

2. DEFENCE

NATURE OF OUTLAYS

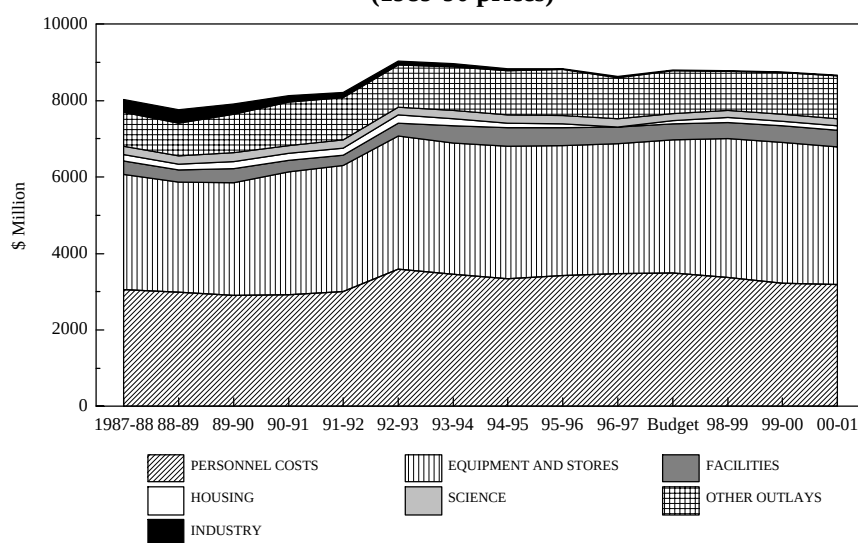
The Defence function covers outlays on military equipment and technology, stores, Defence personnel and related benefits, Defence industry support and Defence administration.

This function includes outlays of the following portfolios:

- Administrative Services;
- Defence; and
- Finance.

The bulk of Defence function outlays are transacted through the Department of Defence.

**Chart 1. Overview of Commonwealth Outlays on Defence
(1989-90 prices)**



TRENDS IN DEFENCE OUTLAYS

Defence outlays declined between 1987-88 and 1988-89 as the global allocation for Defence's core activities was reduced as part of general budgetary restraint. Defence outlays grew between 1989-90 and 1991-92 reflecting the impact of the introduction of user charging by Commonwealth agencies, the provision of supplementary resources for Defence participation in peacekeeping activities and funding for special communications projects. The inclusion of employer superannuation costs for Defence staff who are members of Commonwealth superannuation schemes resulted in an increase in Defence outlays from 1992-93. Since then Defence outlays have declined, reflecting the 1993-94 Budget decision to apply year on year reductions to the Defence outlays base to 1996-97. Estimates for 1997-98 onwards reflect zero real growth in Defence base outlays.

Savings arising from the Commercial Support Programme have been allocated by Defence to higher priority areas. Defence also retains the proceeds from the sale of most surplus or under-utilised properties. The Government's policy is to reallocate funds from lower priority and support areas to enhance Defence's combat capabilities. This process will be reinforced by the Defence Reform Programme (DRP) which will implement the agreed recommendations of the 1997 Defence Efficiency Review report, *Future Directions for the Management of Australia's Defence*. The forward year estimates reflected in the preceding chart and the following tables do not yet fully reflect the impact of the DRP.

1997-98 AND FORWARD ESTIMATES

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
2.1	Personnel Costs	\$m 4020.3	4114.3	4086.0	4003.9	4044.6
		%	2.3	-0.7	-2.0	1.0
2.2	Defence Equipment and Stores	\$m 3945.0	4133.5	4401.9	4570.6	4597.2
		%	4.8	6.5	3.8	0.6
2.3	Defence Facilities	\$m 485.0	489.2	520.3	529.3	543.8
		%	0.9	6.4	1.7	2.7
2.4	Defence Housing	\$m 16.8	104.6	150.4	154.5	159.2
		%	na	43.8	2.7	3.0
2.5	Defence Industry	\$m 54.3	23.4	19.2	17.9	18.3
		%	-56.9	-17.9	-6.8	2.2
2.6	Defence Science	\$m 244.8	214.9	211.0	223.2	226.7
		%	-12.2	-1.8	5.8	1.6
2.7	Other Defence Outlays	\$m 1237.1	1325.0	1248.6	1349.9	1431.7
		%	7.1	-5.8	8.1	6.1
	TOTAL	\$m 10003.4	10404.8	10637.4	10849.3	11021.5
		%	4.0	2.2	2.0	1.6

1997-98 and forward year allocations do not yet fully reflect the impact of the DRP.

2.1 PERSONNEL COSTS

		1996-97 Estimate	1997-98 Budget	1998-99 Estimate	1999-00 Estimate	2000-01 Estimate
	Defence Force Personnel	\$m 2698.2	2757.3	2728.8	2713.9	2732.4
		%	2.2	-1.0	-0.5	0.7
	Civilian Personnel	\$m 670.8	700.3	713.3	635.4	645.6
		%	4.4	1.9	-10.9	1.6
	Employer Superannuation Contribution	\$m 528.8	524.0	514.1	522.9	532.4
	- Military	%	-0.9	-1.9	1.7	1.8
	Employer Superannuation Contribution	\$m 122.5	132.8	129.8	131.8	134.2
	- Civilian	%	8.4	-2.3	1.5	1.8
	TOTAL	\$m 4020.3	4114.3	4086.0	4003.9	4044.6
		%	2.3	-0.7	-2.0	1.0

Employer Superannuation Contribution

The emerging employer liability for civilian and military staff who are members of Commonwealth superannuation schemes is met by making fortnightly payments to ComSuper, the receipts for which are shown in 1F. *Government Superannuation Benefits*.

2.2 DEFENCE EQUIPMENT AND STORES

Outlays largely provide for an ongoing equipment procurement programme undertaken in accordance with strategic priorities. Outlays on equipment are expected to rise over the budget and forward estimates period and beyond as savings from the DRP become available for new investment.

The subfunction also provides for the acquisition of stores, including ammunition and fuel, required to maintain the operations of the Australian Defence Force (ADF).

2.3 DEFENCE FACILITIES

This subfunction covers the development of bases, airfields, communications, training and other facilities. It also includes the provision of live-in accommodation for single ADF personnel and repairs and maintenance projects costing \$0.25 million or more. It excludes the provision of housing which is mostly provided through the Defence Housing Authority, see 2.4 *Defence Housing*.

2.4 DEFENCE HOUSING

		1996-97	1997-98	1998-99	1999-00	2000-01
		Estimate	Budget	Estimate	Estimate	Estimate
Capital Contributions to Defence	\$m	-71.0	-51.1	-1.2	-1.2	-1.3
Housing Authority	%		-28.0	-97.7	-	8.3
Rent Payments to Defence Housing	\$m	183.9	253.6	254.6	264.2	274.2
Authority	%		37.9	0.4	3.8	3.8
Rent Recoveries	\$m	-97.4	-101.1	-107.2	-113.6	-119.7
	%		3.8	6.0	6.0	5.4
Other Housing Payments	\$m	1.3	3.2	4.2	5.1	6.0
	%		146.2	31.3	21.4	17.6
TOTAL	\$m	16.8	104.6	150.4	154.5	159.2
	%		na	43.8	2.7	3.0

This subfunction covers the cost of providing housing for eligible ADF personnel and their families, largely through the Defence Housing Authority (DHA). DHA administers and maintains some 21,500 dwellings. DHA also has the authority to develop and trade in land and buildings. Dividends from the DHA, which became payable from 1996-97, are included in *Statement 5*.

Capital Contributions to Defence Housing Authority

Capital contributions (including reinvested interest until 30 June 1996) were provided to enable DHA to fund its housing investment programme, including the Government's \$750 million Defence housing improvement programme, which commenced in 1986 and was completed in 1996. This item also includes repayment of the principal of former Commonwealth/State Housing Agreement (Service Personnel) loans taken over by the authority and, up to 1997-98, capital repayments by the authority. DHA also funds its investment programme from retained earnings.

Rent Payments to Defence Housing Authority and Rent Recoveries

Market rents charged by DHA are reviewed annually to reflect current market conditions. Recoveries of rent paid by ADF members under the Group Rent Scheme are based on rank entitlements. Service personnel receive significant rental assistance reflected in the difference between rent payments by the Department of Defence to the DHA and rent recoveries from personnel.

2.5 DEFENCE INDUSTRY

		1996-97	1997-98	1998-99	1999-00	2000-01
		Estimate	Budget	Estimate	Estimate	Estimate
Defence Production	\$m	22.1	17.8	17.6	17.9	18.3
	%		-19.5	-1.1	1.7	2.2
AeroSpace Technologies of Australia	\$m	31.4	4.4	1.6	-	-
	%		-86.0	-63.6	-100.0	na
ADI Limited	\$m	0.8	1.2	0.1	0.1	0.1
	%		50.0	-91.7	-	-
TOTAL	\$m	54.3	23.4	19.2	17.9	18.3
	%		-56.9	-17.9	-6.8	2.2

Defence Production

The item assists defence industry development projects and the participation of Australian industry at various Defence exhibitions in Australia and overseas.

Payments to Australian defence industries for goods and services supplied to the Department of Defence on a commercial basis are included under 2.2 *Defence Equipment and Stores*.

AeroSpace Technologies of Australia

In 1994-95, the bulk of AeroSpace Technologies of Australia Limited (ASTA) was sold by the Commonwealth. Payments arising from the Sale and Purchase Agreement for ASTA are included under this item. Also included in this item are payments and receipts related to the winding up or sale of remaining elements of ASTA.

ADI Limited

This item provides for capital injections and other assistance to ADI Limited. Dividends from ADI Limited are included in *Statement 5*.

2.6 DEFENCE SCIENCE

This item covers the cost of the Defence Science and Technology Organisation (DSTO), which gives advice on the application of science and technology best suited to Australia's defence and security needs.

DSTO seeks to enhance Australian use of future developments in defence-relevant technologies through developing new capabilities where Australia has special needs, and supporting existing capabilities by increasing operational performance and reducing costs of ownership. DSTO also undertakes some commercial activities and participates in a number of Cooperative Research Centres.

2.7 OTHER DEFENCE OUTLAYS

		1996-97	1997-98	1998-99	1999-00	2000-01
		Estimate	Budget	Estimate	Estimate	Estimate
Defence Cooperation Programme	\$m	66.8	67.9	68.3	68.5	69.4
	%		1.6	0.6	0.3	1.3
General Administration	\$m	1522.7	1569.2	1560.3	1602.0	1676.2
	%		3.1	-0.6	2.7	4.6
Recoveries and Repayments	\$m	-352.4	-312.1	-380.0	-320.6	-313.9
	%		-11.4	21.8	-15.6	-2.1
TOTAL	\$m	1237.1	1325.0	1248.6	1349.9	1431.7
	%		7.1	-5.8	8.1	6.1

Defence Cooperation Programme

This programme aims to promote a favourable strategic environment for Australia through the promotion of shared security interests in the Asia-Pacific region. The programme includes training of regional students, professional exchanges, exercises and equipment and facilities projects.

General Administration

This category includes Fringe Benefits Tax, rent, office requisites, compensation and legal expenses, postage and telephones, fuel (but not fuel for Service operational activities) and payments for medical, dental and computer services.

Recoveries and Repayments

Recoveries and repayments include charges made for meals and accommodation at Defence establishments, defence-related recoveries from other governments, proceeds from the sale of under-utilised or surplus properties and reimbursements from the United Nations for part of the costs of overseas peacekeeping deployments. Receipts from sales of former Defence properties that are not attributable to the Defence function are shown under *1E.General Services* and *14E.Asset Sales*.