4,271,729	4,468,284	4,746,483

Note

1. Cross references to Table 4.2.1.

Significant variations

The major variations for Outcome Two are due to:

- A net decrease in military employee expenses (-\$47.6m) as a result of:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$66.1m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$13.1m),
 - variation in relation to recruitment and retention initiatives (+\$8.5m),
 - variations in per capita costs for military employees (+\$7.5m),
 - growth in the Navy workforce in line with the Defence White Paper targets from 13,121 to 13,167 (+\$4.4m),

Outcome Two - Navy Capability

- increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$3.0m),
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of the Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$87.9m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$34.3m),
- overestimation of accrual provisions in 2003-04 in relation to long service and annual leave, and compensation (-\$18.5m),
- reclassification of rations costs to supplier expenses (-\$14.2m), and
- other miscellaneous variations including salary arrears adjustments and refinements to attribution rules (+\$4.7m).
- A net increase in civilian employee expenses (+\$25.6m) as a result of:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$20.3m),
 - increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract (+\$8.0m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$6.2m),
 - Defence Procurement Review implementation funding (+\$1.2m),
 - non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$7.2m),
 - savings as part of the civilian reduction program (-\$2.4m), and
 - other miscellaneous variations (-\$0.5m).
- A net increase in supplier expenses (+\$133.4m) as a result of:
 - Price indexation for supplier expenses (+\$51.2m),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (\$29.6m),
 - additional logistics support funding for naval aviation to sustain current levels of operational tempo and to meet specific preparedness targets (+\$21.1m),
 - additional logistics support funding for Anzac-class frigates to sustain current levels of operational tempo and to meet specific preparedness targets (+\$19.4m),

- increased provision for support to core portfolio information systems (+\$16.1m),
- reclassification of rations costs from military employees expenses (+\$14.2m),
- increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$11.6m),
- through-life support costs for new equipment entering service (+\$10.5),
- provision for through life costs for new capital facilities (+\$8.3m),
- increased insurance premium payments under Defence's insurance policy with Comcover (+\$3.4m),
- refinement of outcome attribution rules to Outcome One for expenditure on operations (-\$12.0m),
- variation in management information support from the DMO (-\$8.0m),
- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$7.3m),
- administrative savings program (-\$6.6m),
- non-recurring supplementation provided by the portfolio in 2003-04 for naval aviation (-\$5.4m),
- non-recurring supplementation provided by the portfolio in 2003-04 for Anzac-class (-\$5.0m), and
- Defence Procurement Review implementation funding (-\$1.0m), and
- other net variations (-\$6.7m).
- A net increase in inventory consumption as a result of increase in inventory consumption reflecting the heightened operational tempo and increased logistics funding (+\$3.2m).
- A net decrease in depreciation (-\$8.7m) as a result of:
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$37.5m),
 - rollout of assets from projects including HMAS *Sydney* upgrade, missile systems and Super Seasprite helicopters (+\$31.0m), and
 - other miscellaneous variations (-\$2.2m).
- A net decrease in write-down of assets as a result of expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$94.9m).

- A net decrease in the value of assets sold as a result of a reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars (-\$20.1m).
- A net increase in sales of goods and services (-\$1.7m) including:
 - revised outcome attribution rules (-\$2.3m),
 - price indexation (-\$1.0m), and
 - other miscellaneous variations (+\$1.6m).
- A net decrease in revenue from the sale of assets involving a reduction in the projected asset sales for 2004-05 due to a decreased property sales program (+\$20.1m).
- A net decrease in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$104.4m).
- A net decrease in other revenue (+\$1.2m) as a result of:
 - non-recurrent insurance receipt for Holsworthy bushfire damage in 2003-04 (+\$2.8m),
 - price indexation (-\$2.5m), and
 - other miscellaneous variations (+\$0.9m).

OUTPUT STRUCTURE FOR OUTCOME TWO

Output 2.1 – Capability for Major Surface Combatant Operations

The major surface combatant force consists of 12 frigates made up of six guided missile frigates and six Anzac-class frigates. A seventh Anzac-class frigate will be delivered in 2005, with all eight planned to be in service progressively by 2006. Two guided missile frigates will be withdrawn from service from 2006, maintaining surface combatant numbers at twelve. For those remaining, the guided missile frigate upgrade program to ensure ship survivability in the increasingly sophisticated maritime warfare environment is a rolling program commenced in late 2003 and due to be completed in 2008. Work has begun to provide an air warfare destroyer capability by 2013, to be delivered by the Air Warfare Destroyer Project.

The surface combatants possess combat capabilities in all three primary warfare areas (air, surface and undersea), and provide combined, coalition and joint ADF command and control facilities for ADF operations. This has been particularly well proven in recent operational deployments. They are fully aviation capable and are able to sustain independent operations in remote areas for prolonged periods of time. They are essential force elements in any task group where the ADF deploys for maritime operations at all levels. Their flexibility and versatility, particularly with a helicopter flight embarked, make these ships platforms of first resort in contingencies throughout the broad

spectrum of maritime operations.

Performance Targets		
Vessel Type	Number	Budget Estimate
Guided missile frigates	6	1,690 URD ⁽¹⁾
Anzac-class frigates	6	1,704 URD

Note

1. Unit Ready Days (URD) is the number of days that a force element is available for tasking, by the Maritime Commander, outside of major maintenance and within planned readiness requirements.

Table 4.2.3: Net Cost of Output 2.1 – Capability for Major Surface Combatant Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	423,155	402,351	-20,803	441,031	453,401	476,281
Employees - Civilian	96,949	104,110	7,161	103,653	107,794	93,785
Sub total employees	520,104	506,462	-13,642	544,683	561,194	570,066
Supplier Expenses	372,049	451,263	79,213	450,273	497,274	598,105
Inventory Consumption	106,687	108,157	1,471	112,645	119,383	110,069
Sub total suppliers	478,736	559,420	80,684	562,918	616,658	708,174
Depreciation and amortisation	370,606	363,155	-7,451	344,317	364,253	381,407
Write down of assets	45,320	13,186	-32,134	13,181	13,167	13,142
Value of assets sold	30,363	22,887	-7,476	4,072	4,108	4,148
Other	-1	-100	-99	-100	-100	-100
Grants	170	113	-57	116	119	121
Borrowing cost expense	2,208	2,233	25	2,277	2,323	1,909
Total operating expenses from ordinary activities	1,447,506	1,467,355	19,849	1,471,465	1,561,721	1,678,868
Revenues						
Sale of goods and services	-11,190	-12,218	-1,028	-13,060	-12,941	-13,231
Revenue from sale of assets	-30,363	-22,887	7,476	-4,072	-4,108	-4,148
Assets now recognised	-35,655	-	35,355	-	-	-
Other	-7,394	-7,101	293	-5,548	-5,492	-5,559
Total Own Source Revenues	-84,602	-42,205	42,396	-22,680	-22,541	-22,938
Net Cost of Output 2.1⁽¹⁾	1,362,904	1,425,151	62,246	1,448,784	1,539,180	1,655,931

Note

1. Cross references to Table 4.2.1.

The increase in Output 2.1 relates mainly to supplier expenses and includes additional logistics support funding for Anzac-class frigates to sustain current levels of operational tempo and meet specific preparedness requirements.

Output 2.2 – Capability for Naval Aviation Operations

The naval aviation force comprises 16 Seahawk helicopters, seven Sea King helicopters and 13 Squirrel helicopters. The Navy’s aviation capability is being enhanced by the introduction of ten Super Seasprite helicopters, which are being accepted progressively with limited operational capabilities and used to completed flight trials and initial squadron training. The eleventh Super Seasprite will be introduced some time after 2004-05. Fully operational Super Seasprite helicopters will begin being deployed in 2005-06. Organic frigate-based naval aviation assets are part of, and extend substantially, the sensor and weapons systems of the parent ship. Seahawks and, in the future, Super Seasprites contribute to the Navy’s capability for surface warfare (strike), undersea warfare, reconnaissance, surveillance, maritime support, search and rescue, medical evacuation, electronic warfare and aircrew training. The provision of maritime aviation support is the primary role of the Sea King helicopters, although all naval aviation assets can contribute. Amphibious operations from HMA Ships *Success*, *Kanimbla*, *Manoora* or *Tobruk* are supported by the Sea Kings.

Naval aviation, like Army aviation, is dependent on the Air Force for the initial training of aviation technicians and flying training for officer aircrew. Initial helicopter aircrew training is conducted using the Squirrel helicopters. As the Squirrel approaches its planned date of withdrawal from service, a proposal to replace both Sea Kings and Squirrels with an interim leased helicopter is being progressed. The purpose of the proposed leased maritime interim rotary-wing training and support system is to provide a more cost-effective training aircraft using the one aircraft type that can also meet the embarked maritime support role. The proposal is due for first pass consideration by the Government in mid-2004. Naval aviation also manages the operation of the Kalkara aerial target system, which supports fleet and Air Force training.

Performance Targets		
Aircraft	Number	Flying Hours 2004-05
Seahawks	16	4,600
Sea Kings	7	2,000
Squirrels	13 ⁽¹⁾	4,000
Super Seasprites	10 ⁽²⁾	1,200
Kalkaras	13	39 presentations ⁽³⁾

Notes

1. Twelve aircraft are operated, the thirteenth aircraft is held for attrition purposes.
2. The eleventh Super Seasprite helicopter will be introduced after 2004-05.
3. Kalkara is an unmanned aerial target system used for Fleet and Air Force support. Presentations refer to the number of instances during which the system is used as a target in training exercises.

Table 4.2.4: Net Cost of Output 2.2 – Capability for Naval Aviation Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	177,861	171,775	-6,086	182,238	186,272	195,008
Employees - Civilian	43,068	46,310	3,241	46,560	48,328	41,873
Sub total employees	220,930	218,085	-2,845	228,798	234,600	236,881
Supplier Expenses	177,119	201,675	24,556	190,847	197,072	224,888
Inventory Consumption	4,430	4,546	116	4,646	4,936	4,577
Sub total suppliers	181,549	206,221	24,673	195,493	202,008	229,466
Depreciation and amortisation	84,182	83,736	-446	80,993	87,309	92,466
Write down of assets	15,945	4,453	-11,491	4,448	4,449	4,439
Value of assets sold	6,097	4,597	-1,500	740	716	692
Other	-	-10	-10	-10	-10	-10
Grants	43	29	-14	30	30	31
Borrowing cost expense	550	540	-11	550	561	461
Total operating expenses from ordinary activities	509,295	517,650	8,355	511,042	529,663	564,425
Revenues						
Sale of goods and services	-3,667	-3,731	-64	-3,876	-3,824	-3,908
Revenue from sale of assets	-6,097	-4,597	1,500	-740	-716	-692
Assets now recognised	-12,131	-	12,131	-	-	-
Other	-1,771	-1,643	128	-1,516	-1,559	-1,584
Total Own Source Revenues	-23,666	-9,971	13,695	-6,132	-6,099	-6,184
Net Cost of Output 2.2⁽¹⁾	485,629	507,679	22,050	504,910	523,563	558,242

Note

1. Cross references to Table 4.2.1.

The increase in Output 2.2 relates mainly to additional logistics support funding.

Output 2.3 – Capability for Patrol Boat Operations

The patrol boat force consists of 15 Fremantle-class patrol boats which will be replaced by a fleet of 12 Armidale-class patrol boats between 2004-05 and 2007-08. Fremantle-class patrol boats will pay off progressively between 2004-05 and 2007-08. The Armidale-class patrol boats will be commissioned in pairs (except for the first and last hulls) between April 2005 and April 2007. The transition phase of the delivery of the Armidale-class patrol boats and the disposal of the Fremantle-class patrol boats will be actively managed to maintain the output performance targets.

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

Performance Targets		
Vessel Type	Number	Budget Estimate
Patrol boats	15 ⁽¹⁾	4,737 URD

Note

- The lowest total number of hulls forecast to be available during 2004-05 during the transition to the Armidale-class is 12.

Table 4.2.5: Net Cost of Output 2.3 – Capability for Patrol Boat Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	126,869	123,583	-3,286	130,762	133,613	139,755
Employees - Civilian	22,558	23,820	1,262	23,756	24,641	21,477
Sub total employees	149,428	147,403	-2,024	154,518	158,254	161,232
Supplier Expenses	81,451	95,560	14,108	80,335	85,516	100,249
Inventory Consumption	19,113	19,385	272	20,171	21,376	19,714
Sub total suppliers	100,564	114,944	14,380	100,506	106,892	119,963
Depreciation and amortisation	26,819	27,773	954	27,431	24,681	26,930
Write down of assets	6,389	1,681	-4,709	1,680	1,686	1,681
Value of assets sold	6,036	4,550	-1,486	792	792	792
Other	-	11	11	11	11	11
Grants	31	21	-10	21	22	23
Borrowing cost expense	428	423	-4	432	441	362
Total operating expenses from ordinary activities	289,694	296,807	7,112	285,393	292,778	310,993
Revenues						
Sale of goods and services	-2,710	-2,636	74	-2,765	-2,773	-2,835
Revenue from sale of assets	-6,036	-4,550	1,486	-792	-792	-792
Assets now recognised	-4,666	-	4,666	-	-	-
Other	-1,228	-1,021	207	-851	-875	-889
Total Own Source Revenue	-14,639	-8,207	6,432	-4,407	-4,439	-4,516
Net Cost of Output 2.3⁽¹⁾	275,055	288,600	13,545	280,986	288,339	306,478

Note

- Cross references to Table 4.2.1.

Output 2.4 – Capability for Submarine Operations

The Navy has six Collins-class submarines that were operationally released into service in March 2004. Two submarines have been enhanced to provide a higher

level of capability. A number of joint projects are in place to progressively enhance the combat system and weapon capability of all six submarines.

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

Performance Targets		
Vessel Type	Number	Budget Estimate
Submarines	6 ⁽¹⁾	948 URD

Note

1. HMAS *Waller* will remain in full-cycle docking for all of 2004-05.

Table 4.2.6: Net Cost of Output 2.4 – Capability for Submarine Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	124,173	121,344	-2,829	128,353	131,130	136,169
Employees - Civilian	57,605	64,484	6,878	63,652	66,167	55,845
Sub total employees	181,778	185,827	4,049	192,006	197,297	192,014
Supplier Expenses	344,909	321,315	-23,594	285,489	304,331	341,624
Inventory Consumption	6,572	6,700	129	6,909	7,325	6,785
Sub total suppliers	351,481	328,015	-23,465	292,399	311,656	348,409
Depreciation and amortisation	343,862	339,873	-3,989	319,700	318,633	322,970
Write down of assets	32,440	9,883	-22,557	9,878	9,863	9,837
Value of assets sold	8,180	6,167	-2,013	1,084	1,092	1,096
Other	-	-106	-106	-106	-106	-106
Grants	27	18	-9	19	20	20
Borrowing cost expense	337	331	-6	338	345	283
Total operating expenses from ordinary activities	918,105	870,009	-48,096	815,317	838,800	874,523
Revenues						
Sale of goods and services	-2,386	-2,772	-386	-2,993	-2,760	-2,782
Revenue from sale of assets	-8,180	-6,167	2,013	-1,084	-1,092	-1,096
Assets now recognised	-26,545	-	26,545	-	-	-
Other	-2,623	-2,590	33	-1,770	-1,821	-1,850
Total Own Source Revenue	-39,735	-11,501	28,206	-5,847	-5,673	-5,728
Net Cost of Output 2.4⁽¹⁾	878,370	858,480	-19,891	809,469	833,127	868,795

Note

1. Cross references to Table 4.2.1.

Output 2.5 – Capability for Afloat Support

The afloat support capability consists of an oil tanker and a replenishment ship. This capability has a major role in the provision of afloat tactical logistics, particularly under way replenishment. It also has the capacity for logistic support to land forces and utility in a range of peacetime national tasks. The afloat support capability contributes significantly to the performance of Output 2.1 - Capability for Major Surface Combatant Operations through the provision of logistic support. These major fleet units have provided important logistic support to operations and exercises and have contributed to Defence international engagement through these activities. The maritime operational support capability project is being progressed to provide an improved afloat support capability.

Performance Targets		
Vessel Type	Number	Budget Estimate
Oil tanker	1	334 URD
Replenishment ship	1	273 URD

Table 4.2.7: Net Cost of Output 2.5 – Capability for Afloat Support

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	75,994	73,085	-2,910	77,432	78,258	82,024
Employees - Civilian	16,893	17,859	966	17,852	18,527	16,132
Sub total employees	92,887	90,943	-1,944	95,283	96,785	98,156
Supplier Expenses	71,641	77,453	5,812	77,832	100,836	99,658
Inventory Consumption	12,356	12,698	342	12,954	13,746	12,770
Sub total suppliers	83,997	90,150	6,154	90,785	114,582	112,428
Depreciation and amortisation	42,917	43,625	708	40,394	42,359	44,079
Write down of assets	5,640	1,521	-4,120	1,521	1,521	1,521
Value of assets sold	7,231	5,451	-1,780	960	968	976
Other	-	16	16	16	16	16
Grants	26	18	-9	18	18	19
Borrowing cost expense	363	355	-8	362	369	303
Total operating expenses from ordinary activities	233,061	232,079	-982	229,339	256,619	257,498
Revenues						
Sale of goods and services	-2,158	-2,230	-73	-2,305	-2,306	-2,358
Revenue from sale of assets	-7,231	-5,451	1,780	-960	-968	-976
Assets now recognised	-4,198	-	4,198	-	-	-
Other	-1,258	-1,145	113	-1,056	-1,086	-1,103
Total Own Source Revenue	-14,845	-8,827	6,018	-4,321	-4,360	-4,437
Net Cost of Output 2.5⁽¹⁾	218,217	223,252	5,036	225,018	252,259	253,061

Note

1. Cross references to Table 4.2.1.

Output 2.6 – Capability for Mine Warfare

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

The Huon-class mine hunters provide an advanced mine hunting and clearance capability, and a limited maritime patrol and surveillance capability. The mine hunters contribute to regional engagement and security through the conduct of port visits and exercises with regional nations. Two auxiliary minesweepers deliver influence mine and moored minesweeping capabilities. Clearance diving teams support the full spectrum of mine warfare operations, including explosive ordnance and improvised explosive device disposal. In line with the Defence Capability Review, two Huon-class mine hunters will be placed in extended readiness in January and April 2006.

Performance Targets		
Vessel Type	Number	Budget Estimate
Coastal mine hunters	6	1,902 URD
Auxiliary minesweepers	2	730 URD
Clearance diving teams	2	730 URD

Table 4.2.8: Net Cost of Output 2.6 – Capability for Mine Warfare

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	130,184	126,529	-3,655	133,412	135,783	142,159
Employees - Civilian	31,818	34,557	2,739	34,398	35,752	31,142
Sub total employees	162,002	161,086	-916	167,810	171,535	173,301
Supplier Expenses	118,184	130,003	11,819	110,216	125,056	149,260
Inventory Consumption	7,082	7,211	129	7,456	7,903	7,315
Sub total suppliers	125,266	137,214	11,948	117,672	132,958	156,575
Depreciation and amortisation	105,353	106,043	690	100,319	106,126	111,194
Write down of assets	13,639	3,983	-9,656	3,988	3,978	3,969
Value of assets sold	5,515	4,158	-1,357	724	732	740
Other	-	-6	-6	-6	-6	-6
Grants	39	26	-13	27	27	28
Borrowing cost expense	598	596	-2	608	620	509
Total operating expenses from ordinary activities	412,411	413,100	689	391,143	415,971	446,310
Revenues						
Sale of goods and services	-3,379	-3,474	-96	-3,607	-3,562	-3,643
Revenue from sale of assets	-5,515	-4,158	1,357	-724	-732	-740
Assets now recognised	-10,805	-	10,805	-	-	-
Other	-1,438	-1,107	331	-1,091	-1,122	-1,140
Total Own Source Revenue	-21,137	-8,739	12,398	-5,421	-5,416	-5,522
Net Cost of Output 2.6⁽¹⁾	391,274	404,361	13,086	385,721	410,555	440,788

Note

1. Cross references to Table 4.2.1.

Output 2.7 – Capability for Amphibious Lift

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

The three major fleet units provide amphibious lift and support to landing forces. They also have utility in a broad range of peacetime national tasks including evacuation operations, disaster relief, Navy individual training, and humanitarian assistance and peace support operations. The ships' inherent capability for command, control and communications, helicopter operations and medical support facilities make them extremely versatile and this has been ably demonstrated during a range of recent operational deployments. Both major and minor amphibious units contribute to joint training outcomes. The Amphibious and Afloat Support Group works with a range of authorities, such as the DMO and other Navy Force Element Groups with the aim of improving the effectiveness of the amphibious lift capability.

Performance Targets		
Vessel Type	Number	Budget Estimate
Heavy landing ships	1	365 URD
Amphibious landing ships	2	609 URD
Heavy landing craft	6	1,910 URD

Table 4.2.9: Net Cost of Output 2.7 – Capability for Amphibious Lift

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	133,741	126,876	-6,865	133,034	136,798	143,419
Employees - Civilian	23,617	25,444	1,827	25,348	26,300	22,953
Sub total employees	157,358	152,320	-5,038	158,382	163,098	166,372
Supplier Expenses	114,161	123,399	9,238	127,822	114,063	134,731
Inventory Consumption	23,734	24,390	656	24,879	26,404	24,512
Sub total suppliers	137,895	147,790	9,894	152,701	140,467	159,243
Depreciation and amortisation	73,010	73,998	988	68,892	72,453	75,611
Write down of assets	10,023	2,686	-7,337	2,696	2,691	2,686
Value of assets sold	15,135	11,411	-3,724	2,048	2,072	2,100
Other	-	-33	-33	-33	-33	-33
Grants	51	34	-17	35	36	37
Borrowing cost expense	670	680	10	693	707	581
Total operating expenses from ordinary activities	394,142	388,885	-5,258	385,415	381,490	406,597
Revenues						
Sale of goods and services	-3,584	-3,734	-150	-3,881	-3,881	-3,968
Revenue from sale of assets	-15,135	-11,411	3,724	-2,048	-2,072	-2,100
Assets now recognised	-7,363	-	7,363	-	-	-
Other	-1,679	-2,134	-456	-1,872	-1,925	-1,956
Total Own Source Revenues	-27,761	-17,279	10,482	-7,801	-7,878	-8,024
Net Cost of Output 2.7⁽¹⁾	366,381	371,605	5,224	377,614	373,612	398,573

Note

1. Cross references to Table 4.2.1.

Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations

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

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

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

Performance Targets		
Vessel/Aircraft/Unit/Chart Production	Number	Budget Estimate
Hydrographic ships	2	713 URD
Survey motor launches	4	1,324 URD
Laser airborne depth sounder aircraft	1	727 hours for surveying
Hydrographic office deployable survey unit	1	Availability 300 days; 190 days are planned deployments
Chart production: - New charts/editions - New charts/diagrams for Navy use only - Electronic navigational chart cells		25 in number 8 in number 30 in number

Table 4.2.10: Net Cost of Output 2.8 – Capability for Hydrographic, Meteorological and Oceanographic Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate 2005-06	Forward Estimate 2006-07	Forward Estimate 2007-08
	2003-04	2004-05	2004-05	2005-06	2006-07	2007-08
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating expenses						
Employees - Military	99,868	98,704	-1,164	105,319	106,092	110,810
Employees - Civilian	28,737	30,257	1,520	30,656	31,795	27,714
Sub total employees	128,605	128,961	355	135,974	137,887	138,524
Supplier Expenses	78,751	91,011	1,260	78,739	83,660	99,267
Inventory Consumption	1,698	1,744	46	1,779	1,881	1,751
Sub total suppliers	80,449	92,755	12,307	80,518	85,541	101,018
Depreciation and amortisation	27,991	27,823	-167	25,791	27,344	28,347
Write down of assets	3,978	1,054	-2,924	1,064	1,059	1,054
Value of assets sold	3,156	2,380	-776	392	392	388
Other	-	52	52	52	52	52
Grants	19	13	-6	13	14	14
Borrowing cost expense	277	257	-20	262	267	219
Total operating expenses from ordinary activities	244,475	253,295	8,820	244,068	252,557	269,616
Revenues						
Sale of goods and services	-3,655	-3,621	34	-3,820	-3,868	-3,954
Revenue from sale of assets	-3,156	-2,380	776	-392	-392	-388
Assets now recognised	-2,993	-	2,993	-	-	-
Other	-1,265	-748	517	-629	-647	-657
Total Own Source Revenues	-11,068	-6,748	4,320	-4,841	-4,907	-4,999
Net Cost of Output 2.8	233,407	246,547	13,140	239,226	247,649	264,617

Note

1. Cross references to Table 4.2.1.

OUTCOME THREE – ARMY CAPABILITY

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

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

The Army contributes to the achievement of the Government's Defence outcomes through the provision of capabilities for land and special forces operations. The Army's capabilities contribute to the broader ADF capability, within a primarily maritime strategy, to defend Australian territory from any credible attack, to enhance the security of our immediate neighbourhood and to contribute to international coalition forces to meet crises beyond Australia's immediate neighbourhood where Australian interests are engaged. The Army also provides forces for peacetime national tasks, including forces with a capability to enhance the national domestic security response to terrorist, chemical, biological, radiological or explosive incidents.

The Army contributes to the achievement of the Government's desired defence and security outcomes by providing capabilities centered on special forces; light, mechanised and motorised infantry; army aviation; ground-based air defence; combat and logistic support; and units for regional surveillance and protective operations.

The Army's capabilities provide the capacity to conduct:

- shaping and influencing operations, including operations to prevent the effective operational command and control of adversary forces by influencing, degrading or destroying their operational systems;
- land focused offensive operations through pre-emptive or reactive operations to destroy enemy forces or power projection assets, including command, control and communications nodes;
- ground-based air defence;

Outcome Three - Army Capability

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

Planned Performance

The Army intends to achieve its performance milestones in 2004-05 by balancing the requirements to support operations, to meet extant preparedness requirements and to develop the Army's core capabilities.

Support to Operations

In 2004-05, the Army's first priority will be to continue to support forces and individuals deployed on operations. These operations will include forces and individuals deployed to the Middle East Area of Operations, Israel, Egypt, Timor Leste, the Solomon Islands, Ethiopia and Eritrea, and deployed on operations mounted from mainland Australia.

Meeting Preparedness Requirements

The Army will continue to provide ready forces as directed by the Government and the Chief of the Defence Force Preparedness Directive, including five infantry battalion groups and one commando unit at 90 days readiness or less. In addition, the Army will provide a High Readiness Reserve capability, which includes six company-sized Reserve Response Forces to enhance the Army's domestic security response capability. Meeting preparedness requirements will be the Army's primary performance measure.

Developing the Army's Core Capabilities

The Army's approach to modernisation is to achieve the Chief of the Defence Force's vision of a seamless force with the agility and balance to deploy strategically, conduct operations in complex environments and excel in harnessing joint effects.

The Army will continue to enhance its capability to sustain a brigade group offshore indefinitely, a battalion group for short-notice contingency operations, maintenance of five high-readiness infantry battalion groups and one commando unit, and an enhanced special forces counter-terrorist capacity. In particular, the development of the Army's core capabilities in 2004-05 will focus on enhancing its ability to generate combat forces, its combat weight, its ability to support deployed forces and its ability to contribute to domestic security.

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

- procuring the M1A1 Abrams tank system through a Foreign Military Sales case with the United States, with introduction into service in 2007;
- accepting the Bushmaster infantry mobility vehicle into service in 2005;
- accepting additional ASLAV armoured vehicles into service in south-east Queensland in 2005;
- procuring additional Javelin direct fire guided weapons for the remainder of the land forces by 2006;
- accelerating the provision of additional troop lift helicopters;
- accepting into service the first of the Army's armed reconnaissance helicopter;
- continuing with the upgrade of the M113 armoured personnel carrier fleet for delivery in 2006;
- submitting a proposal to the Government for acquisition of an indirect fire support system; and
- enhancing the existing Black Hawk helicopter fleet with ballistic protection and self-protection capabilities.

The Army will continue to maximise its ability to sustain deployed forces through:

- the development of an Army sustainment model designed to ensure that a brigade and battalion group can be deployed continually;
- the continued enhancement of a deployable medical facility for deployed forces for delivery in 2004; and
- the continued development of systems for water purification and bulk liquid distribution for delivery in 2005.

The Army will continue to develop its contribution to domestic security operations, primarily through its ongoing development of the Tactical Assault Group (East) and the Incident Response Regiment. The Army will continue to develop its intelligence capabilities through the delivery of a tactical uninhabited aerial vehicle system for land forces in 2009.

Key Risks and Limitations

The Army will pursue the reduction of key vulnerabilities identified in the Defence Management and Finance Plan, including the remediation of personnel and logistic deficiencies within the Army.

Personnel

To support the introduction of new capabilities while maintaining extant preparedness requirements, the Army's strength is projected to grow to 26,035 by the end of 2004-05, and to 26,443 by 2009-10. Currently, recruiting and retention rates are healthy, but challenges remain in some specific ranks and trades such as health services, pilots, engineers, communications, technicians and linguists, and in developing the Army to man new capabilities identified in the Defence Capability Plan.

Logistic Support

The Army has experienced logistics challenges over the past year pertaining to training ammunition and the maintenance of the general service vehicle fleet. Remediation plans, including increases in ammunition holdings, enhanced maintenance programs for key Army fleets, and the replacement of a range of ageing equipment, will continue.

Risk Mitigation

Personnel

The continuing development of an Army Sustainment Model will assist the Army to identify and develop its force and personnel requirements to sustain offshore operations and respond to short notice contingencies. The Army Capability Implementation Plan and Army Personnel Establishment Plan will identify personnel requirements to enable timely recruitment and training, and to build new capabilities, as specified in the Defence White Paper.

Improved recruiting and retention measures have resulted in positive recruiting and retention rates. This is assisting the Army in addressing its most critical trade deficiencies. However, this situation will need to continue for some time as the Army continues to increase its strength and meet planned performance measures.

Logistic Support

The Army continues to develop the Army Equipment Establishment Plan that will inform the Army's equipment liability planning process and set the priorities for equipping the Army against authorised levels of capability. The Army is also benefiting in the short-term from additional funding to support logistic shortfalls for the general service B vehicle and explosive ordnance fleets.

Cost Summary for Outcome Three

Table 4.3.1: Breakdown of Outcome Three by Output

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 3.1 – Capability for Special Forces Operations ⁽¹⁾	335,210	322,331	-12,879	322,482	337,033	352,454
Output 3.2 – Capability for Mechanised Operations ⁽²⁾	866,123	864,456	-1,667	861,000	902,079	942,502
Output 3.3 – Capability for Light Infantry Operations ⁽³⁾	1,034,593	1,018,641	-15,952	1,033,120	1,072,374	1,122,338
Output 3.4 – Capability for Army Aviation Operations ⁽⁴⁾	592,573	623,949	31,376	623,677	634,659	657,429
Output 3.5 – Capability for Ground-Based Air Defence ⁽⁵⁾	175,658	181,768	6,109	182,877	187,899	200,343
Output 3.6 – Capability for Combat Support Operations ⁽⁶⁾	495,509	488,102	-7,408	484,184	498,026	515,766
Output 3.7 – Capability for Regional Surveillance ⁽⁷⁾	150,418	160,499	10,080	162,017	165,731	176,156
Output 3.8 – Capability for Operational Logistic Support to Land Forces ⁽⁸⁾	521,802	503,728	-18,074	509,364	524,972	548,111
Output 3.9 – Capability for Motorised Infantry Operations ⁽⁹⁾	577,318	583,837	6,519	586,997	609,854	644,720
Output 3.10 – Capability for Protective Operations ⁽¹⁰⁾	530,322	540,093	9,771	522,951	543,898	564,383
Net Cost of Outcome Three ⁽¹¹⁾	5,579,527	5,287,403	7,876	5,288,670	5,476,524	5,724,203

Notes

1. Cross references to Table 4.3.3.
2. Cross references to Table 4.3.4.
3. Cross references to Table 4.3.5.
4. Cross references to Table 4.3.6.
5. Cross references to Table 4.3.7.
6. Cross references to Table 4.3.8.
7. Cross references to Table 4.3.9.
8. Cross references to Table 4.3.10.
9. Cross references to Table 4.3.11.
10. Cross references to Table 4.3.12.
11. Table 4.3.1 cross references to Table 4.3.2.

The table below provides a breakdown for the cost of Outcome Three-Army Capability for the Defence of Australia and its interests.

Total Budgeted Cost to the Government

Table 4.3.2: Net Cost of Outcome Three – Army Capability

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	2,660,053	2,543,314	-116,740	2,685,125	2,722,225	2,858,939
Employees - Civilian	396,605	408,359	11,753	413,325	429,549	371,065
Sub total employees	3,056,659	2,951,672	-104,986	3,098,450	3,151,775	3,230,004
Supplier Expenses	1,272,740	1,434,096	161,356	1,337,173	1,424,657	1,618,650
Inventory Consumption	366,271	374,552	8,280	382,401	405,904	377,299
Sub total suppliers	1,639,011	1,808,648	169,637	1,719,574	1,830,561	1,995,949
Depreciation and amortisation	659,580	619,870	-39,710	567,263	592,990	603,022
Write down of assets	74,496	16,058	-58,438	16,037	16,037	16,057
Value of Assets sold	130,121	98,097	-32,024	17,064	17,100	17,132
Other	-	249	249	249	249	249
Grants	890	594	-296	603	613	625
Borrowing cost expense	17,716	17,987	271	18,347	18,714	15,377
Total operating expenses from ordinary activities	5,578,473	5,513,175	-65,298	5,437,587	5,628,038	5,878,414
Revenues						
Sales of goods and services	-86,739	-88,719	-1,980	-85,807	-87,129	-89,035
Revenue from sale of assets	-130,121	-98,097	32,024	-17,064	-17,100	-17,132
Assets now recognised	-46,055	-	-	-	-	-
Other	-36,031	-38,956	-2,926	-46,046	-47,286	-48,044
Total Own Source Revenues	-298,946	-225,772	73,174	-148,916	-151,515	-154,211
Net Cost of Outcome Three⁽¹⁾	5,279,527	5,287,403	7,876	5,288,670	5,476,524	5,724,203

Note

1. Cross references to Table 4.3.1.

Significant Variations

Overall, the budgeted price for Army capability will reduce by \$7.8m to \$5.287b, representing an decrease of 0.1 per cent from the 2003-04 projected results. The major variations are due to:

- A net decrease in the military employee expense (-\$116.8m) due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$133.3m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$26.4m),

- increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$6.1m),
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions, combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$179.7m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$69.0m),
- Overestimate in accrual provisions in 2003-04 in relation to long service and annual leave and compensation (-\$24.5m),
- reclassification of rations costs to suppliers expense (-\$5.7m), and
- other net variations (-\$3.7m).
- A net increase in the civilian employee expense (+\$11.8m) due to:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$24.5m),
 - real growth in civilian employee expenses as provided for in the Defence White Paper (+\$7.5m),
 - increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract (+\$7.1m),
 - Defence Procurement Review implementation funding (+\$0.5m),
 - civilian reduction program (-\$10.7m),
 - redistribution of workforce within the DMO that has resulted in decreased funding being allocated to Outcome Three (-\$9.2m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$9.0m), and
 - other net variations (+\$1.1m).
- A net increase in suppliers expense (+\$161.4m) due to:
 - price indexation for suppliers expense (+\$49.2m),
 - additional logistics support funding (+\$32.7m) to sustain current levels of operational tempo and to meet specific preparedness targets for Battlefield Combat Support Systems (+\$3.3m), army aviation (+\$15.9m), surveillance (+\$6.7m) and B vehicles (+\$6.8m),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$28.5m),
 - increase in funding for Special Operations Command (+\$18.6m),

Outcome Three - Army Capability

- increased provision for support to core portfolio information systems (+\$15.5m),
- provision for through-life costs for new capital facilities (+\$12.9m),
- increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$11.2m),
- through-life support costs for new equipment entering service (+\$10.1m),
- reclassification of rations costs from military employee expense (+\$5.7m),
- increased insurance premium payments under Defence's insurance policy with Comcover (+\$3.3m),
- Defence Procurement Review implementation funding (+\$0.3m),
- administrative savings program (-\$18.2m),
- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$7.0m), and
- other net variations (-\$1.4m).
- Increase in inventory consumption reflecting the heightened operational tempo and increased logistics funding (+\$8.3m).
- A net variation in depreciation (-\$39.7m) comprising:
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$23.7m), and
 - adjustment to asset values (-\$16.0m).
- Expected reductions in write-down of assets, as Defence progressively improves tracking and reporting of its asset base (-\$58.4m).
- Reduction in the value of asset sold projected asset sales for 2004-05, due to decreased property sales program and the completion of sale of APG radars (-\$32.0m).
- Variation in sales of goods and services due to price indexation (-\$2.0m).
- Reduction in revenue from asset sales for projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars (-\$32.0m).
- Reduction in assets now recognised reflecting the continued work to more accurately track and record Defence's asset base (+\$46.1m).
- Other revenue price indexation (-\$3m), comprising:
 - non-recurrence of revenue from Comcover for Holsworthy bush fire damage (+\$6.0m), and
 - price indexation (-\$9.0m).

OUTPUT STRUCTURE FOR OUTCOME THREE

Output 3.1 – Capability for Special Forces Operations

The special forces operations capability contributes to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. This capability exploits deception and surprise; and employs techniques which are discreet, non-escalatory, avoid collateral damage and which span the continuum of specialist conventional to unconventional operations.

The capability for special forces operations is grouped in Special Operations Command and is commanded through Headquarters Special Operations. Special Operations Command consists of:

- a command headquarters;
- a Special Air Service regiment;
- a regular commando regiment;
- a reserve commando regiment;
- an incident response regiment; and
- a combat service support company.

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

Table 4.3.3: Net Cost of Output 3.1 – Capability for Special Forces Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	206,898	194,344	-12,554	203,875	210,440	221,580
Employees - Civilian	22,751	22,844	94	23,011	23,967	20,755
Sub total employees	229,648	217,188	-12,460	226,886	234,407	242,335
Suppliers Expense	57,240	60,106	2,867	52,616	57,209	65,729
Inventory Consumption	18,309	18,725	416	19,120	20,294	18,853
Sub total suppliers	75,549	78,831	3,282	71,736	77,503	84,582
Depreciation and amortisation	34,481	32,581	-1,900	30,016	31,369	32,136
Write down of assets	4,432	958	-3,474	958	953	958
Value of Assets sold	10,203	7,692	-2,511	1,372	1,384	1,392
Other	-	-	-	-	-	-
Grants	74	49	-25	50	51	53
Borrowing cost expense	1,048	1,090	42	1,112	1,134	932
Total operating expenses from ordinary activities	355,435	338,390	-17,045	332,130	346,801	362,388
Revenues						
Sales of goods and services	-5,110	-5,161	-50	-4,975	-5,052	-5,162
Revenue from sale of assets	-10,203	-7,692	2,511	-1,372	-1,384	-1,392
Assets now recognised	-2,721	-	2,721	-	-	-
Other	-2,191	-3,207	-1,016	-3,302	-3,332	-3,380
Total Own Source Revenues	-20,225	-16,059	4,166	-9,649	-9,768	-9,934
Net Cost of Output 3.1⁽¹⁾	335,210	322,331	-12,879	322,482	337,033	352,454

Note

1. Cross references to Table 4.3.1.

Output 3.2 – Capability for Mechanised Operations

The mechanised operations capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability provides light mechanised and light armoured forces to enhance combat power and weight for more demanding contingencies utilising the effects of surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces' plans, cohesion and morale. It achieves this through engaging with the enemy in close combat enabled by mobility, protection and integral firepower, all of which arise from the employment of the combined arms team.

The capability for mechanised operations is grouped in 1st Brigade and is commanded through Headquarters 1st Brigade. 1st Brigade consists of:

- a brigade headquarters;
- an armoured regiment;

- a cavalry regiment;
- a medium artillery regiment;
- a combat engineer regiment;
- a command support regiment;
- a mechanised infantry battalion; and
- a combat service support battalion.

Performance Targets	
•	Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months, including the provision of a battalion-sized group within 90 days readiness, and
•	achieve a level of training that maintains core skills and professional standards across all warfare areas.

Table 4.3.4: Net Cost of Output 3.2 – Capability for Mechanised Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	446,363	422,696	-23,668	446,453	455,880	478,351
Employees - Civilian	60,318	57,491	-2,827	57,601	59,870	51,766
Sub total employees	506,681	480,187	-26,495	504,054	515,750	530,118
Supplier Expenses	178,936	209,448	30,512	189,433	208,680	237,697
Inventory Consumption	69,598	71,168	1,571	72,656	77,130	71,683
Sub total suppliers	248,533	280,616	32,083	262,089	285,810	309,380
Depreciation and amortisation	120,616	115,191	-5,425	107,021	112,965	116,185
Write down of assets	12,472	3,032	-9,440	3,022	3,026	3,031
Value of Assets sold	23,989	18,016	-5,882	3,212	3,248	3,284
Other	-	18	18	18	18	18
Grants	166	111	-55	112	114	114
Borrowing cost expense	2,089	2,124	35	2,167	2,210	1,816
Total operating expenses from ordinary activities	914,456	899,295	-15,161	881,695	923,142	963,946
Revenues						
Sales of goods and services	-10,568	-10,723	-155	-9,896	-10,014	-10,233
Revenue from sale of assets	-23,898	-18,016	5,882	-3,212	-3,248	-3,284
Assets now recognised	-8,560	-	8,560	-	-	-
Other	-5,307	-6,100	-793	-7,586	-7,801	-7,927
Total Own Source Revenues	-48,333	-34,839	13,494	-20,695	-21,063	-21,444
Net Cost of Output 3.2⁽¹⁾	866,123	864,456	-1,667	861,000	902,079	942,502

Note

1. Cross references to Table 4.3.1.

Output 3.3 – Capability for Light Infantry Operations

The light infantry operations capability contributes to the strategic tasks of securing our immediate neighbourhood, defending Australia and supporting peacetime national tasks. The capability provides light, air-mobile forces available for immediate deployment and is supported by specialist components drawn from combat support, fire support and logistic units. It utilises strategic, operational and tactical mobility and to exploit its flexibility, adaptability and utility across the spectrum of conflict. The capability achieves this through surprise, rapidity of execution and a capacity to seize and hold ground.

The capability for light infantry operations is grouped in 3rd Brigade and is commanded through Headquarters 3rd Brigade. 3rd Brigade consists of:

- a brigade headquarters;
- an armoured personnel carrier squadron;
- a field artillery regiment;
- a combat engineer regiment;
- a command support regiment;
- three infantry battalions; and
- a combat service support battalion.

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

Table 4.3.5: Net Cost of Output 3.3 – Capability for Light Infantry Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	635,622	621,414	-14,208	656,421	672,649	706,609
Employees - Civilian	64,616	58,275	-6,341	58,474	60,736	52,751
Sub total employees	700,237	679,689	-20,549	714,894	733,385	759,359
Supplier Expenses	195,535	208,166	12,630	190,837	204,445	232,091
Inventory Consumption	62,627	63,678	1,411	65,008	69,017	64,136
Sub total suppliers	257,802	271,844	14,042	255,845	273,462	296,227
Depreciation and amortisation	89,347	83,331	-6,106	77,588	81,091	83,209
Write down of assets	11,136	2,442	-8,694	2,447	2,447	2,457
Value of Assets sold	23,745	17,901	-5,844	3,164	3,184	3,204
Other	-	18	18	18	18	18
Grants	208	139	-69	141	143	146
Borrowing cost expense	2,609	2,664	57	2,716	2,773	2,279
Total operating expenses from ordinary activities	1,085,085	1,058,028	-27,055	1,056,814	1,096,503	1,146,900
Revenues						
Sales of goods and services	-13,194	-13,292	-98	-12,748	-12,942	-13,225
Revenue from sale of assets	-23,745	-17,901	5,844	-3,164	-3,184	-3,204
Assets now recognised	-7,073	-	7,073	-	-	-
Other	-6,480	-8,196	-1,716	-7,783	-8,003	-8,133
Total Own Source Revenues	-50,492	-39,389	11,103	-23,695	-24,129	-24,561
Net Cost of Output 3.3⁽¹⁾	1,034,593	1,018,641	-15,952	1,033,120	1,072,374	1,122,338

Note

1. Cross references to Table 4.3.1.

Output 3.4 - Capability for Army Aviation Operations

The Army aviation operations capability contributes primarily to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. The capability provides aircraft, which are maintained at high readiness, for mobility through tactical troop lift, command and liaison, and reconnaissance operations. The capability for army aviation operations is grouped in 16th Brigade (Aviation) and is commanded through Headquarters 16th Brigade.

16th Brigade consists of:

- a brigade headquarters; and
- two aviation regiments.

Table 4.3.6: Army Aviation Aircraft

Aircraft	Number	Flying Hours 2004-05
CH-47D Chinook	6	1,270
S-70A9 Black Hawk	36 ⁽¹⁾	8,600
B-206 Kiowa	42	12,795
UH-1H Iroquois	25	4,090
Armed Reconnaissance Helicopter Tiger ⁽²⁾	4 ⁽³⁾	718
B-200 King Air ⁽⁴⁾	3	1,333
DHC-6 Twin Otter ⁽⁴⁾	2	800
Future Fixed Wing Aircraft ⁽⁵⁾	4	952

Notes

1. One aircraft awaiting write-off.
2. Armed Reconnaissance Helicopter flight simulators will not be delivered in 2004-05.
3. Aircraft one and two to be delivered in December 2004, aircraft three in January 2005 and aircraft four in April 2005.
4. Current lease expires on 28 February 2005.
5. Subject to contract negotiation.

Performance Targets

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

Table 4.3.7: Net Cost of Output 3.4 – Capability for Army Aviation Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	194,990	186,643	-8,348	198,820	199,627	209,808
Employees - Civilian	47,331	50,616	3,284	51,308	53,304	46,001
Sub total employees	242,322	237,629	-5,063	250,127	252,931	255,809
Supplier Expenses	184,212	224,951	40,738	216,339	215,269	238,177
Inventory Consumption	62,267	63,678	1,411	65,008	69,017	64,136
Sub total suppliers	246,479	288,629	42,149	281,348	284,286	302,313
Depreciation and amortisation	106,729	101,255	-5,474	94,676	99,956	102,109
Write down of assets	14,050	3,764	-10,286	3,759	3,754	3,749
Value of Assets sold	8,058	6,075	-1,983	996	972	952
Other	-	-	-	1	1	1
Grants	59	39	-20	40	41	42
Borrowing cost expense	779	761	-18	776	791	650
Total operating expenses from ordinary activities	618,476	637,781	19,305	631,722	642,732	665,625
Revenues						
Sales of goods and services	-4,520	-4,782	-262	-4,881	-4,872	-4,978
Revenue from sale of assets	-8,058	-6,075	1,983	-996	-972	-952
Assets now recognised	-10,296	-	10,296	-	-	-
Other	-3,029	-2,976	53	-2,168	-2,230	-2,266
Total Own Source Revenues	-25,903	-13,833	12,070	-8,046	-8,073	-8,195
Net Cost of Output 3.4⁽¹⁾	592,573	623,949	31,376	623,677	634,659	657,429

Note

1. Cross references to Table 4.3.1.

The increase in the cost of Output 3.4 includes additional logistics support funding for army aviation to sustain current levels of operational tempo and to meet specific preparedness targets (+\$15.9m).

Output 3.5 – Capability for Ground-Based Air Defence

The ground-based air defence capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability is versatile and able to defend airspace in conjunction with other land and joint elements. The capability provides weapon systems that can be deployed on land or onboard ships, to protect high-value targets from air attack.

The capability for ground-based air defence resides in 16th Air Defence Regiment which consists of:

- a regimental headquarters;

- an RBS70 battery; and
- a Rapier battery.

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

Table 4.3.8: Net Cost of Output 3.5 – Capability for Ground-Based Air Defence

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	61,099	61,162	62	67,111	63,844	67,401
Employees - Civilian	20,241	20,100	-141	20,401	21,212	18,348
Sub total employees	81,340	81,262	-79	87,512	85,056	85,749
Supplier Expenses	68,516	75,293	6,777	72,380	78,806	91,096
Inventory Consumption	7,322	7,490	168	7,648	8,092	7,547
Sub total suppliers	75,838	82,783	6,945	80,028	86,898	98,643
Depreciation and amortisation	21,826	20,691	-1,135	18,290	18,967	19,104
Write down of assets	2,105	442	-1,663	442	442	442
Value of assets sold	2,390	1,802	-588	268	260	252
Other	-	-	-	-	-	-
Grants	20	13	-7	14	14	14
Borrowing cost expense	340	303	-37	309	315	259
Total operating expenses from ordinary activities	183,860	187,296	3,436	186,863	191,952	204,463
Revenues						
Sales of goods and services	-2,260	-2,347	-87	-2,303	-2,338	-2,389
Revenue from sale of assets	-2,390	-1,802	588	-268	-260	-252
Assets now recognised	-1,352	-	1,352	-	-	-
Other	-2,200	-1,379	821	-1,415	-1,455	-1,478
Total Own Source Revenues	-8,201	-5,528	2,673	-3,986	-4,053	-4,120
Net Cost of Output 3.5⁽¹⁾	175,658	181,768	6,109	182,877	187,899	200,343

Note

1. Cross references to Table 4.3.1.

Output 3.6 – Capability for Combat Support Operations

The capability for combat support operations contributes primarily to supporting combat forces in the range of strategic environments in which they may be deployed, including supporting wider interests, defending Australia,

securing our immediate neighbourhood and supporting peacetime national tasks. This capability is designed to enhance the conduct of operations through effective communications, surveillance and specialist support, in particular construction engineering, topographical support and electronic warfare operations.

The capability for combat support operations are grouped in Land Command and commanded through Land Headquarters. It consists of:

- a surveillance and target acquisition battery;
- an engineer support regiment headquarters;
- two engineer construction regiments;
- two engineer construction squadrons;
- a construction engineer works section;
- a topographical survey squadron;
- a signals regiment;
- an intelligence battalion;
- a military police battalion; and
- a combat training centre.

Performance Targets

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

Table 4.3.9: Net Cost of Output 3.6 – Capability for Combat Support Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	256,049	243,803	-12,247	257,912	260,726	269,878
Employees - Civilian	48,324	49,425	1,100	50,033	51,986	44,205
Sub total employees	304,374	293,227	-11,146	307,944	312,711	314,083
Supplier Expenses	121,372	130,680	9,308	122,278	129,287	146,917
Inventory Consumption	9,523	9,734	211	9,949	10,550	9,817
Sub total suppliers	130,895	140,414	9,519	132,226	139,836	156,734
Depreciation and amortisation	66,764	62,071	-4,693	56,212	57,994	58,005
Write down of assets	8,355	1,963	-6,392	1,962	1,962	1,959
Value of assets sold	10,111	7,622	-2,489	1,276	1,256	1,236
Other	-	36	36	37	37	37
Grants	87	58	-29	56	57	49
Borrowing cost expense	1,312	1,315	3	1,341	1,368	1,124
Total operating expenses from ordinary activities	521,896	506,706	-15,190	501,055	515,222	533,227
Revenues						
Sales of goods and services	-7,106	-7,329	-223	-5,094	-5,142	-5,253
Revenue from sale of assets	-10,111	-7,622	2,489	-1,276	-1,256	-1,236
Assets now recognised	-5,557	-	5,557	-	-	-
Other	-3,614	-3,653	-40	-10,501	-10,798	-10,973
Total Own Source Revenues	-26,387	-18,605	7,782	-16,871	-17,196	-17,461
Net Cost of Output 3.6⁽¹⁾	495,509	488,102	-7,408	484,184	498,026	515,766

Note

1. Cross references to Table 4.3.1.

Output 3.7 – Capability for Regional Surveillance

The regional surveillance operations capability contributes to the strategic tasks of defending Australia and supporting peacetime national tasks by providing forces to patrol the north of Australia in support of the national surveillance effort. The capability is maintained through the employment of Army Reserve personnel drawn from the local communities and the indigenous population throughout the north of Australia, from the Pilbara to Cape York.

The capability for regional surveillance resides in three regional force surveillance units.

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

Table 4.3.10: Net Cost of Output 3.7 – Capability for Regional Surveillance

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	45,317	45,645	328	49,607	45,665	48,120
Employees - Civilian	17,287	20,225	2,938	20,717	21,549	18,552
Sub total employees	62,603	65,869	3,266	70,324	67,214	66,672
Supplier Expenses	68,925	77,238	8,313	76,839	83,162	94,528
Inventory Consumption	1,464	1,487	23	1,523	1,610	1,504
Sub total suppliers	70,390	78,725	8,336	78,362	84,772	96,032
Depreciation and amortisation	21,730	20,346	-1,384	17,693	18,203	18,173
Write down of assets	1,849	233	-1,616	233	233	233
Value of assets sold	2,604	1,963	-641	300	296	292
Other	-	9	9	10	10	10
Grants	17	12	-5	11	12	12
Borrowing cost expense	804	787	-17	802	818	672
Total operating expenses from ordinary activities	159,997	167,945	7,948	167,735	171,558	182,095
Revenues						
Sales of goods and services	-4,502	-4,213	-161	-4,424	-4,510	-4,609
Revenue from sale of assets	-2,604	-1,963	641	-300	-296	-292
Assets now recognised	-803	-	803	-	-	-
Other	-2,118	-1,270	848	-994	-1,022	-1,039
Total Own Source Revenue	-9,578	-7,446	2,132	-5,718	-5,828	-5,939
Net Cost of Output 3.7⁽¹⁾	150,418	160,499	10,080	162,017	165,731	176,156

Note

1. Cross references to Table 4.3.1.

The increase in cost of Output 3.7 includes additional logistics support funding for Army surveillance to sustain current levels of operational tempo and to meet specific preparedness targets (+\$6.7m).

Output 3.8 – Capability for Operational Logistic Support to Land Forces

The capability for operational logistic support to land forces contributes primarily to the strategic tasks of defending Australia, contributing to the security of our immediate neighbourhood, supporting our wider interests and peacetime national tasks. It provides supply, transportation, repair and health functions in support of combat operations.

The capability for operational logistic support to land forces is grouped in the Logistic Support Force and is commanded through Headquarters Logistic Support Force. It consists of:

- two force headquarters;
- two signals squadrons;
- a petroleum company;
- a recovery company;
- three force support battalions;
- a deployed forces support unit;
- three health support battalions; and
- a psychology unit.

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

Table 4.3.11: Net Cost of Output 3.8 – Capability for Operational Logistic Support to Land Forces

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	301,055	285,834	-15,222	303,073	307,703	321,287
Employees - Civilian	42,177	42,578	401	43,391	45,139	38,585
Sub total employees	343,233	328,412	-14,821	346,464	352,842	359,873
Supplier Expenses	124,498	125,373	875	116,729	123,781	140,549
Inventory Consumption	10,987	11,235	248	11,472	12,160	11,321
Sub total suppliers	135,485	136,608	1,122	128,201	135,940	151,870
Depreciation and amortisation	50,670	47,383	-3,287	43,244	44,928	45,662
Write down of assets	6,000	1,312	-4,688	1,303	1,308	1,311
Value of assets sold	8,854	6,675	-2,179	1,152	1,156	1,160
Other	-	55	55	55	55	55
Grants	113	75	-38	79	80	76
Borrowing cost expense	1,683	1,702	19	1,736	1,770	1,455
Total operating expenses from ordinary activities	546,038	522,222	-23,816	522,234	538,079	561,462
Revenues						
Sales of goods and services	-8,279	-8,430	-152	-8,311	-8,447	-8,631
Revenue from sales of assets	-8,854	-6,675	2,179	-1,152	-1,156	-1,160
Assets now recognised	-3,790	-	3,790	-	-	-
Other revenues	-3,313	-3,389	-76	-3,407	-3,504	-3,560
Total Own Source Revenues	-24,236	-18,494	5,742	-12,870	-13,107	-13,351
Net Cost of Output 3.8⁽¹⁾	521,802	503,728	-18,074	509,364	524,972	548,111

Note

1. Cross references to Table 4.3.1.

Output 3.9 – Capability for Motorised Infantry Operations

The motorised infantry operations capability contributes to the strategic tasks of defending Australia and securing our immediate neighbourhood. The capability complements the 1st and 3rd Brigades by providing a range of highly mobile forces to conduct land manoeuvre operations utilising surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces' plans, cohesion and morale.

The capability for motorised infantry operations is grouped in 7th Brigade and is commanded through Headquarters 7th Brigade. 7th Brigade is an integrated formation of full and part-time personnel and consists of:

- a brigade headquarters;
- a cavalry regiment;
- a field artillery regiment;

Outcome Three - Army Capability

- a combat engineer regiment;
- a command support regiment;
- three reserve-integrated infantry battalions; and
- a combat service support battalion.

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

Table 4.3.12: Net Cost of Output 3.9 – Motorised Infantry Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	291,219	275,478	-15,740	290,386	294,033	315,541
Employees - Civilian	40,013	44,876	4,863	45,686	47,512	42,028
Sub total employees	331,232	320,355	-10,877	336,072	341,544	357,570
Supplier Expenses	126,788	149,918	23,130	141,720	153,310	177,337
Inventory Consumption	6,2267	63,678	1,411	65,008	69,017	64,150
Sub total suppliers	189,055	213,596	24,542	206,728	222,327	241,487
Depreciation and amortisation	66,121	31,632	-4,489	54,934	56,964	57,330
Write down of assets	5,509	839	-4,670	839	839	845
Value of assets sold	18,138	13,674	-4,464	2,412	2,432	2,448
Other	-	36	36	37	37	37
Grants	76	51	-25	51	52	70
Borrowing cost expense	2,190	2,230	40	2,274	2,320	1,906
Total operating expenses from ordinary activities	612,321	612,413	92	603,347	626,514	661,693
Revenues						
Sales of goods and services	-10,341	-10,516	-175	-10,863	-11,067	-11,311
Revenue from sale of assets	-18,138	-13,674	4,464	-2,412	-2,432	-2,448
Assets now recognised	-2,587	-	2,587	-	-	-
Other	-3,936	-4,386	-449	-3,074	-3,161	-3,213
Total Own Source Revenues	-35,002	-28,576	6,426	-16,350	-16,660	-16,973
Net Cost of Output 3.9⁽¹⁾	577,318	583,837	6,519	586,997	609,854	644,720

Note

1. Cross references to Table 4.3.1.

Output 3.10 – Capability for Protective Operations

The protective operations capability contributes to the strategic tasks of defending Australia and supporting peacetime national tasks. While retaining long-term utility for defence of Australia tasks, this capability also meets contemporary needs by providing reinforcements for deployed regular units and a mobilisation base for subsequent rotations in the event of protracted operations. Elements of these forces are also trained to assist in the event of a domestic security incident.

The capability for protective operations is grouped in 4th, 5th, 8th, 9th, 11th and 13th Brigades. These are predominantly reserve formations and each consists of:

- a brigade headquarters;
- two or three infantry battalions;
- an armoured reconnaissance unit; and
- combat and logistic support units.

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

Table 4.3.13: Net Cost of Output 3.10 – Capability for Protective Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	221,441	206,267	-15,144	211,467	211,660	220,362
Employees - Civilian	33,547	41,929	8,382	42,704	44,275	38,073
Sub total employees	254,988	248,226	-6,672	254,171	255,934	258,436
Supplier Expenses	146,718	172,923	26,206	158,003	170,709	194,530
Inventory Consumption	62,267	63,678	1,411	65,008	69,017	64,150
Sub total suppliers	208,985	236,601	27,617	223,011	239,726	258,680
Depreciation and amortisation	81,296	75,388	-5,908	67,589	70,555	71,108
Write down of assets	8,588	1,072	-7,516	1,072	1,072	1,072
Value of assets sold	22,121	16,677	-5,444	2,912	2,912	2,912
Other	-	73	73	73	73	73
Grants	70	47	-23	48	49	49
Borrowing cost expense	4,863	5,013	150	5,114	5,216	4,286
Total operating expenses from ordinary activities	580,911	583,097	2,186	553,990	575,536	596,616
Revenues						
Sales of goods and services	-21,310	-21,926	-617	-22,312	-22,747	-23,246
Revenue from sale of assets	-22,121	-16,677	5,444	-2,912	-2,912	-2,912
Assets now recognised	-3,316	-	3,316	-	-	-
Other	-3,842	-4,401	-558	-5,814	-5,979	-6,075
Total Own Source Revenues	-50,589	-43,004	7,585	-31,038	-31,638	-32,233
Net Cost of Output 3.10⁽¹⁾	530,322	540,093	9,771	522,951	543,898	564,383

Note

1. Cross references to Table 4.3.1.

OUTCOME FOUR – AIR FORCE CAPABILITY

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

- Output 4.1 Capability for Air Combat Operations
- Output 4.2 Capability for Combat Support of Air Operations
- Output 4.3 Capability for Surveillance and Response Operations
- Output 4.4 Capability for Air Lift Operations

The Air Force will continue to work to ensure it remains a balanced expeditionary force capable of delivering swift and decisive application of air and space power in joint operations or as a part of a larger coalition force. To achieve this, the Air Force provides four key capabilities including offensive combat, rapid mobility, battlespace management and combat support that contribute to the defence of Australia, security of the region, support of our wider interests and peacetime national tasks.

Planned Performance

The Air Force will continue to support the Government's border control initiatives including, if required, the ability to surge in surveillance and response capabilities. During 2004-05 the Air Force will continue to support the war on terror and conduct operational deployments as directed by the Government, in particular:

- Operation Anode, although support is expected to end during the early part of 2004-05 and the Caribou aircraft returned to Australia;
- Operation Catalyst and Slipper (Iraq), including P-3 Orion surveillance activities, C-130 transport support and expeditionary combat support elements; and
- Operation Relex II, with P-3 Orion surveillance of the northern borders.

With airborne early warning and control due to enter service in 2006, Air Force is merging Maritime Patrol Group with Surveillance and Control Group into a single Output - Surveillance and Response Group. This will place Air Force intelligence, surveillance reconnaissance and electronic warfare components into a single force element group to develop emergent capabilities and the information infrastructure for the introduction of new systems required for network centric operations.

Planning for the withdrawal of the F-111 around 2010 has commenced and will continue in 2004-05 to ensure that there will be no capability gaps and that all risks are addressed and minimised.

This will be done through the transition of the F-111 land and maritime strike capability to Hornet and P-3C Orion aircraft and:

- upgrade of F/A-18 Hornet aircraft with new weapons systems, including electronic warfare self-protection, and the life-extension of the airframe to ensure that it remains a viable capability until the introduction of the new air combat capability;
- finalisation of the P-3C upgrade during 04-05;
- the introduction of new air-to-air refueling aircraft;
- the introduction of airborne early warning and control aircraft, including the additional two aircraft recently approved by the Government;
- acquisition of long-range standoff weapons; and
- acquisition of improved short-range, day and night, all-weather precision guided weapons.

Air Force recruitment and retention continues to be solid and reflects the successful strategies implemented in recent years which have led to the high morale and satisfaction of Air Force people. Work will continue in 2004-05 on strategies aimed at ensuring the recognition of individuals contribution as fundamental inputs to capability.

The creation of the DMO as a prescribed agency will require close consultation with DMO staff to develop meaningful and measurable Management Sustainment Agreements at the force element level for the DMO products and services required to assure the necessary level of support for Air Force capabilities.

A Joint Deployable Air Component Commander was established recently. The focus during 2004-05 and beyond will be on streamlining planning and better command and control of information to deployed operations by networking of the Air Force.

Greater attention and resources will also be applied to workplace health and safety. Additional positions will be allocated to implement, monitor and report on all workplace health and safety issues in accordance with our responsibilities under the *Occupational Health and Safety Act 1991* in line with our duty of care.

Finally, internal and external intellect will be harnessed to recognise and take advantage of disruptive technologies and develop innovative future operating concepts.

Key Risks and Limitations

Personnel

Overall, Air Force personnel numbers are healthier than they have been for many years, mainly as a result of successful personnel management initiatives and favorable retention and recruitment outcomes. Nevertheless, shortfalls continue to exist in some specialised and highly marketable skill areas. In

particular, the retention of experienced people in the fields of communications, electronics and information systems continue to pose challenges.

Low separation rates pose some risks to future workforce structure as recruiting numbers are necessarily curtailed to help contain the workforce within overall funding availability.

Regional Capability Edge

Aerospace combat capability within the region continues to develop rapidly, placing pressure on the Air Force to maintain a capability edge.

Warfighting Skills

Ongoing contribution to operations has degraded some higher-level warfighting skills, particularly within the maritime patrol squadrons, and will require careful management during 2004-05.

Enabling Support

The delivery of Air Force capabilities is highly dependent on the ongoing support of the Enabling Groups such as the DMO and Corporate Services and Infrastructure Group, and Owner Support Groups such as the Defence Science and Technology Organisation.

Risk Mitigation

Personnel

The Air Force continues to monitor the state of its workforce and in particular that small number of employment categories identified as at risk or potentially at risk. These include communications electronic technicians, communication information system controllers, air traffic controllers, aeronautical engineers, dental officers, and logistic officers. The Air Force has put in place various targeted initiatives to increase retention in these categories including bonuses, allowances, and training improvements.

The Air Force has also introduced a new workforce flow management system (known as temporal discipline) to manage long lead-time employment categories such as aircrew. This initiative aims to ensure the availability of a sufficient and appropriately trained workforce to support operational capability. The use of return of service obligation provisions coupled with temporal discipline is expected to ensure increasing workforce stability over the next decade.

To address current category/rank imbalances, the Air Force is conducting a holistic workforce structure review to assess whether the current workforce structure remains appropriate noting that the nature of work, including warfighting concepts continues to change.

In addition, the Air Force is implementing new personnel strategies aimed at further increasing the attractiveness of Air Force employment, by reinforcing the

role of the individual in mutual partnership with commanders and Air Force Headquarters.

Regional Capability Edge

The Air Force will maintain the desired capability edge with the development of a networked air force over the next few years with combat effect enhanced by the total system. The operational commissioning of the Jindalee over the horizon radar system, plus ongoing upgrades to the F/A-18 and the introduction of other combat and surveillance capabilities such as air-to-air refuelling aircraft, airborne early warning and control aircraft, and communication and information networking infrastructure, are all part of these plans.

Warfighting Skills

The operational degradation of skills is being addressed through targeted training, particularly of selected crews in specific exercises within the maritime patrol wing.

Enabling Support

The Air Force will continue to work closely with all Defence Groups to develop meaningful agreements, which clearly set out the level of support required to deliver Air Force capabilities, within available funding allocations.

Cost Summary of Outcome Four

Table 4.4.1: Breakdown of Outcome Four by Output

	Estimated Outcome	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 4.1 – Capability for Air Combat Operations ⁽¹⁾	1,888,748	1,959,024	70,276	1,830,444	1,844,475	1,949,967
Output 4.2 – Capability for Combat Support of Air Operations ⁽²⁾	571,189	556,983	-14,206	567,407	583,196	620,286
Output 4.3 – Capability for Surveillance and Response Operations ⁽³⁾	1,051,684	1,128,309	76,625	1,133,999	1,201,817	1,281,390
Output 4.4 – Capability for Airlift ⁽⁴⁾	933,170	976,004	42,835	962,599	998,808	1,023,007
Net Cost of Outcome Four⁽⁵⁾	4,444,792	4,620,321	175,529	4,494,448	4,628,296	4,874,650

Notes

1. Cross references to Table 4.4.3.
2. Cross references to Table 4.4.4.
3. Cross references to Table 4.4.5.
4. Cross references to Table 4.4.6.
5. Cross references to Table 4.4.2.

The table below provides a breakdown for the cost of Outcome Four – Air Force Capability for the Defence of Australia and its interests.

Total Budgeted Cost to the Government

Table 4.4.2: Net Cost of Outcome Four – Air Force Capability

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	1,294,035	1,224,789	-69,246	1,296,999	1,302,985	1,369,056
Employees - Civilian	360,941	392,057	31,116	393,795	407,911	352,896
Sub total employees	1,654,976	1,616,846	-38,130	1,690,794	1,710,896	1,721,953
Supplier Expenses	1,333,303	1,553,356	220,054	1,450,542	1,531,743	1,735,669
Inventory Consumption	263,246	282,555	19,308	309,026	313,335	306,617
Sub total suppliers	1,596,549	1,853,911	239,362	1,759,568	1,845,078	2,042,287
Depreciation and amortisation	1,210,894	1,835,911	-24,480	1,062,449	1,089,836	1,130,204
Write down of assets	156,112	41,976	-114,136	41,997	42,020	42,065
Value of Assets sold	81,008	61,073	-19,935	10,436	10,376	10,304
Other	-	-93	-93	-93	-93	-93
Grants	434	289	-144	296	301	306
Borrowing cost expense	6,020	5,958	-61	6,078	6,199	5,094
Total operating expenses from ordinary activities	4,705,992	4,748,375	42,383	4,571,525	4,704,613	4,952,119
Revenues						
Sales of goods and services	-39,094	-42,213	-3,119	-44,219	-43,863	-44,831
Revenue from sale of assets	-81,008	-61,073	19,935	-10,436	-10,376	-10,304
Assets now recognised	-114,013	-	114,013	-	-	-
Other	-27,085	-24,769	2,317	-22,422	-22,078	-22,334
Total Own Source Revenues	-261,200	-128,054	133,146	-77,077	-76,317	-77,469
Net Cost of Outcome Four⁽¹⁾	4,444,792	4,620,321	175,529	4,494,448	4,628,296	4,874,650

Note

1. Cross references to Table 4.4.1.

Significant Variations

- A net decrease in the military employees expenses (-\$69.2m), as a result of:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$66.3m),
 - increased average funded strength due to lower than anticipated separation rates in 2003-04 and forecast for 2004-05 (+\$15.0m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$13.1m),

Outcome Four - Air Force Capability

- increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$3.0m),
- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$90.4m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$34.4m),
- overestimate in accrual provisions in 2003-04 in relation to long service and annual leave and compensation (-\$19.2m),
- changes in contribution of military workforce to other Outcomes (-\$10.0m),
- reclassification of rations costs to supplier expenses (-\$8.2m), and
- other net variations including reduced take up of Home Purchase Assistance Scheme, and allowances associated with reduction in overseas positions (-\$4.4m).
- A net increase civilian employees expenses (\$31.1m), as a result of:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$23.4m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$7.2m),
 - increase in voluntary redundancy costs as a result of the Defence Integrated Distribution System contract (+\$6.4m),
 - Defence Procurement Review implementation funding (+\$0.7m),
 - increase in full time equivalent-average positions in 2004-05 (+\$0.3m),
 - non-recurrence of one-off payments in 2003-04 for long service leave, annual leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$8.2m), and
 - other net variations (+\$1.3m).
- A net increase in supplier expenses (+\$220.0m), as a result of:
 - price indexation for supplier expenses (+\$52.3m),
 - additional logistics support funding for maritime patrol aircraft (P3) to sustain current levels of operational tempo and to meet specific preparedness targets (+\$48.4m),

- increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$30.3m),
 - increased provision for support to core portfolio information systems (+\$16.5m),
 - additional logistics support funding for transport aircraft (C-130H) to sustain current levels of operational tempo and to meet specific preparedness targets (+\$16.0m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$11.9m),
 - through-life support costs for new equipment entering service (+\$10.7m),
 - additional logistics support funding for training aircraft (PC-9) to sustain current levels of operational tempo and to meet specific preparedness targets (+\$8.7m),
 - reclassification of rations costs from military employee expenses (+\$8.2m),
 - provision for through-life costs for new capital facilities (+\$7.7m),
 - increased insurance premium payments under Defence's insurance policy with Comcover (+\$3.5m),
 - increase in supplier expenses to cover payments for the Defence Integrated Distribution System contract (+\$3.3m),
 - Defence Procurement Review implementation funding (+\$0.6m),
 - transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$7.4m), and
 - other net variations including provision for through-life support costs for a range of equipment including life support equipment and other net variations (+\$9.3m).
- Increase in inventory consumption, reflecting the heightened operational tempo and increased logistics funding (+\$19.3m);
 - A net decrease in the depreciation expense (-\$24.5m) as a result of:
 - roll-out of assets from platform and system upgrades including the F/A-18, P3 and F-111 (+\$21.1m),
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$42.8m), and
 - other net variations including reduction for revised asset capitalisation thresholds (-\$2.8m).

Outcome Four - Air Force Capability

- A net decrease in the write-down of assets (-\$114.1m) due to expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base.
- A net decrease in the revenue from sale of assets (+\$19.9m) related to a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net increase in the revenue from sale of goods and services (-\$3.1m) due to:
 - increased provision for price indexation (-\$1.0m), and
 - other net variations (-\$2.1m).
- A net decrease in the value of assets sold (-\$19.9m) related to a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net decrease in assets now recognised (+\$114.0m) reflecting the continued work to more accurately track and record Defence's asset base.
- Net decrease in other revenue (+\$2.3m) due to:
 - provision for price indexation (-\$2.9m), and
 - net variations including provision for non-recurring other revenue (+\$5.2m).

OUTPUT STRUCTURE FOR OUTCOME FOUR

Output 4.1 – Capability for Air Combat

The capability for air combat is exercised through the Air Combat Group using F-111 and F/A-18 aircraft crews, weapon systems and support infrastructure. The group supports air control, maritime and land strike, offensive air support and limited reconnaissance roles.

Performance Targets		
<ul style="list-style-type: none"> Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. Achieve levels of training that maintains core skills and professional standards across all assigned warfare areas. 		
Aircraft	Number	Flying Hours 2004-05
F/A-18	71 (55 F/A-18A and 16 F/A-18B)	12,500
F-111	28 ⁽¹⁾	3,800
Hawk lead-in fighter	33	9,000
PC-9/A FAC training aircraft	4	1,030

Note

- An additional five F-111G aircraft are in long-term storage and a further two F-111G have been broken down for spares.

Table 4.4.3: Net Cost of Output 4.1 – Capability for Air Combat Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	337,046	321,341	-15,705	339,965	338,067	354,397
Employees - Civilian	147,701	162,550	14,849	161,831	167,677	145,260
Sub total employees	484,747	483,891	-857	501,796	505,744	499,657
Supplier Expenses	514,082	581,950	67,866	529,120	553,103	629,389
Inventory Consumption	145,714	157,040	11,327	168,742	153,635	163,865
Sub total suppliers	659,796	738,990	79,193	697,862	706,738	793,254
Depreciation and amortisation	752,894	742,279	-10,615	635,839	636,091	661,943
Write down of assets	76,364	21,534	-54,830	21,530	21,514	21,490
Value of Assets sold	34,438	25,963	-8,475	4,460	4,432	4,408
Other	-	-151	-150	-150	-150	-150
Grants	135	90	-45	93	93	95
Borrowing cost expense	1,833	1,802	-31	1,838	1,875	1,540
Total operating expenses from ordinary activities	2,010,207	2,014,400	4,193	1,863,267	1,876,337	1,982,236
Revenues						
Sales of goods and services	-12,346	-13,717	-1,371	-14,456	-14,108	-14,424
Revenue from sale of assets	-34,438	-25,963	8,475	-4,460	-4,432	-4,408
Assets now recognised	-58,120	-	58,120	-	-	-
Other	-16,555	-15,696	859	-13,907	-13,322	-13,436
Total Own Source Revenue	-121,459	-55,376	66,083	-32,823	-31,862	-32,269
Net Cost of Output 4.1⁽¹⁾	1,888,748	1,959,024	70,276	1,830,444	1,844,475	1,949,967

Note

- Cross references to Table 4.4.1.

The increase in the cost of Output 4.1 includes additional logistics funding for the P-C9 aircraft and accounting and accrual adjustments.

Output 4.2 – Capability for Combat Support of Air Operations

The Combat Support Group provides the capability for combat support of air operations. It involves the command and control of the airbase, airbase security and emergency response, local airspace management, provision of airbase communications and navigation aids, aeromedical staging and evacuation and a range of airbase supply and flightline services.

Performance Targets

- Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.
- Achieve a level of training that maintains core skills and professional standards in conjunction with Corporate Services and Infrastructure Group and the DMO across all operations support areas.
- Provide the level of preparedness required based on a force structure of:
 - two combat support wings.
 - one expeditionary combat support wing.
 - one combat reserve wing.
 - one air base defence wing.
 - one health services wing.
- Further development of doctrine, concepts and procedures for expeditionary air base operations will formalise direction for future capability.

Table 4.4.4: Net Cost of Output 4.2 – Capability for Combat Support of Air Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	378,040	351,512	-26,528	368,589	371,990	392,852
Employees - Civilian	33,948	36,524	2,576	38,137	39,652	34,403
Sub total employees	411,988	588,036	-23,952	406,726	411,642	427,255
Supplier Expenses	125,784	139,665	13,881	134,133	144,100	166,674
Inventory Consumption	14,932	14,400	-532	13,396	13,710	13,267
Sub total suppliers	140,716	154,065	13,349	147,529	157,810	179,941
Depreciation and amortisation	23,764	22,557	-1,208	20,994	21,729	21,561
Write down of assets	4,050	324	-3,725	324	350	383
Value of Assets sold	8,364	6,305	-2,059	1,072	1,060	1,052
Other	-	57	56	57	57	57
Grants	113	76	-38	79	82	80
Borrowing cost expense	1,582	1,611	29	1,643	1,676	1,377
Total operating expenses from ordinary activities	590,578	573,029	-17,549	578,423	594,405	631,707
Revenues						
Sales of goods and services	-7,977	-8,262	-284	-8,745	-8,915	-9,115
Revenue from sale of assets	-8,364	-6,305	2,059	-1,072	-1,060	-1,052
Assets now recognised	-1,197	-	1,197	-	-	-
Other	-1,850	-1,480	370	-1,200	-1,234	-1,253
Total Own Source Revenues	-19,389	-16,047	3,342	-11,016	-11,209	-11,420
Net Cost of Output 4.2⁽¹⁾	571,189	556,983	-14,206	567,407	583,196	620,286

Note

1. Cross references to Table 4.4.1.

Output 4.3 – Capability for Surveillance and Response Operations

The capability for surveillance and response operations is provided by Surveillance and Response Group, an amalgamation of the Surveillance and Control Group (previously Output 4.3) and the Maritime Patrol Group (previously Output 4.4). The new Output has been formed to better integrate the surveillance and response aspects and to ensure that systems and processes are aligned.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve levels of training that maintains core skills and professional standards across all assigned warfare areas. • Maintain the Jindalee Operational Radar Network including over the horizon radar sensors at Laverton, Western Australia and Longreach, Queensland, the Jindalee Radar Facility at Alice Springs, Northern Territory and the coordination centre at RAAF Edinburgh, South Australia. • Maintain 10 air traffic control radars. • Maintain four tactical air defence radars. 		
Aircraft	Number	Flying Hours 2004-05
P-3 Orion aircraft	19	9,000

Table 4.4.5: Net Cost of Output 4.3 – Capability for Surveillance and Response Operations

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	337,372	320,938	-16,434	347,480	357,223	374,007
Employees - Civilian	113,988	123,332	9,344	123,424	128,205	110,861
Sub total employees	451,360	444,269	-7,090	470,904	485,428	484,868
Supplier Expenses	315,163	400,192	85,030	307,682	495,824	460,019
Inventory Consumption	36,016	38,849	2,833	51,282	61,613	58,234
Sub total suppliers	351,178	439,041	87,863	421,965	457,437	518,252
Depreciation and amortisation	248,341	243,231	-5,109	239,422	257,090	276,941
Write down of assets	53,122	14,661	-38,462	14,676	14,686	14,705
Value of Assets sold	16,545	12,474	-4,071	2,096	2,076	2,048
Other	-	-37	-37	-37	-37	-37
Grants	102	68	-34	70	71	71
Borrowing cost expense	1,405	1,370	-35	1,398	1,425	1,172
Total operating expenses from ordinary activities	1,122,052	1,155,077	33,025	1,150,493	1,218,176	1,298,021
Revenues						
Sales of goods and services	-9,662	-10,618	-956	-11,132	-10,926	-11,171
Revenue from sale of assets	-16,545	-12,474	4,071	-2,096	-2,076	-2,048
Assets now recognised	-39,612	-	39,612	-	-	-
Other	-4,549	-3,676	872	-3,265	-3,358	-3,412
Total Own Source Revenue	-70,368	-26,768	-43,600	-16,494	-16,360	-16,631
Net Cost of Output 4.3⁽¹⁾	1,051,684	1,128,309	76,625	1,133,999	1,201,817	1,281,390

Note

1. Cross references to Table 4.4.1.

The increase in the cost of Output 4.3 includes additional logistics support funding for maritime patrol aircraft (P3) and accounting and accrual adjustments.

Output 4.4 – Capability for Airlift Operations

The capability for airlift operations is provided by Air Lift Group through the application of various transport aircraft. The capability entails the provision of air logistics support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance, VIP flights, air-to-air refuelling, navigator training and surveillance operations.

Performance Targets		
<ul style="list-style-type: none"> • Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. • Achieve levels of training that maintain core skills and professional standards across all assigned warfare areas. 		
Aircraft	Number	Flying Hours 2004-05
C-130H and C-130J Hercules aircraft	12 C-130H 12 C-130J	16,000
B707	4	1,800
DHC-4 Caribou	14	5,080
B737 BBJ VIP aircraft	2	1,200
CL604 Challenger VIP aircraft	3	2,400
B300 Beechcraft Kingair Navigator Training aircraft	7	6,000

Table 4.4.6: Net Cost of Output 4.4 – Capability for Air-Lift Operations

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	241,577	230,998	-10,579	240,966	235,705	247,801
Employees - Civilian	65,304	69,651	4,347	70,403	72,376	62,372
Sub total employees	306,881	300,649	-6,232	311,369	308,081	310,173
Supplier Expenses	378,273	431,548	53,275	416,607	438,716	479,588
Inventory Consumption	66,585	72,266	5,681	75,606	84,377	71,252
Sub total suppliers	444,858	503,814	58,956	492,213	523,093	550,840
Depreciation and amortisation	185,895	178,347	-7,548	166,195	174,926	169,759
Write down of assets	22,575	5,457	-17,119	5,467	5,471	5,486
Value of Assets sold	21,661	16,331	-5,330	2,808	2,808	2,796
Other	-	38	38	38	38	38
Grants	84	56	-28	54	55	59
Borrowing cost expense	1,200	1,176	-24	1,199	1,223	1,005
Total operating expenses from ordinary activities	983,155	1,005,868	22,713	979,343	1,015,695	1,040,156
Revenues						
Sales of goods and services	-9,109	-9,616	-508	-9,886	-9,914	-10,120
Revenue from sale of assets	-21,661	-16,331	5,330	-2,808	-2,808	-2,796
Assets now recognised	-15,084	-	15,084	-	-	-
Other	-4,131	-3,916	215	-4,050	-4,165	-4,232
Total Own Source Revenues	-49,985	-29,863	20,121	-16,744	-16,887	-17,149
Net Cost of Output 4.4⁽¹⁾	933,170	976,004	42,835	962,599	998,808	1,023,007

Note

1. Cross references to Table 4.4.1.

The increase in cost of Output 4.4 includes additional logistics support funding for the C-130H aircraft and accounting and accrual adjustments.

OUTCOME FIVE – STRATEGIC POLICY

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

Output 5.1 Strategic and International Policy, Activities and Engagement

Output 5.2 Military Strategy and Capability Analysis

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

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

Planned Performance

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

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

Key Risks and Limitations

The key risks and limitations are:

- any deterioration in Australia's strategic circumstances, both generally and with respect to specific potential crises;
- the emergence of new and more immediate threats from terrorism and increased concerns about the proliferation of weapons of mass destruction;
- managing core priorities at times of increased operational tempo, such as during the war on terror or the activities in Iraq; and

- managing projects funded under the Defence Cooperation Program in regional countries where factors external to Defence impact on the achievement of objectives.

Risk Mitigation

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

- continuously reviewing the strategic environment to enable the shaping of appropriate policies;
- continuing the development of Defence's international relationships;
- ensuring personnel management practices are focused on optimising staff skills and balancing competing priorities;
- ensuring alignment between Defence's policy and operational objectives; and
- developing project management skills in relevant areas.

Cost Summary for Outcome Five

Table 4.5.1: Breakdown of Outcome Five by Output

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Output 5.1 – Capability for Strategic and International Policy, Activities and Engagement ⁽¹⁾	173,382	195,030	21,649	183,381	188,074	205,774
Output 5.2 – Capability for Military Strategy and Capability Analysis ⁽²⁾	46,761	47,526	765	47,686	49,766	50,639
Net Cost of Outcome Five ⁽³⁾	220,143	242,556	22,414	231,067	237,840	256,413

Notes

- Cross references to Table 4.5.3.
- Cross references to Table 4.5.4
- Cross references to Table 4.5.2.

Total Budgeted Cost to the Government

Table 4.5.2: Net Cost of Outcome Five – Strategic Policy

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000		2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees – Military	66,931	65,815	-1,116	68,907	69,245	71,890
Employees – Civilian	38,856	39,728	872	40,577	42,045	36,480
Sub total employees	105,787	105,543	-244	109,485	111,290	108,369
Supplier Expenses	115,911	137,277	21,366	121,430	126,116	147,453
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	115,912	137,277	21,366	121,431	126,116	147,454
Depreciation and amortisation	5,180	5,340	160	5,487	5,885	6,206
Write down of assets	1,479	314	-1,165	319	324	329
Value of assets sold	582	439	-143	52	48	40
Other	-	20	19	20	20	20
Grants	24	16	-8	16	16	17
Borrowing cost expense	258	256	-2	261	266	219
Total operating expenses from ordinary activities	229,221	249,205	19,984	237,070	243,964	262,654
Revenues						
Sales of goods and services	-6,324	-4,157	2,167	-4,402	-4,483	-4,582
Revenue from sale of assets	-582	-439	143	-52	-48	-40
Assets now recognised	-1,378	-	1,378	-	-	-
Other	-794	-2,052	-1,258	-1,549	-1,593	-1,619
Total Own Source Revenues	-9,078	-6,648	2,430	-6,003	-6,124	-6,241
Net Cost Outcome Five⁽¹⁾	220,143	242,556	22,414	231,067	237,840	256,413

Note

1. Cross references to Table 4.5.1.

Significant Variations

The cost of Outcome Five will increase by \$22.4m to \$242.6m or 10.2 per cent from the 2003-04 estimated outcome of \$220.1m. The major variations to Outcome Five are due to:

- A net decrease in military employees expenses (-\$1.1m), primarily due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$2.6m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$0.5m),
 - increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$0.1m),

Outcome Five - Strategic Policy

- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of the Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$3.2m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$1.3m),
- a reduction in the number of non-operational military personnel overseas (-\$0.6m), and
- other net variations (+\$0.8m).
- A net increase in civilian employees expenses (+\$0.9m), primarily due to:
 - price indexation to cover *the Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$2.3m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$0.7m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$0.9m),
 - a reduction in the number of non-operational civilian personnel overseas (-\$0.2m), and
 - other net variations (-\$1.0m).
- A net increase in supplier expenses (+\$21.4m), primarily due to:
 - net variation due to the second tranche of the Papua New Guinea Defence Force Reform Program, comprising \$14.6m supplemented by the Government less \$2.9m spent by Defence in 2003-04 (+\$11.7m),
 - price indexation for supplier expenses (+\$4.8m),
 - increase in expenditure on estate upkeep and other cost pressure including Comcover and Comcare premiums, legal services and other overheads (+\$2.8m),
 - increased provision for support to core portfolio information systems (+\$1.5m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$1.1m),
 - through-life support costs for new equipment entering service (+\$1.0m),
 - increased insurance premium payments under Defence's insurance policy with Comcover (+\$0.3m),

- transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$0.7m),
- a reduction in the number of non-operational personnel overseas (-\$0.2m), and
- other net variations (-\$0.9m).
- A net increase in depreciation expense (+\$0.2m), primarily due to:
 - revised depreciation expense estimate taking account of forecast asset roll-outs for 2004-05 (+\$0.2m),
 - non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$0.2m), and
 - other net variations (+\$0.2m).
- Expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (+\$1.2m).
- A net decrease in the value of assets sold (-\$0.1m) due to a reduction in the projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net decrease in the sale of goods and services (+\$2.2m), primarily due to:
 - non-recurrence of revenue associated with the completion of the command and control experiment of the Integrated Air Defence System (+\$2.7m), and
 - price indexation for revenue (-\$0.5m).
- A net decrease in the revenue from the sale of assets (+\$0.1m) due to a reduction in the projected asset sales for 2004-05 due to decrease property sales program and the completion of sale of APG radars.
- A net decrease in the assets now recognised (+\$1.4m), primarily due to:
 - the continued work to more accurately track and record Defence's asset base (+\$0.7m), and
 - other net variations (+\$0.7m).
- A net increase in other revenue primarily due to price indexation (-\$1.3m).

OUTPUT STRUCTURE FOR OUTCOME FIVE

Output 5.1 – Strategic and International Policy, Activities and Engagement

This output provides strategic and international policy advice to the Government to enable it to make sound judgements on, and develop appropriate responses to, changes in Australia's strategic circumstances, and on

specific defence issues as they arise. It also applies strategic policy guidance to assist the development of recommendations to the Government on international engagement activities and initiatives.

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

Table 4.5.3: Net Cost of Output 5.1 – Strategic and International Policy, Activities and Engagement

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	56,401	55,309	-1,091	57,971	58,280	60,191
Employees - Civilian	20,994	21,448	454	21,684	22,397	19,555
Sub total employees	77,394	76,757	-637	79,656	80,677	79,746
Supplier Expenses	98,039	117,826	19,787	103,146	106,506	124,817
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	98,039	117,826	19,787	103,146	106,506	124,817
Depreciation and amortisation	3,695	3,910	216	4,064	4,448	4,865
Write down of assets	1,357	312	-1,045	312	312	312
Value of Assets sold	521	393	-128	48	44	36
Other	-	11	10	11	11	11
Grants	6	4	-2	4	4	4
Borrowing cost expense	74	69	-5	70	72	59
Total operating expenses from ordinary activities	181,086	199,282	18,196	187,311	192,074	209,850
Revenues						
Sales of goods and services	-5,408	-3,208	2,200	-3,405	-3,464	-3,541
Revenue from sale of assets	-521	-393	128	-48	-44	-36
Assets now recognised	-1,294	-	1,294	-	-	-
Other	-481	-650	-170	-478	-491	-499
Total Own Source Revenue	-7,704	-4,252	3,452	-3,930	-3,999	-4,076
Net Cost of Output 5.1⁽¹⁾	173,382	195,030	21,649	183,381	188,074	205,774

Note

1. Cross references to Table 4.5.1.

The increase in cost of Output 5.1 includes the additional \$11.7m in relation to the second tranche of the Papua New Guinea Defence Force Reform Program.

Output 5.2 – Military Strategy and Capability Analysis

This output provides military strategy and strategic policy guidance to provide a framework for the development of future Defence capability, and to support military deployments, operations and exercises.

Performance Target	
•	Defence is able to provide comprehensive and timely advice to the Government on military strategy, associated policy developments and future concepts that reflect the changing strategic environment.

Table 4.5.4: Net Cost of Output 5.2 – Military Strategy and Capability Analysis

	Projected Result 2003-04 \$'000	Budget Estimate 2004-05 \$'000	Variation 2003-04 to 2004-05 \$'000	Forward Estimate 2005-06 \$'000	Forward Estimate 2006-07 \$'000	Forward Estimate 2007-08 \$'000
Operating expenses						
Employees - Military	10,530	10,506	-24	10,936	10,965	11,698
Employees - Civilian	17,863	18,280	418	18,893	19,647	16,925
Sub total employees	28,393	28,786	394	29,829	30,612	28,623
Supplier Expenses	17,872	19,451	1,578	18,284	19,610	22,637
Inventory Consumption	-	-	-	-	-	-
Sub total suppliers	17,873	19,451	1,578	18,284	19,610	22,637
Depreciation and amortisation	1,485	1,430	-56	1,423	1,437	1,341
Write down of assets	122	2	-120	7	12	17
Value of Assets sold	61	46	-15	4	4	4
Other	-	9	9	9	9	9
Grants	18	12	-6	12	12	13
Borrowing cost expense	183	187	3	190	194	160
Total operating expenses from ordinary activities	48,135	49,923	1,787	49,759	51,891	52,804
Revenues						
Sales of goods and services	-916	-949	-33	-997	-1,019	-1,041
Revenue from sale of assets	-61	-46	15	-4	-4	-4
Assets now recognised	-84	-	84	-	-	-
Other	-313	-1,402	-1,089	-1,071	-1,102	-1,120
Total Own Source Revenue	-1,374	-2,396	-1,022	-2,073	-2,125	-2,165
Net Cost of Output 5.2⁽¹⁾	46,761	47,526	765	47,686	49,766	50,639

Note

1. Cross references to Table 4.5.1.

DEFENCE COOPERATION

Overview

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

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

These activities encompass assistance to regional security forces in the areas of strategic planning, education and training, command and control, infrastructure, communications and logistics support. A key element of the Defence Cooperation Program is the Pacific patrol boat program, comprising 22 vessels in 12 countries.

The program is designed to help the Pacific island countries to improve their ability to independently police their maritime zones. The Defence Cooperation Program also supports the conduct of combined exercises to improve the ability of regional countries to contribute to regional security. A key focus continues to be the development of the nascent East Timor Defence Force. Australian assistance will include a range of training initiatives and infrastructure projects. A breakdown of the \$80.3m allocated to the program in 2004-05 is shown in the following table.

Table 4.5.5: Defence Cooperation Funding

	Estimated Actual 2003-04 \$'000	Budget Estimate 2004-05 \$'000
Papua New Guinea⁽¹⁾	11,185	22,688
South Pacific		
Vanuatu	1,519	1,603
Solomon Islands	360	498
Tonga	2,127	1,149
Western Samoa	532	1,703
Cook Islands	295	346
Fiji	3,799	3,503
Marshall Islands	1,201	882
Federated States of Micronesia	1,070	1,137
Tuvalu	625	767
Kiribati	820	914
Palau	693	991
Multilateral General Assistance ⁽²⁾	10,950	12,010
Sub-total	23,991	25,503
South-East Asia		
Singapore	235	292
Philippines	2,590	2,531
Thailand	3,012	3,018
Malaysia	4,601	4,342
Indonesia	4,902	4,671
East Timor	6,397	9,397
Vietnam	1,395	1,365
Cambodia and Laos	956	897
Brunei	97	45
Sub-total	24,185	26,558
Other Regional Activities	4,978	5,551
Total	64,339	80,300

Notes

1. Includes funding for the second tranche of the Papua New Guinea Defence Force Reform Program of \$2.895m in 2003-04 and \$14.600m in 2004-05.
2. Predominantly relates to support of the Pacific Patrol Boat project, including the Life Extension Program.

OUTCOME SIX – INTELLIGENCE

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

Output 6.1 Intelligence

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

Planned Performance

Good intelligence remains critical to Australia's strategic posture in a complex and changeable environment. Defence will maintain an intelligence capability to inform Government policy and planning, to support the planning and conduct of ADF operations, and to underpin the development of future ADF capability. Defence conducts intelligence operations, maintains intelligence capabilities and provides analysis in order to provide timely intelligence products to Defence and to a range of other government departments and agencies. Support to counter-terrorism (including the recently established National Threat Assessment Centre) continues to be a high priority for Defence intelligence.

Defence's intelligence functions include:

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

Key Risks and Limitations

The continued war on terror, the increased tempo of ADF operations, and increased demand for intelligence and security advice, has placed pressure on Defence intelligence resources. Through specific supplementation and the

reallocation of resources, the highest priority intelligence requirements continue to be met.

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

Risk Mitigation

A number of strategies have been developed to mitigate risks. These include progressing carefully targeted capital investment and personnel development programs, strengthening agency partnerships, an increased customer focus, the implementation of a security renewal agenda and development of business continuity plans.

Significant initiatives have been implemented to enhance intelligence capabilities as part of the Defence Capability Plan. These include substantial and sustained investment in signals intelligence and imagery collection capabilities, enhanced geospatial information systems and improved intelligence processing and dissemination systems. These initiatives are progressing, and will assist in meeting increased requirements for intelligence support.

Cost Summary for Outcome Six

Table 4.6.1: Breakdown of Outcome Six by Output

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Output 6.1 – Intelligence	413,109	434,992	21,883	431,573	448,683	456,490
Net Cost of Outcome Six⁽¹⁾	413,109	434,992	21,883	431,573	448,683	456,490

Note

1. Cross references to Table 4.6.2.

Total Budgeted Cost to the Government

Table 4.6.2: Net Cost of Outcome Six – Intelligence

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Operating expenses						
Employees - Military	60,294	60,649	355	65,793	65,189	68,766
Employees - Civilian	139,125	152,446	13,321	162,060	166,857	145,168
Sub total employees	199,419	213,095	13,676	227,854	232,046	213,934
Supplier Expenses	159,266	179,561	20,294	165,820	176,910	203,574
Inventory Consumption	1	1	-	1	1	1
Sub total suppliers	159,268	179,562	20,294	165,821	176,911	203,576
Depreciation and amortisation	61,007	44,678	-16,329	40,433	42,311	41,687
Write down of assets	1,320	201	-1,119	196	206	216
Value of Assets sold	2,635	1,986	-649	316	308	300
Other	-	-	-	-	-	-
Grants	30	20	-10	21	21	22
Borrowing cost expense	377	362	-15	370	377	310
Total operating expenses from ordinary activities	424,055	439,904	15,849	435,011	452,180	460,045
Revenues						
Sales of goods and services	-3,232	-2,162	1,069	-2,183	-2,225	-2,274
Revenue from sale of assets	-2,635	-1,986	649	-316	-308	-300
Assets now recognised	-3,493	-	3,493	-	-	-
Other	-1,587	-763	823	-938	-965	-980
Total Own Source Revenues	-10,946	-4,912	6,035	-3,437	-3,497	-3,554
Net Cost of Outcome Six⁽¹⁾	413,109	434,992	21,883	431,573	448,683	456,490

Note

1. Cross references to Table 4.6.1.

Significant Variations

Overall, the budgeted cost of Outcome Six: Intelligence will increase by \$21m to \$434m. This is an increase of five per cent from the 2003-04 estimated outcome.

- Military employee expenses will increase by \$0.3m due to:
 - price indexation to cover the ADF Military Workforce Remuneration Arrangement and other cost increases (+\$3.2m),
 - real growth in military employee costs as provided in the Defence White Paper for increases in health, housing, fringe benefits tax, conditions of service and service allowance (+\$0.6m),
 - increased funding for the remuneration reform project and the provision for increased allowances from defence force remuneration tribunal determinations (+\$0.1m),

- non-recurrence of one-off accrual adjustments in 2003-04 to correct errors in long service leave and annual leave provisions combined with a non-recurring transfer of Defence Force Retirement and Death Benefits Scheme three per cent productivity liability from administered to departmental accounts (-\$3.9m),
- transfer of the military compensation function to the Department of Veterans' Affairs (-\$1.6m), and
- other net variations (+\$1.9m).
- Civilian employee expenses will increase by \$13.3m due to:
 - price indexation to cover the *Defence Employees' Certified Agreement 2004-2006* and other cost increases (+\$8.8m),
 - new budget initiatives, such as strengthening counter-terrorism and critical infrastructure protection, and increased funding for Defence White Paper approved initiatives (+\$6.5m),
 - real growth in civilian employee costs as provided for in the Defence White Paper (+\$2.7m),
 - non-recurrence of one-off payments in 2003-04 for long service leave and superannuation provisions for University of New South Wales staff at the Australian Defence Force Academy (-\$3.1m), and
 - other net variations (-\$1.6m).
- Supplier expenses will increase by \$20.3m as a result of:
 - new budget initiatives, such as strengthening counter-terrorism and critical infrastructure protection, and increased funding for Defence White Paper approved initiatives (+\$7.8m),
 - price indexation for supplier expenses (+\$6.4),
 - increase in expenditure on estate upkeep and other cost pressures including Comcover and Comcare premiums, legal services and other overheads (+\$3.7m),
 - increased provision for support to core portfolio information systems (+\$2.0m),
 - increased purchase of information technology and administrative assets as part of Defence's asset refreshment program (+\$1.4m),
 - through-life support costs for new equipment entering service (+\$1.3m),
 - increased insurance premium payments under Defence's insurance policy with Comcover (+\$0.4m),
 - provision for through-life costs for new capital facilities (+\$0.2m),
 - transfer of funding for the administration of the military compensation function to the Department of Veterans' Affairs (-\$0.9m), and
 - other net variations (-\$2.0m).

Outcome Six – Intelligence

- Depreciation and amortisation expenses are expected to reduce by \$16.3m due to:
 - a review of the useful life of assets resulting in the acceleration of depreciation for certain assets and the recognition of an abnormally high depreciation expense in 2003-04 (-\$13.3m),
 - a non-recurring adjustment in 2003-04 to correct a longstanding understatement of accumulated depreciation across Defence's asset base, offset by rescheduling and rephasing of asset roll-outs (-\$2.7m), and
 - other net variations (-\$0.3m).
- Write-down of assets expenses will decrease by \$1.1m due to:
 - expected reductions in write-downs as Defence progressively improves tracking and reporting of its asset base (-\$0.4m), and
 - other net variations (-\$0.7m).
- Value of assets sold expenses will decrease by \$0.6m due to a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- Reduced revenue from sale of goods and services (+\$1.1m) due to:
 - an overestimation of revenue from sales in 2003-04 (+\$1.4m), and
 - price indexation (-\$0.3m).
- Revenue from sale of assets will decrease by \$0.6m because of a reduction in projected asset sales for 2004-05 due to decreased property sales program and the completion of sale of APG radars.
- A net decrease in assets now recognised (+\$3.5m) reflecting the continued work to more accurately track and record Defence's asset base.
- Reduction in revenues from other activities (+\$0.8m) due to:
 - price indexation (-\$0.3m), and
 - other net variations (+\$1.1m).

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

Outcome Seven – Superannuation and Housing Support Services for Current and Retired Defence Personnel

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

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

Administered Activities

Administered Revenue

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

Superannuation for Current and Retired Defence Personnel

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

Housing Assistance for Current and Retired Defence Personnel

In 2004-05, Defence and the Defence Housing Authority will complete the fifth year of a 10-year agreement for the delivery of housing services to ADF members. The overall aim of the Defence Housing Authority is to provide a single point for housing and relocation services to ADF members and their families. This includes housing assistance provided for current and retired Defence personnel under the Defence Home Owner Scheme. This scheme provides a subsidy on the interest payable on a home loan for members of the ADF and is covered by the *Defence Force (Home Loans Assistance) Act 1990*

Cost Summary for Outcome Seven

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

Table 4.7.1: Revenues Administered on behalf of the Government

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Revenues Administered on Behalf of Government						
Housing Dividends	229,364	45,047	-184,317	13,203	17,465	21,264
Military Superannuation Contributions	557,683	601,389	43,706	661,389	712,389	755,389
Foreign Government and the United Nations reimbursements for East Timor	23,000	2,000	-21,000	-	-	-
Total revenues administered on behalf of Government	810,047	648,436	-161,611	674,592	729,854	776,653

Significant Variations

Revenue administered on behalf of the Government will decrease by \$162m from \$810m to \$648m, representing a decrease of 20 per cent from the 2003-04 projected result. The major variations are due to:

- variations to numbers of ADF personnel and rates of salary make up the difference in Military Superannuation Contributions (+\$44m);
- expected reduction in capital return special dividend payments from the Defence Housing Authority to the Government (-\$184m); and
- revised estimates for the reimbursements from foreign Government and the United Nations for East Timor from \$23m to \$2m (-\$21m).

Table 4.7.2: Expenses Administered on behalf of the Government

	Projected Result	Budget Estimate	Variation 2003-04 to 2004-05 \$'000	Forward Estimate	Forward Estimate	Forward Estimate
	2003-04 \$'000	2004-05 \$'000	2004-05 \$'000	2005-06 \$'000	2006-07 \$'000	2007-08 \$'000
Expenses Administered on Behalf of Government						
Military Superannuation Benefits	1,980,000	2,300,000	320,000	2,400,000	2,400,000	2,600,000
Retention Benefits	29,400	29,400	-	29,400	29,400	29,400
Housing Subsidies	7,500	7,500	-	7,500	7,500	7,500
Other	-	-	-	-	-	-
Total expenses administered on behalf of Government	2,016,900	2,336,900	320,000	2,436,900	2,436,900	2,636,900

Significant Variations

Expenses administered on behalf of the Government will increase by \$320m from \$1,980m to \$2,300m. The major variations are due to:

- The transfer of \$220m for Military Superannuation Benefits three per cent productivity liability for the Defence Force Retirement and Death Benefits Scheme from the Administered budget to the Departmental budget, and
- An increase of \$100m for Military Superannuation Benefits due to pension indexation and an increase in recipients.

