

Senate Foreign Affairs, Defence and Trade Legislation Committee

**Answers to written questions on notice
DEPARTMENT OF DEFENCE**

Additional estimates 2001—2002; 20–21 February 2002

Fremantle Class Patrol Boats

QUESTION W4

In terms of the existing Fremantle Class patrol boats, have any problems been identified that might contribute to these patrol boats capsizing? If so, what are these problems and what is being done to rectify them? Have concerns been raised over the possibility that the fuel tanks may contribute to the problem?

RESPONSE

The boats are being operated in accordance with RAN standard 'A015866 Stability of Surface Ships and Boats' for 'Ocean Limited' service. 'Ocean Limited' service requires the patrol boats to operate at sea independently, while avoiding centres of tropical weather disturbance but being able to resume duties when conditions abate.

The boats nearly comply with the RAN standard, but there are some deficiencies:

- Intact stability criteria. The patrol boats comply with the intact criteria at Beaufort 9 (41–47 knots average wind speed) but not the required Beaufort 10 (48–55 knots average winds) criteria. While an operational limitation has been placed on the class, this is not a major operational limitation and no action to rectify the deficiency is envisaged.
Damage stability criteria. Although it is unlikely that the patrol boats would capsize due to damage, they do not currently meet the damage stability requirements in the worst case scenario of damage to the engine room and the compartment immediately forward (which contain both pairs of fuel tanks).

A rectification program is being developed for all patrol boats with installation expected to commence in July 2002.

- The two heaviest vessels in the class cannot be modified to comply with the damaged stability requirements without a significant weight reduction program. A top-weight review has been completed and options are being considered.

All other vessels in the class can have the deficiency corrected by changing their fuel usage sequence and installing cross-connection pipework between the aft two fuel tanks. A final design review of the class is being conducted. The heavy vessels will have the cross connection fitted as it improves the stability status of the vessels.

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Budget Adjustments

QUESTION W5

Can the ADO specify all one-off adjustments to the portfolio budget (greater than \$10 million) and their impact on previous and future years, in terms of the rescheduling or transfer of funding. Such one-off adjustments could include the rescheduling of capital acquisitions or property sales, etc. Provide a brief explanation of the rationale for the adjustment.

For example, \$82 million may have been taken out of the 1999–00 budget and replaced in two subsequent budgets.

Can the ADO specify such adjustments made in the years 1999–00, 2000–01 and 2001–02.

RESPONSE

All adjustments to the portfolio budget along with an explanation of each measure are addressed under Budget measures/Additional Estimates measures in the Portfolio Budget Statements (PBS) and Portfolio Additional Estimates Statements (PAES). The relevant adjustments are listed below.

1999–2000 Additional Estimates Measures (PAES 1999–00, p 9)

- *Repayment of 1998–99 borrowing (–\$179m)*
This amount represented the return in 1999–2000 of an advance from the Department of Finance and Administration received in 1998–99. Of the total amount, \$80m related to partial forward payment toward remediation of the Collins-class submarines. The remainder (\$99m) was paid in financial year 1998–99 relating to invoices that were due in the first week of the next financial year (ie July 1999).
- *Rescheduling of urgent operating expenditure (\$100m)*
This included items such as fuel, facilities operations and ammunition (\$90m) and the rescheduling of urgent capital expenditure on information systems (\$10m). These urgent requirements were identified during the Additional Estimates process. These amounts were subsequently repaid to the budget in the context of the 2000–01 Budget process.

2000–01 Budget Measures (PBS 2000–01, pp 17–19)

- *Sales of Defence Property (–\$480.2m)*
The Government agreed to a program of Defence property sales arising from the outcome of a joint Department of Finance and Administration/Defence review. The proceeds from the sale of these properties were to be returned to the Government. Defence was to retain proceeds from other property sales (\$324m over four years) to help offset budgetary pressures.
- *Supplementation for commercial rents*
The Government agreed to a program of Defence property sales arising from the outcome of a joint Department of Finance and Administration/Defence review. Certain properties were to be leased back and this funding was to provide Defence with the rental supplementation for

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the commercial rates charged. This affected the outer years of the 2000–01 Budget (\$20.1m in 2001–02, \$20.7m in 2002–03 and \$21.3m in 2003–04).

- *Increasing operational availability of Reserves (\$20m)*
Additional funding was provided to enhance the attractiveness and proficiency of the Reserves. Initiatives to increase the operational availability of the Reserves and to support their employers were also being considered by the Government.
- *Achievement of improved submarine capability (\$128m)*
Funding was provided for the enhancement of two Collins class submarines. This reflected the Government's acceptance of the McIntosh/Prescott Report that further remedial work be undertaken on the Collins class submarines as matter of priority. The enhancement was due to be completed by December 2000.

2001–02 Budget Measures (PBS 2001–02, pp 19–20)

- *Defence and Surplus East Timor Funds*
Surplus East Timor funds of \$100m in 2001–02 and \$70m in 2002–03 were allocated to Defence.

2001–02 Additional Estimates Measures (PAES 2001–02, pp 11–13)

- *Re-phasing of Capital Return to the Government (–\$561.8m)*
Defence was scheduled to make a return of capital to the Government in 2001–02 from the sale of property assets. As a result of delays and ongoing examination of relevant issues, \$561.8m of asset sales to be returned to the Government is now expected to occur in 2002–03.
- *Lease-back of Sold Accommodation (–\$16m)*
Delays in disposal action for a number of accommodation properties have led to a decrease in the requirement for Defence to meet lease costs for properties planned to be sold and leased back. There is no impact on the Forward Estimates.
- *New Operations (\$339m)*
The Government has provided \$339m in new funding for specific additional costs of new operations that cannot be readily absorbed. The \$339m includes \$19m for operations to protect Australia's northern and western borders from unauthorised boat arrivals and \$320m to contribute to the international coalition fighting terrorism. The Government will consider funding issues for 2002–03 in the context of the emerging scope, length and intensity of these operations.
- *Enhanced Domestic Security (\$31m)*
The Government has committed to an enhanced counter-terrorist capability following last September's terrorist attacks on the United States (\$23m). The Government will consider options for 2002–03 for this enhanced capability. Defence also provided further security and other support to the Commonwealth Heads of Government Meeting in March 2002. While most of these costs are being absorbed from existing activities to maintain capability,

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additional funding of \$8m has been provided to meet those new costs which cannot be readily absorbed.

- *Papua New Guinea Defence Rebuilding Program (\$20m)*
The Government has provided \$20m in assistance to the commencement of a Papua New Guinea Defence Rebuilding Program. The Program will include initiatives to reform and downsize the Papua New Guinea Defence Force, development of an effective personnel management database, improving financial management practices, and increasing joint Papua New Guinea Defence Force/ADF activities.
- *Increased Defence Security (\$27m)*
Defence's own security posture has increased because of the heightened state of security globally since the terrorism attacks of September last year. It has implemented measures to enhance protection of personnel and facilities in more than 800 premises in 377 locations—in Australia and overseas. The Government will consider funding options for 2002-03.

3% Real Growth
QUESTION W6

The Government has indicated that over the decade 2001–2010 there will be on average 3% real growth in the Defence budget per annum.

- a) When does this average 3% per annum real growth begin? In the 2001–02 year, which represents the first full year after the White Paper was released? Does the budget for 2000–01 effectively form the baseline for these increases?
- b) In measuring the 3% real growth is this calculated on the Government appropriations for outputs plus the equity injection minus the capital use charge?
- c) Specify what is used as the annual index to determine this 'real' growth? For example, is it a form of CPI? What is the index composed of?
- d) What was the value of this annual index in the years 1998–99, 1999–00 and 2000–01? What is the projected value of this index for 2001–02, 2002–03, 2003–04 and 2004–05?
- e) Was it on the basis of this index that the Defence budget was previously set at 0% real growth? That is, was this index previously used to calculate the increase needed to maintain the real value of the Defence budget?
- f) Are the figures included on pages 22 and 23 in the Liberal Party's 2001 Election document 'Strengthening Australia's Defences' the same funding figures that exist within ADO for the ten years from 2001–02 to 2010–11?
 - Were those figures publicly available prior to the election?

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- a) Average three per cent per annum real growth begins in 2001–02. Specific increases each year have regard to actual new capability requirements, but average a three per cent increase over each financial year of the next decade. This does not include additional funding from 2004–05 to maintain forces generated for the East Timor deployment.
- b) Yes.
- c) The annual index used to determine the necessary adjustments to the Defence funding base is the Implicit Price Deflator—Non Farm Gross Domestic Product. Real growth is in addition to the revised base.

- d) Implicit Price Deflator—Non Farm Gross Domestic Product

1998-99	1999-2000	2000-01	2001-02 (est)
%	%	%	%
0.7	1.8	4.5	2.3

Estimates for 2002–03, 2003–04 and 2004–05 are not available.

- e) Prior to the 2001–02 Budget, a basket of indexation factors, including CPI and a range of implicit price deflators, was used to adjust the Defence Budget. From the 2001–02 budget formulation onwards, Defence’s price adjustments are based on a single index—the non farm gross domestic product deflator. This change in policy reflected a simplification of the price adjustment mechanism and the adoption of a single index that reflected, in aggregate, the domestic price influences that Defence experiences.
- f) The figures included on pages 22 and 23 in the Liberal Party’s 2001 Election document ‘*Strengthening Australia’s Defences*’ are the same figures used in developing Defence’s 2001–02 Budget.

The figures were publicly available prior to the election as they are included in the *Portfolio Budget Statements 2001–02*, published on 17 May 2001 and outlined in responses to questions at Senate hearings into the 2001–02 Budget.