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The Parliament of the Commonwealth of Australia

# Review of the Defence Annual Report 2003-04

Joint Standing Committee on Foreign Affairs, Defence and Trade

Canberra  
September 2005

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## Cover Photos:

Locals help to unload an Australian Navy Sea King helicopter, Shark 21 from HMAS Kanimbla, which carried relief supplies of rice, water and tents to the isolated village of Aluebata, Aceh Province.

SGT Karen King of the Army Security Detachment Baghdad engages with local children near the Australian Embassy Iraq 2003

A Royal Australian Air Force (RAAF) AP-3C Orion, of 92 Wing, jettisons flares during a trial of electronic warfare self-protection systems in preparation for deployment to the Middle East .



## Foreword

During the period July 2003 to June 2004, Defence has been subject to a range of external and internal challenges. The *Defence Update 2003* highlighted the changed strategic environment in which the Australian Defence Force (ADF) operates. In particular, the rise of global terrorism and the threat of non-state actors is causing Defence to reassess its capabilities. The new Defence Capability Plan (DCP) provides detailed information on the capabilities that Defence will acquire during the next 10 years.

Defence has embarked on an ambitious program of reform to its procurement arising from the Kinnaird Report. These reforms culminated when the Defence Material Organisation (DMO) became a separate prescribed authority on 1 July 2005, headed by Dr Stephen Gumley. In addition, a Capability Development Group (CDG), headed by Lieutenant General David Hurley, has been formed within Defence for the purpose of better defining capability requirements and advising DMO of specific capability needs. This procurement reform is the first of four topics explored by the Committee as part of the review of the *Defence Annual Report 2003-04*. The Committee found mixed progress on major procurement projects but overall noted significant improvement to the process by which capability requirements are identified and briefed to Government.

Topic two examines Australia's future amphibious capability. The current DCP states that two large amphibious ships will be purchased to replace Australia's current amphibious capability. ASPI argues very strongly that it may be more effective to purchase four smaller amphibious vessels, rather than two large ships. The Committee notes ASPI's arguments that a larger number of smaller ships may be more effective in some circumstances but accepts the comprehensive nature of the Navy and Defence analysis which shows that the acquisition of two larger ships to be more efficient, in both operational capability and cost-effectiveness, over the life of the project. In addition Defence's decision to procure two large ships was based on their capacity to embark an Army combined arms battle group and deliver this force ashore more rapidly and effectively than would be possible from smaller platforms.

The management of Defence's budget continues to be problematic. In part difficulties stem from the transition to accrual accounting standards, but other procedural and cultural difficulties remain. The Department of Defence is a complex organisation, designed in the first instance to support operational activities such as the deployment of the Al Muthanna Task Group. However, like other government agencies, Defence must comply with Australian Accounting Standards and to demonstrate transparency and accountability to the Parliament. Defence's budget remains qualified and, while a significant amount of work is being done to rectifying these concerns, much room for improvement remains. Defence's qualified financial statement, and the steps the Department is taking to remedy this situation are examined in topic three. In its review the Committee notes that the Defence leadership have been particularly frank about the nature and extent of the problems they face and that significant progress has been made on reforms. The Committee makes some recommendations in this section intended to assist Defence in prioritising resources while seeking to meet the requirements of the Financial Management Act. These recommendations are based on the need to stratify the data held by Defence to ensure money is not wasted seeking old audit data that has not been retained.

The final topic examines Defence's capability for humanitarian relief operations. The most recent example of the ADF capacity for relief operations came during the exemplary response to the Tsunami on Boxing Day 2004. During the hearing, Defence detailed the extent of its humanitarian relief capabilities and their relationship to Defence's key war-fighting objectives. The Defence balance of capabilities, designed for war-fighting but suited to relief operations, is considered appropriate. The Committee concluded this section of the inquiry by commending the ADF for its performance on humanitarian relief operations throughout Australia and our region.

To conclude this review of the *Defence Annual Report 2003-04* the CDF, General Peter Cosgrove, and the Secretary, Mr Ric Smith, made themselves available for a wide-ranging discussion on current issues in the Department. In this section the Defence leadership demonstrated a high level of cohesion and left the Committee confident the reforms described in other sections of the report were being allocated sufficient priority.

Finally, the Committee offers its sympathy to the families and friends of the crew of Sea King Helicopter 'Shark 02' for the tragic loss of their loved ones in Aceh. The loss of this fine group of service men and women highlights the dangers faced by all ADF personnel and confirms the need to ensure the ADF receives the best equipment and support our nation can afford.

**Hon Bruce Scott, MP**  
**Chairman**  
**Defence Sub-Committee**



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## Membership of the Committee

Chair Senator A B Ferguson

Deputy  
Chair Hon G J Edwards, MP

Members Senator the Hon N Bolkus (to 30/6/05) Hon D F Jull, MP  
Senator G. Campbell (from 23/6/05)  
Senator the Hon P Cook (to 30/6/05) Hon J E Moylan, MP  
Senator A Eggleston Hon G D Prosser, MP  
Senator B Harradine (to 30/6/05) Hon B C Scott, MP  
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Senator D Johnston Hon W E Snowdon, MP  
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Mrs T Draper, MP  
Mrs J Gash, MP  
Mr S W Gibbons, MP  
Mr B W Haase, MP  
Mr M Hatton, MP

Secretary Dr Margot Kerley



## Membership of the Defence Sub-Committee

Chair	Hon B C Scott, MP	
Deputy Chair	Mr M Hatton, MP	
Members	Senator A B Ferguson (ex officio) Senator S Hutchins Senator D Johnston Senator J A L Macdonald (to 23/6/05) Senator M A Payne	Mr R C Baldwin, MP Mrs T Draper, MP Hon G J Edwards, MP (ex officio) Mrs J Gash, MP Mr S W Gibbons, MP Mr B W Haase, MP Hon W E Snowdon, MP Mr C.P. Thompson, MP Mr B Wakelin, MP Mr K W Wilkie, MP
Secretary	Dr Margot Kerley	
Research	Ms Jennifer Cochran	
Defence Adviser	Lieutenant Colonel Fergus McLachlan	
Admin Officers	Mr Paul Jeanroy Mrs Jessica Butler	



## Terms of reference

Pursuant to paragraph 1 (b) of its resolution of appointment, the Joint Standing Committee on Foreign Affairs, Defence and Trade is empowered to consider and report on the annual reports of government agencies, in accordance with a schedule presented by the Speaker of the House of Representatives.<sup>1</sup>

The Speaker's schedule lists annual reports from agencies within the Defence and Foreign Affairs portfolios as being available for review by the Committee.<sup>2</sup>

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<sup>1</sup> See *Votes and Proceedings*, No. 3, 18 November 2004 and *Journals of the Senate*, No. 3, 18 November 2004.

<sup>2</sup> Speaker's Schedule: Allocation to Committees of Annual Reports of Departments, Agencies, Authorities and Companies, 2004, p. 17. See *Votes and Proceedings*, No. 9, 7 December 2004.



## List of abbreviations

AACAP	ATSIS Army Community Assistance Program
ADA	Australia Defence Association
ADF	Australian Defence Force
ADO	Australian Defence Organisation
AEWC	Airborne Early Warning and Control
ANAO	Australian National Audit Office
APS	Australian Public Service
ASLAV	Australian Light Armoured Vehicle
ASPI	Australian Strategic Policy Institute
AVO	Australian Valuation Office
CDF	Chief of Defence Force
CDG	Capability Development Group
CN	Chief of Navy
DAR	Defence Annual Report
DIO	Defence Intelligence Organisation
DCP	Defence Capability Plan
DMO	Defence Materiel Organisation
DSTO	Defence Science and Technology Organisation
EO	Explosive Ordnance
JSF	Joint Strike Fighter
Kinnaird Review	The Defence Procurement Review 2003

LPA	Landing Platform Amphibious
LPD	Landing Platform Dock
MOLE	Manoeuvre Operations in the Littoral Environment
MBTs	Main Battle Tanks
PBS	Portfolio Budget Statements
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RRF	Reserve Response Force
SDSS	Standard Defence Supply System
SMEs	small and medium enterprises
STOVL	Short Take-off Vertical Landing
TAG	Tactical Assault Group



# List of recommendations

## Recommendation 1

The committee recommends that initiatives to increase the number and tenure of military officers posted to the DMO and DIO are closely monitored to ensure that individual officers are not left bearing the cost of these organisational demands through reduced career progression or posting opportunities to command or operational deployments.

## Recommendation 2

The committee recommends that Defence seek to stratify inventory pricing data, drawing a line under old inventory for which pricing data cannot be found in order to prevent the wasteful expenditure of commonwealth funds in seeking records of values that are unlikely to exist.

## Recommendation 3

The committee recommends that Defence analyse the Standard Defence Supply System (SDSS) to determine whether it has the capacity to cope with the significant upgrades required to meet best practice, or whether an alternate system is available that better meets the requirements of Defence practitioners and the audit legislation.

## Recommendation 4

The committee recommends that Defence seek to stratify valuation data for Explosive Ordnance, seeking to identify points from which valuation records can be trusted, and then writing off the value of ordnance which predate current record keeping requirements, in order to prevent the waste of further resources in seeking old valuations that are unlikely to be found.

**Recommendation 5**

The committee recommends that military leave discrepancies be resolved by accepting current leave balances, after a 30 day warning period but that a process of appeal be established to ensure any grievances can be processed equitably.

**Recommendation 6**

The Committee recommends that Defence continue to invest heavily in training in critical trade areas, including reconsideration of technical trade apprenticeships for school leavers.

## Introduction

- 1.1 During the period July 2003 to June 2004, Defence has been subject to a range of external and internal challenges. The *Defence Update 2003* highlighted the changed strategic environment in which the Australian Defence Force (ADF) operates.<sup>1</sup> In particular, the rise of global terrorism and the threat of non-state actors is causing Defence to reassess its capabilities. The new Defence Capability Plan (DCP) provides detailed information on the capabilities that Defence will acquire during the next 10 years.
- 1.2 Defence has embarked on an ambitious program of reform to its procurement arising from the Kinnaird Report.<sup>2</sup> The Defence Material Organisation (DMO) will become a separate prescribed authority headed by Dr Stephen Gumley. In addition, a Capability Development Group (CDG) was formed within Defence for the purpose of defining capability requirements and advising DMO of specific capability needs.
- 1.3 The management of Defence's budget is critical. Defence has a large complex system and like other government agencies must demonstrate transparency and accountability to the Parliament. Defence's budget is qualified and a significant amount of work is being done on rectifying these concerns.
- 1.4 At the same time that these internal reforms are occurring, Defence has personnel deployed on operations in areas such as Iraq, the Solomon Islands and East Timor. In addition, ADF personnel have, at short notice, been called to provide humanitarian assistance following the tragic Tsunami on Boxing Day 2004.

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1 Department of Defence, *Australia's National Security, A Defence Update 2003*, March 2003.

2 Department of Prime Minister and Cabinet, *Defence Procurement Review 2003*, 15 August 2003.

- 1.5 The four topics selected for examination, as part of the review of the *Defence Annual Report 2003-04*, cover some of these issues. The first topic examines reforms to the Defence procurement system. In particular, the changes to the DMO and the developing relationship between the DMO and the CDG will be explored.
- 1.6 Topic two examines Australia's future amphibious capability. The current DCP has confirmed that two large amphibious ships will be purchased to replace Australia's current amphibious capability. Some groups such as ASPI suggest that it may be more effective to purchase four smaller amphibious vessels rather than two large ships. This issue will be examined as part of this topic.
- 1.7 Defence's qualified financial statements, and the steps Defence is taking to improve this situation are examined in topic three.
- 1.8 The final session examines Defence's range of humanitarian relief operations. The most recent example is Defence's contribution following the Tsunami on Boxing Day 2004. Defence will detail the extent of its humanitarian relief capabilities and their relationship to Defence's key war fighting objectives.

## **Defence objectives, personnel and 2004-05 Budget allocation**

- 1.9 The Portfolio Budget Statements (PBS) 2004-05 provides information on the overall Budget allocation and key initiatives. Defence's strategic objectives are influenced by the strategic principles set out in *Defence 2000 – Our Future Defence Force* (the Defence White Paper) and in *Australia's National Security: A Defence Update 2003* (the Defence Update 2003). Defence states that the principles set out in these documents 'remain a valid framework for addressing Australia's defence policy.'<sup>3</sup> This point was reiterated in the Defence Update with the comment that 'while the principles set out in the White Paper remain sound, some rebalancing of capability and expenditure will be necessary to take account of changes in Australia's strategic environment.'<sup>4</sup>
- 1.10 As outlined in the White Paper, there are five strategic objectives to which Defence contributes:
- ensuring the defence of Australia and its direct approaches;

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3 Defence Portfolio, *Portfolio Budget Statement 2004-05*, p. 3.

4 Department of Defence, *Australia's National Security, A Defence Update 2003*, February 2003, pp. 5-6.

- fostering the security of Australia's immediate neighbourhood;
- promoting stability and cooperation in Southeast Asia;
- supporting strategic stability in the wider Asia-Pacific region; and
- supporting global security.

1.11 In relation to capability, Defence states:

The training and skill levels of the ADF will be suitable for providing the nucleus for an Australian-led coalition force, or for providing a commitment to other coalitions. Consequently, the ADF will be able to operate in the maritime, air and land environments both separately and jointly.<sup>5</sup>

1.12 The ADF is maintaining a force structure that comprises the following combat elements:

- a surface combatant force of six guided missile frigates (FFGs) which will be reduced to four from 2006, and five Anzac-class frigates (rising to eight by 2006), together with onboard helicopters;
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships and one heavy landing ship;
- a mine hunter force comprising six coastal mine hunters (two of which are to be placed in extended readiness from 2006) and a hydrographic force comprising two hydrographic ships;
- an afloat support force comprising one oil tanker (to be replaced by 2006 with a more environmentally-friendly double-hulled tanker) and one replenishment ship;
- five Army Infantry Battalions at 90 days readiness or less, an ASLAV Cavalry Regiment, and a Tank Regiment, each supported by a range of armour, aviation, engineer, artillery, logistics and transport assets, and a number of lower-readiness formations and units able to provide personnel for sustainment and rotation;
- a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
- three Regional Force Surveillance Units;
- a Special Force Group consisting of a Special Air Service Regiment, a regular Commando Regiment, a reserve Commando Regiment, an Incident Response Regiment and a combat service support company;
- an air combat force of three front-line F/A-18 Squadrons and one operational F-111 Squadron (to be retired from service by about 2010),

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5 Defence Portfolio, *Portfolio Budget Statement 2004-05*, p. 3.

supported by training squadrons, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements. Airborne Early Warning and Control aircraft will be deployed from 2007 and new operational air-to-air refuelling aircraft from late 2006;

- a maritime patrol force of two front-line P-3C Orion Squadrons; and
- agencies responsible for intelligence collection and analysis.<sup>6</sup>

1.13 Defence commented that these 'major combat elements are being progressively more integrated and informed through a number of command, communications and intelligence systems.'<sup>7</sup>

1.14 For 2004-05 the most recent Budget estimates for Defence are shown in the PBS. Table 1.1 reproduces the key information.

Table 1.1 Defence Resourcing Summary – 2004-05

	<b>2003-04 Actual Result \$000</b>	<b>2004-05 Budget Estimate \$000</b>
Revenue from Government for outputs	14,636,157	15,625,941
Own source revenue	428,849	330,562
Equity injection from Government	706,334	299,025
Net Capital receipts	101,961	91,980
Administered appropriation	2,319,500	2,336,900
<b>Total Defence resourcing</b>	<b>18,192,801</b>	<b>18,684,408</b>

*Notes*

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

*Source* Defence Portfolio Budget Statement 2004-05, p. 23; Defence Annual Report 2003-04, p. 37.

1.15 The average annual strength of the three services for the five years from 2000-01 through to 2004-05 is shown in Table 1.2 below.

<sup>6</sup> Defence Portfolio, *Portfolio Budget Statement 2004-05*, pp. 4-5.

<sup>7</sup> Defence Portfolio, *Portfolio Budget Statement 2004-05*, p. 5.

Table 1.2 Average Annual Strength of Services (number of persons) – 2000-01 to 2004-05

	2000-01	2001-02	2002-03	2003-04 Actual result	2004-05 Budget estimate
Navy	12,396	12,598	12,847	13,133	13,167
Army	24,488	25,012	25,587	25,446	26,035
Air Force	13,471	13,322	13,646	13,455	13,670
<b>Total Permanent Force</b>	<b>50,355</b>	<b>50,932</b>	<b>52,080</b>	<b>52,034</b>	<b>52,872</b>

Source Defence Annual Report 2003-04, p. 260; Defence Portfolio Budget Statements 2004-05, p. 205.

1.16 ADF Reserve and civilian staffing is shown in Table 1.3.

Table 1.3 2004-05 ADF Reserve and civilian staffing

Reserve Force	2003-04 Actual result	2004-05 Budget Estimate
Navy	1,881	1,850
Army	16,445	16,700
Air Force	2,162	2,160
<b>Total Reserve Force</b>	<b>20,448</b>	<b>20,710</b>
Civilian Staffing	18,303	17,841

Source Defence Portfolio Budget Statements 2004-05, p. 206; Defence Annual Report 2003-04, pp. 260-261.

1.17 Table 1.4 shows the total Defence workforce comprising the military and civilian components.

Table 1.4 2004-05 Total Defence Workforce

Workforce	2003-04 Actual result	2004-05 Budget Estimate
Military	72,522	73,582
Civilian	18,303	17,841
Professional service providers	1,878	n/a
<b>Total Workforce</b>	<b>92,703</b>	<b>91,423</b>

Source Defence Portfolio Budget Statements 2004-05, p. 205; Defence Annual Report 2003-04, p. 263. Professional Service Providers are individuals under contract filling line positions. This category of worker was not tracked until 2003-04.

## Annual Report review objectives and scope

1.18 The review examines a combination of information from the PBS 2004-05 and the Defence Annual Report 2003-04.

### Focus areas

1.19 The four focus areas selected for scrutiny at the public hearing provided an opportunity to examine how Defence is addressing the new strategic environment as articulated through the Defence Update and the Defence Capability Review. The four focus areas were:

- reforms to the DMO;
- Australia's future amphibious requirement.
- the adequacy of Defence's financial statements; and
- Defence's contribution to humanitarian relief operations.

1.20 In addition, the Secretary of Defence and the Chief of the Defence Force attended the hearing. The session with the dual leaders of the ADO provided an opportunity to scrutinise a range of issues across the entire Defence Annual Report.

## Defence Procurement Reforms

### Background

- 2.1 In August 2003 Mr Malcom Kinnaird, AO, reported to the Secretary of the Department of the Prime Minister and Cabinet that significant reform was necessary to the processes by which defence capabilities were assessed, acquired and maintained.<sup>1</sup> His recommendations were contained in *The Defence Procurement Review 2003* (the Kinnaird Review).
- 2.2 The review stated that 'continuing delays in the delivery of major defence equipment mean that the ADF has failed to receive the capabilities it expects, according to the schedule required by Government.' Kinnaird stated:
- ...that fundamental reform was necessary but there was no single remedy. As the body responsible for the management of major projects, the Defence Materiel Organisation (DMO) needs to become more business like and outcome driven. But reform must extend beyond the DMO. It is clear that change is needed at each stage of the cycle of acquisition and whole of life management of the equipment that comprises the core of defence capability.<sup>2</sup>
- 2.3 Kinnaird made a number of recommendations about reforming the processes by which defence capabilities were assessed, acquired and maintained. The most significant of these were as follows:

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1 Department of Prime Minister and Cabinet, *Defence Procurement Review 2003*, 15 August 2003, p. iii

2 Department of Prime Minister and Cabinet, *Defence Procurement Review 2003*, 15 August 2003, p. iii

- Defining and Assessing Capability. A single point of contact is needed to provide better integration of the capability definition and assessment process. A three star officer should be appointed to this role on a full time basis with a fixed tenure.
- A Strengthened Two Pass System. The process of capability definition and assessment was being applied in a less than disciplined manner resulting in poor advice to Government. This process should be mandated to ensure greater analytical rigour to ensure cost, schedule and technology advice to Government is accurate.
- Establish an Advisory Board. To ensure reforms are actioned and to provide advice and support to the head of the DMO an Advisory Board should be appointed which should report independently to the National Security Committee of Cabinet.
- Separate Identity for the DMO. In order to complete the transformation of the DMO into a more business-like organisation it was recommended the DMO become an executive agency in its own right.<sup>3</sup>

## Defence Response

- 2.4 Defence acted quickly to implement the Kinnaird recommendations through a series of initiatives across the department. The reforms address the total capability cycle, from strategic intent, through to sustainment and then disposal of the asset. During the public hearing Defence described the intent of their reforms as being to make the department 'more business like, accountable and outcome driven'.<sup>4</sup>

## Capability Development Group

- 2.5 A new Capability Development Group (CDG) was formed on 1 July 2004, to act as the single point of contact proposed by Kinnaird, to provide better integration of the capability definition and assessment process. This process, referred to as the 'two pass' process by Kinnaird, is the process through which Government is prepared for its role in capability selection with accurate advice regarding emerging technologies, the cost of capabilities and realistic delivery schedules.
- 2.6 The CDG was formed by amalgamating previously dispersed Defence Capability elements and is headed by Lieutenant General David Hurley.

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3 Department of Prime Minister and Cabinet, *Defence Procurement Review 2003*, 15 August 2003, pp. iv-ix.

4 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 2.

During the public hearing Defence reported on the progress made by the CDG when it stated:

In accordance with what we were required to achieve, we have completed the first version of the defence capability strategy. We have developed and agreed with the central agencies and confirmed in the cabinet handbook the two-pass process. We have introduced new cost estimation processes. We have moved through to the integration of simulation and test and evaluation in the pre second-class process. We are now developing materiel acquisition agreements with the Defence Materiel Organisation for each project. We have established a rapid prototype and development entity with industry to help us in the development process. We are on track in regard to the recommendations in the Kinnaird review.<sup>5</sup>

2.7 The CDG works closely with a wide range of stake holders, both internal and external to Defence, and is required to develop a close partnership with the DMO to ensure effective implementation of the Kinnaird recommendations and efficient and timely delivery of capability to Defence. When asked to report on the developing relationship between the CDG and DMO, Defence described tools and mechanisms to formalise the relationship between the two organisations. In addition management processes have been introduced to reduce any friction that emerged due to potential conflict over limited resources.

2.8 The principal tool used to formalise the relationship between the two procurement agencies is the Materiel Acquisition Agreement. Defence stated:

In general terms, it is a 'contract' between DMO and my organisation [CDG], essentially defining what we are trying to deliver in a project, the aim of the project; the path we are going to take to get to a decision by government; and the services and support I need from DMO to help me bring that to fruition. So that could be anything from cost estimation support to going out and discussing with industry what is available out there, helping us to put the package together....About 65 per cent or so are completed now. The aim is to have all projects with an acquisition agreement by 1 July this year.<sup>6</sup>

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5 LTGEN David Hurley, Chief Capability Development Group, Department of Defence, *Transcript*, p. 2.

6 LTGEN David Hurley, Chief Capability Development Group, Department of Defence, *Transcript*, pp 7-8. .

## Defence Materiel Organisation

- 2.9 In addition to the creation of the CDG, significant reforms continued at the DMO. The DMO is staffed by 4,400 APS personnel and approximately 1,700 ADF members. The DMO was responsible for the management of 248 major capital equipment projects as at 30 June 2004 with a total budget of \$52 billion. From 1 July 2005 the DMO will be established as a prescribed agency under the *Financial Management and Accountability Act 1997*.
- 2.10 In February 2004, Dr Steven Gumley was appointed as Chief Executive Officer of the DMO. Dr Gumley has initiated a program of reform that will professionalise the organisation's workforce, improve contract management, standardise business practice and improve its relationship with business.<sup>7</sup>
- 2.11 During the public hearing Dr Gumley described six themes being used in the DMO to change the culture of the organisation: professionalising, reprioritising, standardising, benchmarking, improving industry relationships and leading reform in Defence. He described progress against each of these reform themes:

We keep running those six themes, and we have built them out into 25 or 26 different programs. For example, on 'professionalising', we think it is good that engineers in the DMO become chartered professional engineers, where they have an obligation for continuing professional development. About 180 of our engineers are embarking on a program at the moment. On 'standardising', when I first got to DMO, I found that there were 240 different major projects being done approximately 243 different ways. Of course, that is not efficient in anyone's language. So we are now standardising how we deliver the projects... We are also benchmarking ourselves against the equivalent defence procurement organisations in the United States, Britain, France and Canada. I think our results are not too bad. I think we are batting quite well, compared to our equivalents overseas.<sup>8</sup>

## General Reforms

- 2.12 The committee then explored a number of additional issues relating to Defence procurement reform. Defence described the ability of the CDG and DMO to combine to make rapid acquisitions to meet urgent

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<sup>7</sup> Department of Defence, *2003-04 Defence Annual Report*, November 2004, p. 19.

<sup>8</sup> Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 4.

operational requirements, citing as an example the impending deployment to the Al Muthanna province of Iraq. Defence also reported on initiatives to maintain the security of intellectual property when contracting with large corporations for defence equipment. Defence cited the case of the Eurocopter MRH-90 helicopters as an example of a contract being negotiated to include whole-of-life sustainment and intellectual property clauses.

- 2.13 One of the last of the major Kinnaird recommendations was the proposed development of a Defence Procurement Advisory Board. The purpose of this board is to provide advice to the CEO of DMO regarding best practice in a range of public and private enterprises. Defence reported excellent progress against this recommendation:

One of the real advantages we have at the moment is the DMO advisory board, which is working particularly well. It must be a very rare body that has four leading private sector people, three departmental secretaries and a Chief of the Defence Force all on the same board. There is a wonderful yin and yang between the private and public sectors in that. I think we are steering that middle road very nicely at the moment. The board is very useful to me.<sup>9</sup>

- 2.14 A common point of friction in projects has been unmatched expectations between Defence and industry in relation to procurement projects. Defence was asked to report on progress improving DMO's relationship with industry. Defence stated:

I think we are getting more realistic in our approach with industry on contracting. The data showed that about half the problems for the schedule delays were actually caused by industry, and half by Defence... The chief executives of most of the major defence companies and the division heads from DMO worked collaboratively for six months to come up with the new contracting templates... That agreed position has now ended up in the DMO contracting templates, AUSDEFCON. They were released on the web on 25 February this year. I guess the message is that we are all just going to get on with it now.<sup>10</sup>

- 2.15 Defence continued on the theme of improving industry relationships:

On 'improving industry relationships', the real issue is something I call 'level loading'. One of the hardest things for the defence industry to handle is peaks and troughs. One of the most

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9 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 5.

10 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 3.

important things we can do for the defence industry in this country is to reach longer-term contracts with them so that they can afford to invest higher, or further, in their people and their infrastructure. That will lead to a much more robust industry in the future. In other words, giving more certainty is very important to ensuring that we have long-term capability.<sup>11</sup>

- 2.16 Defence was asked to report on policies, initiatives and some outcomes in relation to maximising the opportunities for Small and Medium sized Enterprises (SMEs). Defence stated:

We in Defence feel that it is important to get a balance of work between the SMEs and the primes. We would not want the primes doing all the work. On the other hand, the SMEs have to have the project management experience to do the big projects. So it becomes a balance. We are very concerned to see Australian SMEs in particular do very well in the defence market.<sup>12</sup>

- 2.17 Defence was asked to expand further on the means by which SMEs can bring their products to the attention of Defence. Defence stated:

We have done something about that. The SME portal has now been set up. We set up an SME portal in the industry division of DMO, which is like a first-stop shop. When someone has a good idea or they want to introduce their company, they can come in through the portal and they will get assistance on where to go next and how to go about it. We cannot do their business for them, but we can help and guide them in directions where they might be able to do business themselves.<sup>13</sup>

- 2.18 The committee is aware of a number of competing demands for uniformed officers from the three services. Defence was asked about the number and quality of staff available to the DMO, and in particular those with military experience. Defence stated:

The military people are extremely important in DMO because they have the domain knowledge. If I could have more, I would. They are rationed. I find that the military add an enormous amount to the DMO. It would be a much weaker organisation if we did not have them. The only problem has been the very short posting cycle—that is, the two-year posting cycle. Under the new military staffing plan, which was signed off by the DMO advisory board, the Chief of Defence Force, the secretary and the minister, we are

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11 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 4.

12 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 3.

13 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 14.

now moving to four-year posting cycles in the DMO for the senior positions—Major and above. We think that is going to fix the one remaining defect of having the military working in DMO. That policy started taking hold last November, and it will be fully in place for the next posting cycle decisions in September-October.<sup>14</sup>

## Conclusions

- 2.19 The committee notes the significant reforms enacted by Defence to achieve the Kinnaird recommendations. These reforms have been adopted across Defence, though they are most clearly shown by the formation of Capability Development Group (CDG) and by changes to the Defence Materiel Organisation.
- 2.20 Progress against the major acquisition projects in Defence is still mixed. A number of difficult legacy projects remain from the period which caused Kinnaird to report that 'continuing delays in the delivery of major defence equipment mean that the ADF has failed to receive the capabilities it expects, according to the schedule required by Government.'<sup>15</sup> These include but are not limited to the guided missile frigate (FFG) upgrade, the Sea Sprite helicopter acquisition.
- 2.21 On the other hand, more recent projects are performing very well. The Airborne Early Warning and Control (AEWC) aircraft are progressing according to contract schedule and the Tiger helicopter has commenced delivery on time and on budget. The Australian Light Armoured Vehicle (ASLAV) is another very successful project which has demonstrated the ability of the DMO to support the system through its life, procure additional systems and then rapidly upgrade those systems in response to a particular threat during ongoing operations in Iraq.
- 2.22 The committee notes that projects with demanding requirements for systems integration continue to contain the most risk of cost or schedule overrun. Improved concept development in the CDG and better contracting at the DMO have the potential to deliver significant improvements against both these risk areas – timely progress given the scale and risk involved with the impending Air Warfare Destroyer project.
- 2.23 The more realistic relationship the DMO has established with industry is also a significant achievement. Shared blame for various weaknesses in the earlier relationships has been acknowledged and a path forward has

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14 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 15.

15 Department of Prime Minister and Cabinet, *Defence Procurement Review 2003*, 15 August 2003, p. iii

been agreed. DMO contracting templates will provide consistency for industry and 'level loading' will allow industry to minimise peaks and troughs in their business cycle. SME are acknowledged for their innovation but are now expected to be sufficiently robust to be considered reliable business partners. The SME portal and concept demonstration activities will provide an opportunity for these enterprises to gain exposure, both by the DMO and by the larger prime contractors.

- 2.24 The committee also noted the DMO comment regarding the value of uniformed officers in the DMO and the results of the recently signed military staffing plan. The committee retains reservations regarding the ability of the uniform component of the ADO to concurrently meet the increasing requirements for uniformed personnel in the DMO, the DIO and reduce existing officer shortages in headquarters and units around the ADF. It is understood the various proposed reforms draw on different skill sets or groups of officers but when taken together they result in significant pressure on the officer corps of all three services. The committee is therefore concerned that individual officers may be left bearing the cost of these organisational demands through reduced career progression or posting opportunities to command or operational deployments.

### **Recommendation 1**

- 2.25 **The committee recommends that initiatives to increase the number and tenure of military officers posted to the DMO and DIO are closely monitored to ensure that individual officers are not left bearing the cost of these organisational demands through reduced career progression or posting opportunities to command or operational deployments.**

# Australia's Future Amphibious Requirement

## Background

3.1 In February 2003 the Minister for Defence released *Australia's National Security: A Defence Update 2003*. The review canvassed the implications of the changed strategic environment for Australia's defence posture. The review found that the threat of direct military attack on Australia had decreased but in other ways certainty and predictability had decreased.<sup>1</sup> As a result the update called for an increased emphasis on readiness and mobility, interoperability, the development and enhancement of new capabilities, and in some cases a reduced emphasis on some less important capabilities. In particular, the Government paper reinforced the requirement to undertake offshore deployments when it stated:

The changed global strategic environment and the likelihood that Australian national interests could be affected by events outside of Australia's immediate neighbourhood mean that ADF involvement in coalition operations further afield is somewhat more likely than in the recent past. ... These new circumstances indicate a need for some rebalancing of capabilities ... changes which will ensure a more flexible and mobile force, with sufficient levels of readiness and sustainability ...<sup>2</sup>

3.2 Defence responded to this requirement by re-examining its capabilities during the period of this annual report. They have sought to ensure the Defence Capability Plan (DCP) reflects Australia's capability requirements

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1 Department of Defence, *Australia's National Security: A Defence Update 2003*, p 9.

2 Department of Defence, *Australia's National Security: A Defence Update 2003*, p 24

directed in *Australia's National Security: A Defence Update 2003*. The revised plan was endorsed by Government in November 2003.<sup>3</sup>

- 3.3 Subsequent Government decisions approved the acquisition of M1A1 Abrams tanks, two additional airborne early warning and control aircraft, five air-to-air refuelling aircraft, and an auxiliary oiler to replace HMAS Westralia. Government also approved the 'commencement of a risk reduction study into the procurement of two large amphibious ships to replace HMAS *Tobruk* and one of the two amphibious landing ships.'<sup>4</sup>

## Discussion

- 3.4 In the period since the Defence Capability Review, most comment has focussed on two outcomes of the process. The decision to purchase US M1A1 Abrams Tanks to increase protection and firepower for the Army (a decision considered in detail and supported by the committee during its review of the *2002-03 Defence Annual Report*) and the decision by Defence to procure two large amphibious ships.
- 3.5 The aim of this Chapter is to review the decision making process within the Department of Defence which determined which types and designs of ships would be taken forward to the final phase of consideration before selection.

## Defence Requirement

- 3.6 A specific type of vessel was not described at the time of the November 2003 review of the Defence Capability Plan. However, during the public hearing into the *Defence Annual Report 2003-04* Defence gave a detailed description of its amphibious capability requirement. The characteristics of the platform selected are based on the need to lift a combined arms battle-group consisting of armour, artillery, engineers, infantry and aviation elements. The mixture of these elements required to be embarked on the amphibious ships is task-dependent but is expected to be sufficiently similar for such operations as evacuation or peace enforcement operations to allow for the development of specific ship requirements. Defence stated:

Lifting this force drives the size and the characteristics of the amphibious lift capability. The amphibious capability sought in the two ships under the current project is to provide the desired

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3 Department of Defence, *Defence Annual Report 2003-04*, Nov 2004, p. 19.

4 Department of Defence, *Defence Annual Report 2003-04*, Nov 2004, p. 26.

effect as follows: firstly, carriage in addition to the amphibious ships' crew of approximately 1,200 personnel in the landing force with a further 800 personnel providing helicopter operations support, logistics command, intelligence and other support—a total of about 2,000 personnel—space and a deck strength sufficient to carry about 100 armoured vehicles, including M1A1 tanks, and 260 other vehicles and of approximately 2,400 lane metres; hangarage for at least 12 helicopters and an equal number of landing spots to allow a company group to be simultaneously lodged to provide sustainment, medical, rotary air and operational maintenance and repair support to the forces while ashore for 10 days; command and control of the land, sea and air elements of a joint task force; and the conduct of simultaneous helicopter and watercraft operations in conditions up to and including sea-state four.<sup>5</sup>

- 3.7 This combination of airmobile forces and heavier forces moved ashore on watercraft is essential to the success of the Defence Manoeuvre in the Littoral Environment (MOLE) concept. Airmobile forces are rapid, agile and have the ability to range deep inland but lack the combat weight or endurance to fight more substantial forces or enter contested complex terrain such as cities or large towns. Heavier land forces bring the necessary combat weight, endurance and protection to fight but are slower to build up to combat strength and are harder to conceal and thus achieve surprise.
- 3.8 The Government has announced that Defence has settled in principle on the capability requirements for the new amphibious ships, which will replace the heavy-lift ship HMAS Tobruk and one of the Landing Platforms Amphibious (LPAs):

They will need to be able to embark, sustain and transport by sea an amphibious combined arms battle group together with their equipment and supplies. The force needs to be able to train and rest while en route to operations. The ships will need the capability to carry and tactically deploy several hundred vehicles, including armour, plus trailers. They will also need the ability to airlift simultaneously an air mobile combat team from 12 helicopter launch spots between the two ships. They will each have hangar space for at least 12 helicopters and at least four conventional landing craft that are capable of carrying our new tanks. The ships must also be capable of providing the necessary

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5 LTGEN David Hurley, Chief Capability Development Group, Department of Defence, *Transcript*, p. 21.

command, control and communications to direct the battle group's amphibious landing and follow-on forces. Of course, given the prospect of Australian and US forces continuing to work closely in the future, the ships will need to be interoperable with our coalition partners.<sup>6</sup>

- 3.9 Defence has issued a request for information to two international ship builders – the Spanish company IZAR and the French conglomerate Armaris – concerning their respective new Landing-ship Helicopter Dock (LHD) designs. This will help inform the decision on a preferred design. Characteristics of the two Defence options, compared with the existing ships *Manoora* and *Kanimbla*, are listed in Table 3.1.

Table 3.1 Comparison of Navy Amphibious Ship Options

Ship	Displacement (tons)	Range (nm)	Crew	Troops	Vehicles (sq m)	Helicopters	Landing craft
Existing LPA	8,500	14,000	210	450	700	4 (2 spots)	2LCM8
French PCS	24,000	11,000	177	1000	1000	16 (6 spots)	4LCM
Spanish SPS	27,000	9,000	240	1100	2000	11 (6 spots)	4LCM

Source: ASPI Strategic Insight Paper 8, *Capability of First Resort? Australia's Future Amphibious Requirement*, July 2004, p. 6.

## Selection Debate

- 3.10 Opinion regarding the Defence decision about the type of ships selected for further consideration is divided. The Australian Strategic Policy Institute (ASPI) agrees with the Chief of Defence Force's (CDF) description of the current ADF amphibious capability as the 'capability of first report'.<sup>7</sup> Given the critical nature of the capability and the likely longevity of the selected capability solution, ASPI recommends further scrutiny of the ADF decision regarding the type of ship required to meet the capability gap. ASPI recommend that since a final decision on the choice of ship, which was to be made in June 2004, has been delayed until the end of 2005, an opportunity exists to 'properly assess what type and how many ships will best meet the ADF requirement.'<sup>8</sup>
- 3.11 ASPI does not agree with the Defence decision to procure two large ships. They argue 'that our capability requirements cannot be satisfied by just

<sup>6</sup> Senator the Hon Robert Hill, Keynote Address ADM 2004, 24 February 2004.

<sup>7</sup> ASPI Strategic Insight Paper 8, *Capability of First Resort? Australia's Future Amphibious Requirement*, July 2004, p. 2.

<sup>8</sup> ASPI Strategic Insight Paper 8, *Capability of First Resort? Australia's Future Amphibious Requirement*, July 2004, p. 2.

two ships, no matter how large and capable they actually are.<sup>9</sup> Instead ASPI propose that a larger number of smaller ships, displacing in the order of 12,000 tons, would be a more appropriate response.

3.12 The ASPI proposal is based on the following perceived advantages:

- operating smaller ships gives greater flexibility in being able to access a wider range of regional ports;
- the proposed four smaller ships would provide greater docking capacity than the two larger ships; and
- a larger number of ships increases operational flexibility, meaning that the tasking or maintenance of a single asset reduces the overall capability by a smaller percentage.

3.13 On the other hand the Australia Defence Association (ADA) strongly supports the Defence decision. The ADA argue that 'medium sized LHDs offering the best compromise among the key factors, such as sustainability, preserving the effectiveness of embarked forces, overall load capacity, offload and force movement to objective by air and surface craft, affordability and crew numbers.'<sup>10</sup> They continue by countering the ASPI argument in favour of up to four smaller ships by stating that 'all in all, four smaller ships would be a lesser capability than the two medium sized ships but would cost markedly more, both to acquire, and through their 30 year life of type.'<sup>11</sup>

## Defence Response

3.14 During the public hearing Defence confirmed they had considered the smaller 12 000 tonne Landing Platform Dock (LPD) amphibious ships. They indicated that in order to meet the requirement to insert an airmobile rifle company, the smallest force able to manoeuvre and protect itself on a complex, modern battlefield, 12 medium helicopters were required. Defence used this requirement to analyse the option of achieving the capability requirement with smaller ships:

The LPD type ships were looked at, but if you go back to our requirement to do a simultaneous company lift of at least 12 helicopters, you need 12 spots. If you do not get those on two ships you need to buy a lot of smaller ships. When you look at the

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9 ASPI Strategic Insight Paper 8, *Capability of First Resort? Australia's Future Amphibious Requirement*, July 2004, pp. 11-12.

10 Australia Defence Association, *Defender Vol XXI No. 3*, p. 30.

11 Australia Defence Association, *Defender Vol XXI No. 3*, p. 32.

acquisition and through-life support cost simply to put that together, it is more efficient to go the way we have gone.<sup>12</sup>

3.15 It is important to note that Defence have avoided limiting their analysis of the airmobile element of the amphibious force to a single helicopter type. It could be argued that with a larger helicopter, such as the MRH 90, less than 12 aircraft might be needed to lift the required rifle company. On the other hand the increasing range of weapon systems available to protect light infantry, such as the Javelin Anti-Tank Guided Weapon (ATGW) and the 40mm Automatic Grenade Launcher (AGL), will quickly consume the additional space available in these larger helicopters.

3.16 During the public hearing Defence was asked by the committee to respond to ASPI's concerns about access to regional ports. Defence stated:

If we look at it purely by the draught of the ships, the two classes of ships we are looking at, the Spanish and the French, have about a seven-metre draught. Our current LPAs are about 5.86 metres and the *Tobruk* is about four metres, but they are designed to be beached. So we are looking at a one-metre difference in draught between the types of ships, so entry to ports is not going to be a problem.<sup>13</sup>

3.17 The committee was also concerned about ASPI's assertion that limiting the capability to two ships would limit operational flexibility, particularly when considered against the likely requirement for one ship to be in port at a given time. Defence countered that this issue had been a factor in the type of vessels selected for further consideration. Defence has selected vessels built to commercial standards, with corresponding commercial rates of availability. Defence stated:

One of the fundamentals that we are looking at in the acquisition of these is to follow very closely commercial principles in the construction of the vessels. Both the recently renamed *Novantia*, which was previously the *Izar*, and the *Amaris*, which is a French ship, are designed very much around commercial principles with a component of militarisation. Commercial vessels of this size have an operational availability of 345 days a year at sea. Because we are looking at commercial vessels and that style of operation, we are expecting that the operational availability will be extraordinarily high, as opposed to a military vessel, which has a

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12 LTGEN David Hurley, Chief Capability Development Group, Department of Defence, *Transcript*, p. 23

13 LTGEN David Hurley, Chief Capability Development Group, Department of Defence, *Transcript*, p. 23

much lower operational availability because of the nature of the design and the construction.<sup>14</sup>

- 3.18 Finally the committee questioned whether Defence had identified a single individual to be responsible for the critical amphibious capability. ASPI has argued that the amphibious capability has suffered because no one organisation or group has determined its capability development priorities. In response Defence stated:

The Chief of Navy has been appointed as responsible for the overall development of amphibious capability. In terms of the employment of the capability, the chief of joint operations and the subordinate headquarters under him are going to determine how on a particular operation the capability will be put together. We have a project of major exercise activities each year which more often than not centre around putting this capability together and giving people practice in delivering it. We have a training regime in place. We have a head appointed who is responsible for oversight of the capability and we have an operational command and control element that is experienced in employing it.<sup>15</sup>

## Possible Inclusion of JSF

- 3.19 Media and Public discussion about the impending decision to procure the Joint Strike Fighter (JSF) has carried over into discussion of the future amphibious ships. In particular the Short Take-off and Vertical Landing (STOVL) version of the JSF, to be procured by the US Marine Corps and the UK Airforce and Navy, has been discussed in the context of future inclusion in the suite of capabilities able to be embarked on the future Australian ships. Defence has confirmed that one of the two ships in consideration for the Australian contract is capable of operating the STOVL JSF, 'the Spanish variant is designed with a ski jump on the front of it and is capable of the STOVL, but the French ship is not.'<sup>16</sup> However Defence made it very clear that the STOVL JSF is not being considered by the ADF for inclusion as part of the amphibious capability, or any other. Defence stated:

No we are not looking to put the STOVL onto these ships...There are some basing flexibilities that the STOVL—short takeoff and

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14 Mr Kim Gillis, Program Manager, Amphibious Deployment and Sustainment Program, Department of Defence, *Transcript*, p. 23

15 LTGEN David Hurley, Chief Capability Development Group, Department of Defence, *Transcript*, p. 29

16 Mr Kim Gillis, Program Manager, Amphibious Deployment and Sustainment Program, Department of Defence, *Transcript*, p. 25

vertical landing—aircraft might give you, but, in terms of its performance in comparison with the conventional takeoff and landing aircraft, they are realms apart and we think we can meet all our essential criteria with the conventional takeoff and landing aircraft.<sup>17</sup>

## Conclusion

- 3.20 During the public hearing the committee received a detailed briefing from Defence regarding the criteria used to select the two ships short-listed for the future amphibious capability. The committee was impressed by Defence's comprehensive decision-making process and notes the decision to select two large ships to meet the requirement, rather than a larger number of smaller vessels. The committee notes that both operational requirements and efficiencies in both cost and manpower were the key drivers in this decision. The committee also notes that Defence has acted on earlier concerns that the amphibious capability was an orphan, not developed by a single agency. Chief of Navy now has carriage of the capability but developments have been informed by unprecedented levels of analysis and cooperation with Army Headquarters and DSTO.
- 3.21 The committee continues to have some concerns regarding the design risks that remain in the project. The decision to select a design that may not be completely interoperable with our traditional alliance partners is of some concern to the committee, particularly the selection of major capability elements such as propulsion systems. For example the committee would be critical of a situation in which an Australian LHD was unable to achieve the speed or range necessary to operate with a coalition convoy.
- 3.22 The committee also notes that the ships will be built to the standards required of the commercial shipping industry, bringing significant efficiencies and cost savings during manufacture and operation. However the committee is also aware that these efficiencies also mean that the levels of system redundancy and survivability built into the ships will be significantly less than that of a traditional warship. This decision reflects current ADF doctrine regarding amphibious lodgement, during which the ADF will seek to manoeuvre to avoid any areas of resistance when selecting lodgement sites. The committee seeks to ensure these limitations

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17 LTGEN David Hurley, Chief Capability Development Group, Department of Defence, *Transcript*, p. 25

remain at the forefront of the minds of Government and defence planners through the life of the capability.

- 3.23 The committee also notes that Defence is not planning to include a STOVL JSF in the suite of capabilities to be embarked on the future amphibious ships based on the premise that such an addition would significantly increase the cost and complexity of the project with only a limited increase to capability. However the committee has previously considered the STOVL JSF in a broader context, against the increasing likelihood that the amphibious force will need organic close air-support for operations in the broader region.
- 3.24 STOVL aircraft have a significantly reduced range and payload compared with conventional take-off aircraft. On the other hand they are also the most flexible fighter aircraft, able to deploy forward into the Area of Operation and operate from significantly less developed infrastructure. Similar US Marine aircraft, deployed in this manner, either fly from amphibious ships or from hastily prepared airfields close to ground combat forces. They have the sole purpose of providing organic support to the deployed force, unlike conventional aircraft operated from further afield whose tasking is more likely to include a mix of roles, including air superiority and protection of the approaches to Australia.
- 3.25 In its review of the Maritime Strategy in June 2004 the committee considered the utility of the STOVL aircraft in this broader context and recommended that:
- If in 2006 the Government confirms that it will purchase the Joint Strike Fighter (F-35) then it should consider purchasing some short take off and vertical landing (STOVL) F-35 variants for the provision of organic air cover as part of regional operations.<sup>18</sup>
- 3.26 The committee acknowledges that a conventional take-off fighter with a greater range, a wider menu of munitions and supported by airborne refuelling and AEW/C aircraft, will have a significantly greater impact on the future battle-space than a small number of ship or land-based STOVL aircraft and should form the backbone of Australia's next air-combat capability. However the committee stands by its earlier recommendation that should the STOVL F-35 meet its design specifications the Government should consider developing an organic close air-support capability for the amphibious force.

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18 Joint Standing Committee on Foreign Affairs, Defence and Trade, Parliament of Australia, *Australia's Maritime Strategy*, p.95

## Defence's qualified financial statements

### Background

4.1 The 2003 Australian Strategic Policy Institute (ASPI) policy report *Sinews of War* charted the recent history of financial management in Defence. The report advised that there have been significant improvements to Defence fiscal discipline and budgeting since a serious breakdown in 2000 and 2001. However, in the area of accounting and auditability, significant concerns remain. In the 2003-04 Financial Statement by the Chief Executive and Chief Finance Officer, Defence conclude that the statements of account fail to give a true and fair view of the matters required by the Financial and Management and Accountability Act 1997 (FMA). This is a more serious qualification than the 'except for' qualification that arose in 2001-02 and 2002-03<sup>1</sup>. The qualifications relate to significant structural deficiencies and appear likely to continue for a number of years to come.

4.2 In the *Defence Annual Report 2003-04* Defence declared that:

...in relation to certain accrual entries and provisions and their resultant impact, the Secretary could not conclude on the financial statements as a whole. The qualifications identified in previous years remain on the statement for 2003-04, and the scope of some of them has increased. In particular, work by Defence's Management Audit Branch and the ANAO identified shortcomings in stock recording policies and practices.<sup>2</sup>

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1 Mr Mark Thompson, ASPI, *The Cost of Defence – ASPI Defence Budget Brief 2005-2006*, May 2005, p.101

2 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 20.

- 4.3 Defence further commented that 'this outcome is disappointing, as we had increased significantly the resources committed to trying to achieve compliance with accrual accounting standards and the introduction of other new accounting standards.'<sup>3</sup>
- 4.4 The aim of this Chapter is to report on the detailed remediation plans being undertaken by Defence and to describe the committee recommendations on the path toward achieving a true and accurate financial statement.

## Discussion

- 4.5 ASPI and the Australian National Audit Office (ANAO) continue to monitor Defence management performance closely. The audit of the 2003-04 financial accounts built upon the accumulated understanding of several years of ongoing scrutiny by the ANAO in particular. This high degree of scrutiny in part explains the apparent deterioration in the state of Defence accounts. However both agencies report that Defence is working hard to improve performance. ASPI note that:

Defence is working hard to reduce administrative spending and improve day to day business processes. Secretary Ric Smith is driving a bottom up approach to improve financial management. He has avoided high profile initiatives, and instead favours a relentless attack to get the basics right.'<sup>4</sup>

## ANAO Concerns

- 4.6 The ANAO reports that many aspects of financial management are being adequately handled. In relation to the financial statement the ANAO commented that 'the balances relating to Cash, Receivables, Revenues from Government, Specialist Military Equipment (exclusive of repairable items) and quantities of Explosive Ordnance, are fairly stated.'<sup>5</sup>
- 4.7 However the ANAO remains critical of Defence's internal control environment which should prevent and detect errors in accounting and financial reporting. ANAO state that the Defence internal control environment:

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3 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 20.

4 Australian Strategic Policy Institute, *Your Defence Dollar: The 2004-05 Defence Budget*, July 2004, p. 47.

5 Australian National Audit Office (ANAO), *Independent Audit Report to the Minister for Defence*, 17 November 2004.

...contains significant deficiencies due to weaknesses in internal controls pertaining to financial management and operational systems, inadequate accounting records and poor inventory and asset recording. The control breakdowns have resulted in material uncertainties.<sup>6</sup>

4.8 Specifically, the ANAO remain concerned that the following management issues fail to meet the standards mandated in the Financial Management Act (FMA):

- inventories;
- land and buildings and infrastructure, plant and equipment; and
- military leave provision.

## Defence Remediation Measures

4.9 Defence, in response to the continued qualification of their financial statement, reported that 'comprehensive remediation programs have now commenced and progress in these activities is regularly reported to the Defence Audit committee and the ANAO.'<sup>7</sup> Defence stated that these remediation efforts will be strengthened in 2004-05. The Defence measures 'include remediation plans for each of the qualifications as well as more generic reforms aimed at meeting not only accrual accounting requirements but also the newly introduced International Financial Reporting Standards.'<sup>8</sup>

4.10 Defence reported during the hearing into the *Defence Annual Report 2003-04* that they have developed and commenced action on 14 remediation plans. These serve to accurately focus analysis to the problems that the Audit Office and Defence's own auditors have identified as the areas preventing the Department from certifying that their accounts are a true and accurate reflection of their status.

4.11 Defence described the three general and 11 specific plans in the following format:

- General Plans (G)
  - ⇒ G1 - Financial Reporting Framework. The aim of this plan is to institute a robust and sustainable financial controls framework which meets fully the requirements of accrual accounting;

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6 ANAO, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2004*, p. 104.

7 Department of Defence, *2003-04 Defence Annual Report*, November 2004, p. 29.

8 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 20.

- ⇒ G2 - Improving the ANAO Annual Audit Process. This plan seeks to gain agreement with the ANAO on timeliness, methodology and expectations of deliverables regarding the finalisation of annual financial statements;
- ⇒ G3 - Financial Management and Systems Training Program. This plan is based on the need to address ANAO recommendations with regard to the lack of knowledge in accounting, financial and business management processes. It also includes issues relating to the transition to new accounting standards and a further transition in the future to the Australian equivalent of international financial reporting standards.
- Specific Plans (S)
  - ⇒ S1 - Stores Records Accuracy – This plan addresses weaknesses in the internal controls over stocktaking, physical asset location and quantities, in short, inventory accounting;
  - ⇒ S2 - General Stores Inventory Pricing – addresses pricing for older equipment, explosive ordnance and spare parts whose purchase pre-dates current record keeping requirements.
  - ⇒ S3 - Supply Customer Accounts – addresses a particular form of inventory management, particularly in relation to repairable items and stock take procedures;
  - ⇒ S4 - Explosive Ordnance – this plan addresses pricing issues in relation to explosive ordnance stock, again seeking a method to determine the value of ordnance whose age pre-dates current record keeping requirements;
  - ⇒ S5 - Military Leave Records – addresses problems relating to insufficient supporting documentation and accounting error rates for military leave records;
  - ⇒ S6 - Civilian Leave Records – similar problems exist with civilian leave records;
  - ⇒ S7 - Executive Remuneration – this plan addresses accrual problems which in effect follows from the two previous problems;
  - ⇒ S8 - Property Valuations – addresses flaws identified in the project management, reporting practices and management review practices relating to the value of land, buildings, infrastructure and other plant;
  - ⇒ S9 – Preventing the Escalation of Category A and B Findings – this is a broad plan aimed at preventing the escalation of findings that the ANAO has identified as category A or category B findings – in other

words, the ones that are small scratches tomorrow but may become serious sores the day after;

- ⇒ S10 - Stockholding Controls - this plan relates to what used to be called asset write-offs and assets first found; and
- ⇒ S11 - Standard Defence Supply System Items Not-in-Catalogue - a plan for the improved management of items not in catalogue – that is, they are not entered onto inventories.<sup>9</sup>

## Analysis

4.12 During the hearing the committee was briefed by Defence on the remediation measures in considerable detail. The committee then analysed the following factors:

- The cost of remediation;
- The root causes of the qualifications;
- A proposal to seek the points from which audit data can be trusted; and
- Specific recommendations to assist in resolving the qualifications.

## Cost of Remediation

4.13 Defence was first asked to quantify the scale and cost of remediation measures. It was reported that at least 600 staff years (valued on average at \$100 000 per staff year) were being committed specifically to this task. An additional number of hours would be required to rectify stock-takes at operational units throughout the ADF. The number of staff years likely to be involved in the rectification of stocktaking discrepancies is unclear as it is being absorbed in normal operating activity. A further \$12 million was committed to consultancies and specific activities such as stock takes of the major warehouse facilities.<sup>10</sup> It is therefore reasonable to extrapolate from the Defence response that close to \$100 million dollars will be expended this year to attempt to better quantify the Defence position.

4.14 The cost of remediation is therefore significant. While only a small percentage is 'cash' being spent outside the department, the internal expenditure of time and effort draws significantly from Defence capability at a time when many of the same personnel could have been committed to preparing stores and equipment for disaster relief in Indonesia or preparation of the Al Muthanna Task Group for southern Iraq.

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<sup>9</sup> Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 45

<sup>10</sup> Department of Defence, *2003-04 Defence Annual Report*, November 2004, p. 60.

- 4.15 Because of the size and nature of this remediation cost the committee sought from the Secretary and his staff the root causes of the qualifications in order to provide advice to the Parliament about possible alternate remediation strategies.

## Root Causes

- 4.16 It has been commonly held that all the root causes of the problems with the Defence financial statement stem from the mandated transition to accrual accounting. Put simply this transition, now ten years old, has seen Defence move from a cash accounting system, which all external agencies agree it continues to manage well, to a more comprehensive system that aims to account for the complete business position of the organisation. Accrual accounting considers such issues as depreciation on assets such as property and consumption of stock, to determine the true cost of conducting defence business.
- 4.17 However, Defence acknowledged that the qualifications to the report go beyond difficulties with the transition to accrual standards and include other structural and cultural limitations:
- I would have to say that Defence did not build in either the technical systems with all the functionality required or, to be honest, the culture and training that was necessary to get there. Whether it would have got there even then is a big question.<sup>11</sup>
- 4.18 Perhaps the most obvious example of the type of structural limitations being addressed by Defence is in the area of Management Information Systems (MIS). Most notable amongst these has been the Standard Defence Supply System (SDSS) which manages Defence inventory. This system appears unable to meet the needs of practitioners on the ground in Defence bases when they attempt to track inventory location, nor does it meet the needs of the auditor in the area of pricing control. 'Users of the system were able to enter data directly into the price field without sufficient controls and it was not possible to assess with confidence the cumulative financial effect of prices that had been inadvertently adjusted or incorrectly calculated.'<sup>12</sup>
- 4.19 Like many of the other deficiencies in Defence accounting processes, the problems with SDSS have had a long gestation period. The system entered service in 1992-3 over due and well over budget. It has struggled to meet functionality requirements and is still in the process of being upgraded.

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11 Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 61

12 Report 396, Review of Auditor-General's Reports 2002-03, the Parliament of the Commonwealth of Australia, Sep 2003, p. 72

The current ADF leadership, while not responsible for the origins of the problems they inherited, must now develop an alternative that is both efficient and effective. The SDSS 'Get Well' project is the most recent band-aid applied to the system. Get Well is unlikely to be sufficient to meet the requirements of the Finance Minister's Orders, which mandate the application of Australian Accounting Standards regarding pricing controls but does appear likely to complete Defence's ability to manage the location of inventory. Defence has advised the *Joint Public Accounts and Audit Committee* that this upgrade will be the last before the SDSS is replaced under Joint Project 2077 - Improved Logistics Information Systems.<sup>13</sup>

- 4.20 While acknowledging that structural limitations have compounded Defence's problems, it is important to note that accrual standards do not fit neatly over Defence operating procedures. Australian businesses operate vastly differently to the Defence organisation. Of Australia's military peers only New Zealand has made a successful transition to accrual standards. While this transition is admirable it is not clear whether the significantly smaller NZDF is a useful benchmark in this regard. The committee sought to better understand the impact of these accrual standards on Defence.
- 4.21 Defence has no peer in Australia in terms of either size or task. Telstra and Australia Post were discussed as potential peers in this context, particularly during the period in which they transitioned from Government controlled organisations toward corporatisation or privatisation. However, despite matching Defence in some characteristics, neither organisation even closely resembles the manner in which Defence is required to operate. Businesses, for example, seek to hold stock for as short a period as possible before it is sold to a customer. Equipment holdings are kept to a minimum and must be able to contribute directly to the organisation's 'bottom line'. Defence on the other hand may 'issue' a piece of equipment for an exercise or operation and then receive the item back into a warehouse many times through the life of the equipment. This issue and receipt process may occur on different continents and under demanding operating conditions. Defence purchases and stores many expensive items it hopes never to use, a concept completely foreign to modern 'just-in-time' business practice. An item such as a guided anti-ship missile may cost tens of thousands of dollars but may remain in warehouses for many years, outliving accounting tools and information systems. The Secretary summarised these differences when he described

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13 Mr Ric Smith, Secretary, Department of Defence, *Transcript Joint Committee on Public Accounts and Audit*, 28 Apr 2005, p. 18

the organisation as 'a just in case organisation', which keeps massive redundancy in a way that other modern businesses would not.'<sup>14</sup> Australia's western military peers share many of the same problems with contemporary accounting requirements. ASPI note:

...it is far from a unique position for a western military to find itself in. The US Department of Defense cannot complete auditable accounts and both the UK and Canadian Ministries are both heavily qualified in some of the same ways as Australia's Defence Department.<sup>15</sup>

- 4.22 Simplistically, it may be possible to argue that accrual standards should not apply to Defence. However, Defence itself recognises the potential advantages of the accrual system:

Cash and cash flow are very important for investment decision making and understanding the day-to-day health of the business. That is very useful information in its own right. But accrual information gives you very good information about the long-term health and whether you are replacing depreciating assets. How your balance sheet is moving from year to year is an important indicator of the health of the business. So I think we need both in our environment. In the outside world there is no such thing as cash or accrual accounting; there is just accounting.<sup>16</sup>

- 4.23 Having determined that the accounting method was not the sole cause of the ongoing structural problems in Defence accounting, the committee explored the additional factors. One of the most obvious is the scale of the problem. Defence holds 75% of Government fixed assets and has millions of inventory items, which equates to \$52 billion in assets of which \$30 billion is specialised military equipment and \$10 billion is in land and buildings. The committee investigated two account qualification issues specifically associated with scale – property holdings and personnel leave accounting.

- 4.24 Remediation plan S8 referred to problems with property valuations. Defence has contracted out property valuation to the Australian Valuation Office (AVO). In an apparently reasonable decision, given the size and value of the Defence property portfolio, the Defence contract allowed AVO to bypass properties with a value of less than \$250 000. However, when considered together, the \$250 000 properties have a combined value of \$1.3 billion, a significant amount in any financial language. When asked

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14 Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 61

15 Mr Mark Thompson, ASPI, *The Cost of Defence – ASPI Defence Budget Brief 2005-2006*, May 2005, p.103

16 Mr Lloyd Bennett, Chief Finance Officer, Department of Defence, *Transcript*, p.63

by the committee to report progress on remediation plan S8, Defence stated:

We have put the [new AVO] valuation letter through very extensive review both internally and with external expert opinion to make sure it meets all the current standards and anticipates all the Australian equivalents to the international financial reporting standards and also all the latest issues through the Urgent Issues Group. Yes, we are very confident. On top of that, we are also making sure that we do, as it were, spot checks of the valuation work to make sure that we are confident they are applying all of those instructions in an appropriate way.<sup>17</sup>

- 4.25 The second audit concern relating to scale concerned leave accounting amongst the 70 000 strong Defence workforce. Defence described the complexity of leave accounting, particularly for uniformed personnel. These personnel were eligible for a range of leave types such as basic recreation leave, war service leave, field leave, and flying leave. To satisfy the Australian Auditing and Assurance Standards, each leave transaction must have a paper approval form showing the request by the individual concerned and the approval by a supervisor. To put this in context Defence explained 'in the last 12 months we took 2.3 million days worth of leave, and that involved 350,000 separate leave transactions'<sup>18</sup>. Each one of those transactions would involve at least one piece of paper, and ANAO advise that the Archives Act required Defence to retain those pieces of paper for seven years.
- 4.26 As part of the remediation process, Defence leadership described groups of senior managers searching through boxes of documents in archives seeking to audit old leave transactions. While the committee accepts the need to achieve the mandated requirements, stories such as this led the committee to explore whether this is an effective use of senior managers' time. The committee sought to determine whether other audit qualifications may be a result of old gaps or failings rather than being due to the current systems or processes.

## Seeking Reliable Data

- 4.27 One of the most demanding legacy issues for Defence is the question of inventory value. The Secretary reported to the committee that this legacy alone could mean that Defence expects to have to qualify its reports for

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17 Mr Lloyd Bennett, Chief Finance Officer, Department of Defence, *Transcript*, p.50

18 Rear Admiral Brian Adams, Head Defence Personnel Executive, Department of Defence, *Transcript*, p 69

some years to come when he said 'I realistically have to say that we will have some qualifications on our statements for some years to come, yes.'<sup>19</sup>

4.28 While the Secretary's comments highlight the significance of this issue it is also important to note that in evidence to the *Joint Committee of Public Accounts and Audit* (JCPAA) Defence has assured the Parliament that the qualifications do not affect its ability to conduct its business. The issue of inventory pricing and repairable items did not impact on Defence's 'capability to perform, nor [did] they reflect any demands on cash or any other fraudulent activity'.<sup>20</sup>

4.29 Much of the Defence inventory has been in the system for many years. The inventory (excluding ammunition) is spread over almost 150 warehouses and includes over 1 and a half million line items. Defence was not required to record the value of old inventory until the mid 1990s so lacks valid data on the value of many inventory items. Defence must now look for a pricing system that will meet the requirements identified by ANAO before it can accurately report its accrual position. It is also important to remember that the inventory items being analysed may be as complex as the myriad sub-systems that comprise an F111, many of which have been periodically upgraded and are now quite different from the original.

4.30 Defence has previously described to the JCPAA how the SDSS inventory management system compounds the complexity described above:

[It was] very much designed on quantity managing an item as opposed to capturing the financial information ...It was developed in the early eighties...it was put in place before the requirement for accrual accounting came in. So it was never designed as a financial management tool.<sup>21</sup>

4.31 SDSS is emerging as an important yardstick when assessing the measures taken to address the structural deficiencies that prevent Defence from accurately reporting their financial position. Despite the significant investment in this Australian developed information systems tool the product remains significantly behind the best-practice tools in use in business and possibly by peer military organisations. Defence will be required to quickly decide whether to invest further in the system, risking reinforcement of its current failure, or to seek a best-practice solution elsewhere.

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19 Mr Ric Smith, Secretary, Department of Defence, *Transcript*, p. 56

20 Mr Lloyd Bennet, Chief Finance Officer, Department of Defence, quoted in *The Review of Auditor General's Reports 2002-03*, September 2003, p.73

21 Ms Anne Thorpe, Department of Defence, quoted in *The Review of Auditor General's Reports 2002-03*, September 2003, p.73

4.32 Defence gave examples of pricing strategies they have proposed to the ANAO that would address the lack of data regarding inventory value in the SDSS:

We did not have the paper invoices from the 1970s or 1980s so we have to look for a surrogate. The Americans have a huge database called FED LOG with virtually every military inventory item or asset on it with a price against it. Given that the American government buys at the cheapest price and we always buy at a dearer price, at least using FED LOG would put a floor under the cost of our inventory. That was the theory but that was not acceptable.<sup>22</sup>

4.33 Unfortunately, when ANAO audited a sample of the FEDLOG values, a proportion of the results were different to known values in Australia. This result is frustrating for Defence as within the Department small variations in value do not influence operational decisions about the employment of a particular stock item.

4.34 A similar problem exists in relation to the value of ammunition, known as Explosive Ordnance (EO). While Defence confirmed they know how much EO they are holding and where that stock is located, they cannot confirm the inventory cost. Differing accounting standards applied over the life of various ammunition types mean that different records are kept for different time periods.

4.35 Together, these two components of inventory value represent significant blocks toward the achievement of accurate accounts.

4.36 The complexity of the legacy issues faced by the current leadership of the Department and by the audit agencies is recognised. The committee supports initiatives to seek opportunities to 'draw lines in the sand' by selecting dates or points from which certainty can be achieved.

4.37 Defence and the ANAO are clearly working hard to identify such opportunities. Each proposed solution is submitted by Defence to the auditor for consideration and testing – an approach leading to many dead ends. However, the ANAO are unable to lead Defence through the issues without compromising their independence, a position in turn understood by the Defence leadership. Instead, Defence has cast its net widely in the audit and accounting industry, consulting with most of the leading private firms. However, the department is not glossing over the scale or nature of the issue:

Some of these we might have to accept. For instance, there will be a question about how long we go on arguing about pricing policy

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22 Dr Stephen Gumley, Chief Executive Officer, Defence Materiel Organisation, *Transcript*, p. 56.

for inventory acquired some years ago. We could go on trying to develop a position on that and never agree and just go on committing people and effort to it, but it might be better to say: 'Okay, we'll live with that scar. It won't be enough to take us over the edge in itself, but it'll just have to sit there rather than try to spend another \$10 million fixing it.'<sup>23</sup>

- 4.38 At the same time, Defence were frank in their discussion of their own structural impediments, or lack of controls, to a simple line-in-the-sand solution when they stated:

The sorts of controls we would be looking for are both the preventative controls that prevent people from getting it wrong in the first place and the detective controls—those controls which would let us know that some body has something wrong—or controls to give us insight or a management analysis into that. Clearly, at the moment we do not have enough of those in place and that is part of what we are doing with the remediation projects to start building the reports, the measures.<sup>24</sup>

## Conclusion

- 4.39 The committee notes that the impediments to Defence achieving an accurate financial statement are multi-dimensional. Many of these impediments result from the transition to a business style accounting model. Others relate to the scale of the organisation and the age and complexity of much of the equipment and stock holdings. The committee also notes the frankness with which the Defence leadership acknowledge that still further problems are a result of cultural issues in the department and technical accounting issues such as the lack of control systems.
- 4.40 As a result of these impediments, many of which are interconnected, the committee accepts the Defence argument that their accounts are likely to remain qualified for some time to come. Where the committee sees potential to help move, what may soon become an impasse, is in the need to identify points where it is possible to draw a line under old problems. Some of these problems elicit the law of diminishing returns – they are unlikely to be solved regardless of the amount of time or money thrown at them.
- 4.41 Defence has made considerable progress with qualifications that related to property valuations and the physical location of inventory through a

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23 Ric Smith, Secretary, Department of Defence, *Transcript*, p. 56

24 Mr Lloyd Bennett, Chief Finance Officer, Department of Defence, *Transcript*, p.67

series of stocktakes. These two measures alone account for much of the cost to Defence of remediation thus far and should now be pursued to completion. Inventory location in an organisation such as Defence will always be difficult to pinpoint minute by minute. Therefore, it is likely that the 100% stocktake undertaken by Defence to meet the audit requirements will be out of date within days of its completion. Defence must rectify structural problems with the Standard Defence Supply System (SDSS) information system if it is to have any chance of accurately tracking inventory.

4.42 Three areas remain obvious candidates for stratification-based solutions in which Defence and the auditor seek to identify dates from which data can be trusted and then draw a line under those where data is never likely to be found. The Defence remediation areas in which stratified solutions may be found are as follows:

- S2 - inventory value,
- S4 - Explosive Ordnance (EO) value, and
- S5 - military leave.

4.43 The committee supports the Defence attempts to identify an alternate source of pricing data for old inventory. This effort must be linked to discussion between Defence and the Australian National Audit Office (ANAO) to determine the date from which existing data can be analysed to a degree appropriate to modern accounting practices. The methodology explored in relation to using prices listed in the US FEDLOG system appears to offer the most potential, of those discussed with the committee, to achieve a relatively accurate position in relation to old inventory value.

## Recommendation 2

4.44 **The committee recommends that Defence seek to stratify inventory pricing data, drawing a line under old inventory for which pricing data cannot be found in order to prevent the wasteful expenditure of commonwealth funds in seeking records of values that are unlikely to exist.**

4.45 Regardless of the success of efforts to accurately define the value of Defence inventory, the limitations to the Standard Defence Supply System (SDSS) will continue to prevent an accurate depiction of the location and value of existing inventory. A decision must be made soon as to whether the existing system has the capacity to cope with the significant upgrades required to meet best practice, or whether an alternate system is available that better meets the requirement.

### Recommendation 3

- 4.46 **The committee recommends that Defence analyse the Standard Defence Supply System (SDSS) to determine whether it has the capacity to cope with the significant upgrades required to meet best practice, or whether an alternate system is available that better meets the requirements of Defence practitioners and the audit legislation.**
- 4.47 The location and cost of Explosive Ordnance (EO) is a potentially more sensitive issue because of the security implications of misplaced items and the direct link to operational capability. The committee is pleased to note that the error rate in records of the location and types of EO held by Defence are particularly small, alleviating the security concerns of the committee. Like the inventory items discussed above, however, the values of the EO stocks held by Defence are difficult to determine. The committee supports Defence initiatives to identify appropriate values for EO stock in lieu of auditable purchase records, which were not required at the time of purchase.

### Recommendation 4

- 4.48 **The committee recommends that Defence seek to stratify valuation data for Explosive Ordnance, seeking to identify points from which valuation records can be trusted, and then writing off the value of ordnance which predate current record keeping requirements, in order to prevent the waste of further resources in seeking old valuations that are unlikely to be found.**
- 4.49 Military leave discrepancies are more problematic. Adjustments to leave have a significant impact on morale, particularly when the leave has been earned as a result of arduous service on operations or in the field. The committee remains convinced, however, that the problems with leave record keeping must be resolved without further expenditure of time and resources searching for paper records that may be archived in a myriad of locations across the country, if they exist at all. Again, the committee favours an approach which seeks to identify a date from which data can be trusted and audited.
- 4.50 The largest area of concern with respect to Defence leave is in the area of military leave accounting. The committee acknowledges the scale and complexity of this remediation issue but is concerned by the Defence account of senior managers searching through paper archives to identify old leave transaction records. The remediation solution must ensure that

leave with a cash value, such as long-service leave, is accurately managed and fully audited. Defence reports that the error in accounting for this type of leave is very small, in the order of 0.2%. Where leave is of a type that cannot be redeemed for cash, the case for most military leave categories, the committee recommends that leave balances be accepted after a warning period of 30 days and wide publicity through the service newspapers. The committee assesses that sufficient time has elapsed since the migration of leave to the PMKeys information system to allow members to resolve any transfer errors. Adopting this approach is likely to ensure that service people suffer no detriment as they can have been expected to resolve any negative issues as soon as they were detected or at least during the 30 day warning period. A small number of errors may pass through such a line in the sand approach. These should be resolved using an appeals process put in place to ensure grievances can be resolved equitably. Resolution of leave discrepancies in this manner will save considerable time and effort seeking records from around the country.

#### **Recommendation 5**

- 4.51 **The committee recommends that military leave discrepancies be resolved by accepting current leave balances, after a 30 day warning period but that a process of appeal be established to ensure any grievances can be processed equitably.**

## Chief of the Defence Force and Secretary

- 5.1 The Chief of the Defence Force (CDF) and the Secretary of Defence appeared at the concluding session of the public hearing in which a range of generic issues were raised.
- 5.2 The key issues raised during the concluding session focused on personnel, Defence's involvement in whole-of-government domestic security initiatives and advice to Government and the Parliament.

### **Australian Defence Organisation personnel**

- 5.3 The size of the Australian Defence Organisation (ADO - the combined uniform and civilian elements of the Department) has been slowly growing in the last three years. In 2003-04, however, both Army and Air Force failed to achieve their funded strength by small margins and all services report shortages in critical trades. Army reported a shortfall of 177 personnel and was required to enlist a further 328 Army Reserve personnel onto full-time service to meet urgent requirements. Air Force reported a smaller shortfall of 26 personnel with 113 reserve personnel taken onto full-time service.<sup>1</sup> On the other hand the total civilian component of the ADO grew to 20,181 when 'Professional Service Providers' were included alongside Public Service personnel.<sup>2</sup> On this basis the civilian component of Defence is second only to Army in size.

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1 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 261.

2 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 263.

- 5.4 The total number of separations from the permanent force also increased slightly from the low in January 2004 of 9.5%.<sup>3</sup> In February 2005 the 12-month rolling separation rate had risen to 10.9%.<sup>4</sup> Individual service separation rates were as follows:
- Navy – 10%;
  - Army – 11%; and
  - Air Force – 7%.<sup>5</sup>
- 5.5 Defence stated however that the separation rate remained below the historic rate of 11.8%.<sup>6</sup> In light of this slow climb, Defence advised that it will again examine retention and recruiting. Some conditions of service were also being examined, such as:
- a \$1 billion defence housing replacement program with child care improvements;
  - the reduction of forced discharges through a better occupational health and safety program;
  - increases or improvements in the military rehabilitation and compensation scheme; and
  - a new structure in locality allowance to try to more correctly recognise people in remote localities.<sup>7</sup>
- 5.6 Defence also stated that there will be a 2% increase in remuneration in June 2005 and 1.5% payable in March 2006.<sup>8</sup>

## Permanent force recruiting

- 5.7 Between 2002-03 and 2003-04 there has been a significant difference in the number of formal applications to join the ADF and the number of applicants enlisted. Specifically, while applications decreased by 1,685 between the two periods of review, the number of recruits increased by 425 (see Table 5.1). This change is of particular interest in relation to the shortage of trained personnel in the ADF, especially in the critical trades.

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3 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 80.

4 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 80.

5 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 274.

6 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 80.

7 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 80.

8 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 80.

Table 5.1 ADF Permanent force Recruiting Activity 2002-03 and 2003-04

	Navy	Army	Air Force	ADF
<b>2002-03</b>				
Total inquiries <sup>(1)</sup>	14,780	41,954	28,414	<b>85,312</b>
Formal applications	4,560	7,185	5,897	<b>17,642</b>
Applicants enlisted	1,556	1,842	924	<b>4,322</b>
Target	1,842	2,342	980	<b>5,164</b>
Percentage achieved	84	79	94	<b>84</b>
<b>2003-04</b>				
Total inquiries	9,575	29,043	20,342	<b>83,968<sup>(2)</sup></b>
Formal applications	4,160	7,689	4,108	<b>15,957</b>
Applicants enlisted <sup>(3)</sup>	1,515	2,418	814	<b>4,747</b>
Target	1,760	2,862	908	<b>5,530</b>
Percentage achieved	86	84	90	<b>86</b>

- Notes
1. This figure includes 166 full-time tri-Service inquiries that relate to inquiries who were undecided on which Service they wished to pursue full-time.
  2. Of this figure, 25,008 general inquiries, for permanent and reserve service in the ADF, were received via a tri-Service Internet portal that was introduced in 2003-04.
  3. These figures only include *ab initio* enlistees.

Source Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 272.

- 5.8 Defence considered the change in 'turning X number of applications into a greater number of enlistments' to have resulted from improvements in process and follow-up.<sup>9</sup> Defence also acknowledged the success in 'being clearer in the first layer of advertising and information to applicants, so that somebody who walks in the door is rather more orientated towards what it is they are seeking to do.'<sup>10</sup> Therefore, Defence stated that as they are able to increase the number of applications, enlistments will also proportionately improve.<sup>11</sup>
- 5.9 Recruiting activity also reflects the state of the national job market and in the current period of high employment, Defence is 'struggling with competition.'<sup>12</sup> However, Defence reported it was 'happy with the progress made by our refinement of process' together with the civilian recruiting company, Manpower.<sup>13</sup>

9 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 81.

10 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 81.

11 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 81.

12 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 81.

13 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 81.

## Critical trades

5.10 Defence also shares Australia's shortage in the number of people entering the trades, and considers that the 'things that can be done to improve that' situation in Australia will help Defence as well.<sup>14</sup>

5.11 The categories by service where recruitment is low or lower than what is needed by Defence are listed below:

### Navy

- Marine Engineer Officer;
- Weapons Electrical Engineer Officer;
- Pilot;
- Observer;
- Medical Officer;
- Seaman Officer;
- Electronics Technician;
- Marine Technician;
- Combat Systems Operators;
- Electronic Warfare Linguist;
- Naval Police Coxswain; and
- Communications and Information Systems.

### Army

- Captain;
- Major;
- RAAMC - Doctors;
- Linguist Special Duties;
- Analyst Intelligence;
- Operator Petroleum; and
- Technician Telecommunications Systems.

### Air Force

- Air Traffic Control Officer; and
- Environmental Health Surveyor.<sup>15</sup>

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14 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 81.

15 Department of Defence, *Critical trades / categories*.

## Conclusion

5.12 The process by which Defence addresses these deficiencies in critical trades is of significant interest to the committee. It is likely, given the pressure on skilled labour in the wider community, that Defence will need to develop its own solutions to these deficiencies.

### Recommendation 6

5.13 **The Committee recommends that Defence continue to invest heavily in training in critical trade areas, including reconsideration of technical trade apprenticeships for school leavers.**

## Defence involvement in whole of government domestic security initiatives

5.14 In a little over three years since the attacks of 11 September 2001, Defence has adjusted to the changed circumstances in Australia's strategic environment, developing structures to respond quickly to emerging crises and build greater versatility and flexibility into ADF force structure.

5.15 Defence reports that counter-terrorist capabilities have been strengthened and successfully exercised and that Special Operations Command Headquarters has achieved full strength and capability. The Incident Response Regiment is now operationally capable and will reach full maturity by December 2005.

5.16 Additional commando capabilities and the special aviation element continue to be developed. On 22 July 2002 the east coast counter-terrorist team was raised and shortly afterwards a direct recruiting scheme commenced to fill an additional 334 positions. Defence is currently 'deeply involved in a recruitment effort' to bring the Tactical Assault Group (TAG) East, the east coast counterterrorist capacity, and the commando battalion that surrounds that, up to a viable strength.<sup>16</sup> Defence stated:

When candidates passed through the aptitude barriers at recruiting and seemed to have the aptitude and desire, they were directed towards a position within 4th Battalion Royal Australian Regiment as commandos, even before they had started military training. They had passed through recruit training as a cohort. In fact, a platoon of these young people went through and graduated

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16 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 83.

from Kapooka just the other day and are now at the infantry centre where they will be trained as commandos under the Special Forces Training Centre. Having passed all those very hard tests, they will go into the unit directly without the need to go into some halfway house employment, say, within the infantry corps or in another corps.<sup>17</sup>

- 5.17 The Special Forces Direct Recruitment Program (SFDRP) training takes about 33 weeks to complete. The initial planning by Defence was for a throughput of 144 candidates per year, which equates to about three platoons per year for 2004-05, 2005-06 and 2006-07. This was subsequently revised downwards to fit in better with the commando reinforcement cycle of training. Defence advised that it 'suits the unit to have the lesser number'.<sup>18</sup>
- 5.18 At the time of the public hearing, Defence had put five platoons of special forces into training, with a total of 232 people enlisted as part of the direct recruiting program since January 2004. Of the 232 personnel recruited into the program, 60 special forces soldiers were produced by the end of 2004. This return is consistent with the success rates for traditional recruitment from within Army and it should be noted that the majority of those candidates who were unsuccessful in achieving special forces selection have accepted general entry into the wider Army.<sup>19</sup>
- 5.19 Defence stated in relation to SFDRP that 'We believe even now, before we have reached our end target, that this is successful.'<sup>20</sup> Moreover:
- In summary, it is a winner. We are going to keep going with it and, by offering direct recruitment to people off the street, we have some marvellous young men.<sup>21</sup>
- 5.20 Defence also advised that the attrition rate from the special forces was not occurring at a rate that was of concern, despite the competition from the private sector security firms operating in Iraq and Afghanistan. In the last 24 months, 31 soldiers left the Special Air Services Regiment for private sector industry.<sup>22</sup> Defence is concerned in so far as:
- ...each one of these soldiers who leaves is somebody we would vastly prefer to keep. And, of course, to replace that soldier takes time and money. When you look at the mind-boggling sums that

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17 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 83.

18 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, pp. 83-4.

19 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 84.

20 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 84.

21 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 84.

22 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 85.

are being dangled in front of these young men, you understand that we simply cannot pay that much. That is not government money. The taxpayer would not want us to be paying those amounts of money to try to keep soldiers.<sup>23</sup>

- 5.21 Defence stated its current ADF policy concerning members of the special forces who decide to join private sector firms operating in Iraq and Afghanistan:

About all we can do is to tug at their heartstrings, which we do by saying: 'Look, we cannot let you go on leave and do this. You have to make the break with no guarantee that you will be able to rejoin the family when you have had your fill of big bucks and a different lifestyle.'...They go, and we wish them farewell with all the best wishes, but we make them make a clean break so that they have to think, 'What does this mean if I want to come back in the future?' Nothing else would be sensible for us as employers.<sup>24</sup>

## Conclusion

- 5.22 The committee endorses the value Defence places on each highly trained member of the Special Forces. The committee accepts the need for a policy that deters members from seeking to pursue private employment as part of the growing private security industry. On the other hand, the committee considers that it may be beneficial to examine an alternative approach in which members who had departed the ADF to work in reputable companies, supporting Australia's national interests, could be made welcome back into the ADF with a minimum of disruption. The enabling of re-enlistment for those members who wish to return to the ADF could result in a number of benefits. Such advantages may include the retention of the time and money invested in training, and the skills and experiences gained in an emerging military support industry.

## Advice to Government and the Parliament

- 5.23 In their *Year in Review* section in the Defence Annual Report the CDF and Secretary reported that 'issues related to the handling of detainees in Iraq by Coalition forces exposed shortcomings in information flows within Defence and between the Departments and Ministers'.<sup>25</sup>

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23 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 84.

24 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 84.

25 Department of Defence, *Defence Annual Report 2003-04*, November 2004, p. 21.

5.24 Measures taken by Defence to improve performance in this area relate to the dynamic between speed and accuracy and include the following:

- reinforcement with Department personnel for the need to remain sensitive to issues of potential policy interest;
- reinforcement of the need to pay close attention to the standards of accuracy and timeliness in the Department's advice to Government and Parliament; and
- internal Defence reorganisation relating to management, coordination and public affairs.

5.25 In this regard, significant improvements have resulted from the slight flattening of the chain of command to speed up the flow of information, and the creation of a Chief of Staff position in the Australian Defence Headquarters to manage the directorates orientated towards Parliament.<sup>26</sup> Defence stated:

One of the things we have learned over the last year or so is that a combination of the operational tempo out in the field with the number of activities our ADF personnel are involved in, on the one hand, and the speed and ease of communication, on the other, can easily create a situation in which the general and I do not have as much visibility of things as we would like. To help us manage that flow of information, this chief of staff position...I would say it has helped us greatly in that.<sup>27</sup>

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26 General Peter Cosgrove, Chief of the Defence Force, Department of Defence, *Transcript*, p. 86.

27 Mr Richard Smith, Secretary, Department of Defence, *Transcript*, p. 86.

## Humanitarian Relief Operations

- 6.1 The 2000 Defence White Paper confirms the Australian Defence Force (ADF) is not specifically structured to support humanitarian relief operations. The priority force structure determinants for the ADF are the defence of Australia and contributing to the security of our immediate region. The ADF is also tasked with supporting Australia's wider interests and objectives by being able to contribute effectively to international coalitions of forces to meet crises beyond our immediate neighbourhood. To achieve these tasks, the ADF will maintain and further develop an integrated and balanced joint force that can provide capabilities appropriate to the two highest tasks listed above.<sup>1</sup>
- 6.2 In addition to the aforementioned core tasks, the ADF is also called upon to undertake a number of routine peacetime national tasks such as support to surveillance operations and the interdiction of suspected illegal entry vessels. The ADF is also called upon to provide support in the case of domestic emergencies such as major bush fires and to form a major part of the national response to international emergencies or humanitarian operations.<sup>2</sup> While the 'ADF is not specifically structured, nor is its personnel specifically trained for, humanitarian relief', the ADF's military training and equipment means that it is often able to support Government requests for humanitarian relief operations at short notice.<sup>3</sup>

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1 Department of Defence, *Defence 2000: Our Future Defence Force*, 2000, p. XII.

2 Department of Defence, *Defence 2000: Our Future Defence Force*, 2000, pp. XI-XII.

3 Department of Defence, *Submission 1*, p. 5.

- 6.3 The review of the Defence Annual Report 2003-04 was a timely opportunity to review the ability of the ADF to continue to respond to humanitarian emergencies and recognise the substantial contribution Defence made as part of the whole of government contribution to assist Indonesia following the devastating 2004 Boxing Day Tsunami and the Nias earthquake on 29 March 2005.

## Background

- 6.4 While the ADF is structured for war fighting it trains to meet contingencies across the spectrum of operations. This spectrum is shown graphically in Figure 6.1. The 'spectrum of operations' extends from assisting with emergency relief to matters of national survival. It is underpinned by the concept of 'likelihood versus consequence', namely: operations to the left of the spectrum are more likely, but their consequences are relatively limited; and operations to the right of the spectrum, while although they might be relatively unlikely, the consequences may be catastrophic for Australia.<sup>4</sup>
- 6.5 Recent operations across this spectrum have included mid-intensity war fighting in the contribution to coalition operations in Iraq, peacekeeping in East Timor and support to whole of government nation building in Solomon Islands. The ADF contribution to the national response to the Boxing Day Tsunami and the Nias earthquake demonstrate an additional dimension to ADF capability.
- 6.6 The ADF can be called upon by Government, or requested by other civil authorities or Government departments, to provide a range of emergency and non-emergency assistance to the Australian Government and community in non-combat related roles. Some of the tasks the ADF may be requested to deliver include:
- emergency assistance;
  - search and rescue;
  - disaster recovery;
  - surveillance; and
  - security or non-emergency law enforcement roles.

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4 Department of Defence, *Force 2020*, <http://www.defence.gov.au/publications/f2020.pdf>, 2002 (accessed 4 February 2005).

- 6.7 The ADF can be requested to undertake law-enforcement tasks where the use of force by Defence personnel may be required (these tasks are categorised as Defence Force Aid to Civilian Authorities).

Figure 6.1 The spectrum of operations



Source Department of Defence, *Force 2020*, <http://www.defence.gov.au/publications/f2020.pdf>, (accessed 4 February 2005) 2002, p. 9.

- 6.8 Defence routinely provides a range of peacetime national support tasks which include surveillance of the Australian coastline relating to illegal immigration, smuggling and quarantine evasion. Defence also routinely contributes to search and rescue tasks both on land and at sea. In relation to national security, defence is poised to provide a range of counter-terrorist responses in support of the national counter-terrorism plan.

## Defence Assistance to Civil Community

- 6.9 Defence Assistance to the Civil Community comprises the following six categories:

### Counter-disaster and emergency assistance

- Category 1 – local emergency assistance - emergency assistance for specific tasks provided by a local commander or administrator, from within his or her own resources, in localised emergency situations when immediate action is necessary to save human life, alleviate suffering, prevent extensive loss of animal life or prevent widespread loss of damage to property.

- Category 2 – general emergency assistance - emergency assistance in a more extensive or continuing disaster where action is necessary to save human life or alleviate suffering, prevent extensive loss of animal life or prevent loss or damage to property and when state or territory resources are inadequate.
- Category 3 – civil emergency or disaster recovery - assistance associated with a civil emergency or disaster recovery, which is not directly related to the saving of life or property.

#### Non-emergency assistance

- Category 4 – public events of significance and general non-emergency assistance - non-emergency assistance provided to the other government departments or authorities, to the states or territories, local government or other authorities or organisations, commercial enterprises, non-profit organisations or individuals or bodies in the general community.
- Category 5 – minor non-emergency assistance - non-emergency assistance of a minor nature, excluding flying tasks, provided to local organisations and which is within the capacity of a local commander or administrator's resources and authority.
- Category 6 – non-emergency law-enforcement-related tasks - support to civil authorities in the performance of non-emergency law-enforcement-related tasks where there is no likelihood that Defence personnel will be required to use force.<sup>5</sup>

6.10 This review will confine its observations of ADF involvement in Category 2 and 3 operations. Category 2 operations in the recent past have included the ADF support to the ACT and Victorian bush fires in January 2003. Under category 3, the ADF has played an integral part in Australia's relief contribution to Banda Aceh following the 2004 Boxing Day Tsunami, and Nias island after the earthquake on 29 March 2005. Defence's support for the tsunami relief effort is known as Operation Sumatra Assist, and the assistance to Nias, Operation Sumatra Assist – Phase II.<sup>6</sup> Operation Sumatra Assist has been the ADF's largest humanitarian operation in recent years.<sup>7</sup>

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5 Department of Defence, *Annual Report 2003-04*, p. 88.

6 Department of Defence, 'Disaster relief operations: Operation Sumatra Assist', <<http://www.defence.gov.au/optsumamiassist/default.htm>> (accessed 12 April 2005).

7 Senator the Hon Robert Hill, Media release, 13 January 2005, <<http://www.minister.defence.gov.au/Hilltpl.cfm?CurrentId=4540>> (accessed 7 February 2005).

## Budget allocation

- 6.11 The small-scale humanitarian relief efforts undertaken by Defence are usually absorbed within Defence's annual budget allocations.<sup>8</sup> For major international humanitarian relief efforts, such as the Boxing Day tsunami disaster, Defence is usually supplemented for the net additional cost of its contribution to these operations.<sup>9</sup>
- 6.12 The historical net cost of Defence's contribution to national support tasks, including emergency and non-emergency assistance to the Australian community in non-combat roles, is \$17.558m.<sup>10</sup> This amount represents the three-year average of the costs Defence incurs in its contribution to humanitarian tasks, since the commencement of reporting by outputs in 2002-03 as detailed in Figure 6.2. These amounts were not subject to separate appropriation, and were absorbed from within the Defence's annual budget.<sup>11</sup>

Figure 6.2 Contribution to National Support Tasks since 2002-03

Financial Year	\$m
2002-03	15.530
2003-04	20.575
2004-05	16.570
<b>Average</b>	<b>17.558</b>

Source Department of Defence, *Submission 1*, p. 6.

## Structure and capabilities of ADF for national support tasks

- 6.13 The force structure of the ADF is aimed at providing the most cost-efficient and operationally effective mix of capabilities for achieving the Australian Government's strategic objectives, including being prepared to undertake lower-level operations such as disaster relief.<sup>12</sup> Defence stated the force structure developed for defending Australia is appropriate for these lower-level tasks. Defence stated:

8 Department of Defence, *Submission 1*, p. 6.

9 Department of Defence, *Submission 1*, p. 6.

10 Department of Defence, *Submission 1*, p. 6.

11 Department of Defence, *Submission 1*, p. 6.

12 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 35.

In preparing to defend Australia, the ADF has to be, and is, a flexible and mobile force with sufficient levels of readiness and sustainability to achieve outcomes in relief operations. The skills and the capabilities that we need to deploy to sustain our forces for war fighting are fundamentally very similar to those required for humanitarian relief; so we can and do easily adapt our war-fighting force for these types of operations.<sup>13</sup>

## Frequently used ADF resources

6.14 The ADF resources that are frequently used for category 2 and 3 national support tasks include:

- C-130 Hercules aircraft. C-130 aircraft have supported disaster relief as far afield as the Bam earthquake in Iran in recent years. This capability is also in heavy demand as an enabling resource for many routine ADF operations. Emergency search-and-rescue tasks and disaster-relief operations put additional pressure on the capability. Emergency tasking can affect routine ADF training operations across all three services.
- ADF helicopters. Helicopters are frequently called upon for search-and-rescue tasks such as the 1998 Sydney to Hobart Yacht race disaster. In addition Sea King and Chinook helicopters are suited to disaster relief operations such as large-scale floods because of their significant lift capability. Emergency helicopter usage has the same flow on effect on training as that for the C130 fleet.
- Amphibious ships. The Navy's amphibious ships are amongst the most versatile assets in the ADF. They have recently operated at the height of the Iraq war in the northern Arabian Gulf in a demanding, high-threat environment. More recently, the HMAS Manoora has been the centre of the ADF contribution to Operation Sumatra Assist phases I and II. Manoora and her sister ship, Kanimbla, have integral helicopter and surface transport capabilities and a level-three medical facility capable of conducting surgery. They can also transport and sustain the other ADF assets suited to humanitarian operations. These two ships have operated at a particularly high tempo since their re-commissioning into the RAN.

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13 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 36.

- Medical Support. The ADF medical units have recently been in heavy demand for incidents across the spectrum of operations. These have included a lengthy commitment in East Timor, an ongoing commitment in north-central Iraq and a range of emergency-support operations. This demanding period of high-tempo emergency-support operations commenced with Operation Bali Assist and is ongoing. Many of the medical officers and specialists within the ADF medical support capability are reserve personnel. This group have a finite ability to contribute as part of the ADF without impacting elsewhere in the national health system. Regular personnel are in equal demand during routine training and combat operations with other ADF units. Enhancements to the Deployable Medical Capability are addressed in the *Defence Capability Plan 2004-14* as project JP 2060.
- Army and RAAF engineers have also been heavily committed to operations and national support tasks. While the ATSiS Army Community Assistance Program (AACAP) and the regional Defence Cooperation Program (DCP) are not emergency tasks they have placed significant demands on the ADF engineering capability over recent years. Engineers are particularly suited to support emergency and humanitarian relief tasks as they have the ability to produce clean drinking water, to clear obstructions and undertake vertical construction. Their soldiers and equipment are capable of operating under the most demanding conditions. Operation Sumatra Assist drew on a number of these capabilities.
- P-3 Orion surveillance aircraft and Fremantle-class patrol boats routinely support the civil surveillance program; and
- Defence planners, transport and logistics operations staff and general personnel are used to provide infrastructure and support in a wide range of domestic and international emergencies. Service accommodation and victualling has also been provided in emergency evacuee centres for victims of major bush fires.<sup>14</sup>

## Reservists

6.15 The ADF Reserve forces have traditionally been held on low readiness for Defence of Australia tasks. Their equipment and personal readiness requirements usually exceed 90 days Notice to Move (NTM). The 'come-as-you-are' nature of emergency support

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<sup>14</sup> Department of Defence, *Submission 1*, p. 5.

operations therefore seem at odds with the structure of the ADF Reserves. Despite this apparent dichotomy, members of the reserves regularly make significant contributions to emergency and humanitarian operations. Reserve units close to the scene of a domestic emergency frequently 'crash through' NTM requirements and provide both Category 1 and 2 support. Individual members of the reserve, in critical trades such as medical staff, are also regularly called upon to support Category 1,2 and 3 operations.

- 6.16 There are clear benefits in utilising Reservists in national support operations. In domestic emergencies Reserve units are frequently closest to the scene of the incident and members will often have high levels of local knowledge. In humanitarian relief operations, Reservists provide specialist skills not readily available in the permanent forces, such as specialist medical skills. Reservists can also augment the permanent force. Defence stated:

To date, the willingness to volunteer has been outstanding as has the support extended by Reservists' employers. But difficulties can arise for Reservists and their employers if the requirement continues for extended periods. Using the medical profession as an example, hospital waiting lists and contractual or business obligations can generally sustain only short periods of disruption.<sup>15</sup>

## **Possible increased frequency of National Support operations**

- 6.17 While it is beyond the scope of this report to attempt to predict whether the number of humanitarian disasters is likely to increase in the future, it is possible to predict whether the ADF will be increasingly called upon to provide support in the case of such events.
- 6.18 It is reasonable to extrapolate current trends in which both business and governments adopt 'just-in-time' practices – holding only enough vehicles, equipment and stocks for their immediate needs. This is sound economic practice but it is not suited to unforeseen emergencies. In an emergency, agencies must respond with what they have to hand. They must continue to provide existing levels of service, thus preventing them from diverting existing resources. Defence is

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15 Department of Defence, *Submission 1*, p. 6.

therefore increasingly isolated as the holder of the nation's spare emergency capacity.

- 6.19 Such reliance on Defence is possible during periods of low operating tempo, in fact during such periods Defence may even regard the experience gained on such tasks as an advantage, gaining training and operational experience in a wide variety of challenging geographical locations and often in extremely adverse weather conditions.<sup>16</sup>
- 6.20 However, in a period of uncertainty, during which many of the assets listed as suitable for emergency operations in this report are heavily tasked higher on the spectrum of operations, it may not be possible to continue to rely on Defence assets without exposing them to the risk of equipment failure and personnel exhaustion.
- 6.21 Defence currently advise the committee that pressures on these resources are manageable and that no capability adjustments are necessary beyond those already forecast in the Defence Capability Plan. Defence suggests, however, that pressures caused by emergency assistance in Australia 'might be alleviated by increased funding by state governments in the fields of disaster relief and emergency management.'<sup>17</sup>

## Significant successes

- 6.22 Defence stated that one of the most important reasons the ADF is able to successfully undertake humanitarian operations is due to the individual quality of ADF personnel, particularly their compassion and understanding. In relation to Operation Sumatra Assist, Defence reflected:

Most recently, in my observation of those qualities in Banda Aceh, I was once again struck by the human touch that our men and women bring to these sorts of operations. Their empathy, their compassion and their understanding for the plight of others were very evident in Banda Aceh, as they have been in every other humanitarian operation.<sup>18</sup>

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16 Department of Defence, *Submission 1*, p. 6.

17 Department of Defence, *Submission 1*, p. 6.

18 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 39.

- 6.23 Defence advised that the ADF personnel in this Operation have also been:

...buoyed and lifted. Certainly during my brief visit I saw that they were very proud of what they were doing. Those who have returned remain very proud of what they have been able to achieve. They see the direct results of their efforts. I think it has been a very positive impact on their self-confidence, self-esteem and belief in themselves.<sup>19</sup>

## Support and entitlements for ADF personnel

- 6.24 Noting the concurrency of the excellent contribution by ADF personnel in recent years to humanitarian operations and the increased operational tempo since 1999, the committee sought assurance from Defence that adequate structures were in place to ensure the health and safety of personnel.
- 6.25 The ADF has one of the largest workplace mental-health systems in Australia. The mental health support services routinely available to ADF members include Defence medical officers, psychiatrists, psychologists, social workers, nurses and military chaplains. The ADF has 23 Regional Mental Health Teams tasked to coordinate mental health service provision and currently 2 Operational Mental Health Teams.<sup>20</sup>
- 6.26 Defence also provides an All Hours Support Line that is available to members and their family 24 hours a day, seven days a week. It is a confidential triage telephone support line staffed by tertiary-qualified health and mental health professionals who have the capacity to respond to members and family members in crisis.<sup>21</sup>

## ADF operational mental health support

- 6.27 ADF personnel deployed on Operation Sumatra Assist receive comprehensive mental-health support including pre-deployment briefings, embedded mental-health support, return to Australia

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19 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 42.

20 Department of Defence, *Submission 1*, p. 2.

21 Department of Defence, *Submission 1*, p. 2.

briefings and post operational mental-health screening.<sup>22</sup> Defence stated:

We are very conscious of the issues that our people have to face. Throughout the operation we have had support in place on the ground in Banda Aceh. We have had psych teams there to support as well as chaplains. In addition to being on the ground in Banda Aceh we have had similar teams in Butterworth who have either conducted visits into Banda Aceh or have been in Butterworth as people have come out of Sumatra. They go through a debriefing cycle in Butterworth. These people of course will monitor their wellbeing for many months in the years to come.<sup>23</sup>

- 6.28 Defence advised the key components of the framework are the Return to Australia Psychological Screening interview conducted at the end of the deployment, and the Post Operational Psychological Screen conducted three to six months after return. Both of these processes are aimed at enhancing the ADF's operational capability. It does this by identifying people that may benefit from post-deployment follow-up and by providing advice to commanders about the management of their unit after their return to Australia.<sup>24</sup>
- 6.29 In response to the Asian Tsunami Disaster, the Directorate of Mental Health has established a 'Managing Reactions to Major Disasters and Potentially Traumatic Events' section on the ADF Mental Health Strategy website:  
<<http://www.defence.gov.au/dpe/dhs/mentalhealth/index.htm>>.<sup>25</sup>
- 6.30 In addition, Defence stated that Families of personnel deployed also receive comprehensive pre-deployment briefings and follow-up support for the period of the member's deployment.<sup>26</sup>

## Entitlements

- 6.31 Operation Sumatra Assist was conducted as a peacetime operation and therefore no special entitlements were available for ADF personnel. Defence advised:

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22 Department of Defence, *Submission 1*, p. 3.

23 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 40.

24 Department of Defence, *Submission 1*, p. 3.

25 Department of Defence, *Submission 1*, p. 3.

26 Department of Defence, *Submission 1*, p. 3.

They were given a special monetary allowance to account for some of the hardship they were affected by. In this case, that was advanced. There is normally a 30-day qualifying period for what is known in my service as hard lying allowance. In this case the qualifying period was not required and amounts were set for various parts of the operation.<sup>27</sup>

## Lessons learned from Operation Sumatra Assist

6.32 As part of Operation Sumatra Assist, Defence advised a 'lessons learned' team was very quickly established by the defence warfare centre based in Williamstown.<sup>28</sup> This team will examine and report on the range of lessons learned including:

the equipment that we used; what equipment might have been better; whether better equipment was available to do the jobs that we ended up doing; whether the equipment that we took was the appropriate equipment; whether we could have done the movement slicker, faster, better; and whether our command and control was adequate.<sup>29</sup>

6.33 Defence also advised that a lesson-learned conference had been held 'across the whole-of-government for all the agencies that were involved' in the operation.<sup>30</sup>

## Conclusion

6.34 The Committee highly commends the ADF for its outstanding support to humanitarian and emergency operations, most recently demonstrated in Sumatra and Nias. The committee also expresses its sorrow for the tragic loss of life aboard 'Shark 02' when it crashed during relief operations on Nias in April 2005. All Defence personnel

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27 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 41.

28 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 38.

29 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 38.

30 Vice Admiral Russell Shalders, Vice Chief of the Defence Force, Chief of Joint Operations, Department of Defence, *Transcript*, p. 38.

deployed on Operation Sumatra Assist demonstrated empathy, determination and compassion, qualities in keeping with the finest traditions of the ADF.

- 6.35 The committee endorses the primacy of the ADF's war-fighting role in determining force structure. The principal role of the ADF should continue to be to defend Australia and its interests.
- 6.36 The range of capabilities, listed in the report, which are frequently called upon when assisting with emergency tasks are an indication that the ADF war-fighting capabilities have significant utility across a broad range of other tasks. The committee agrees with the ADF assessment that no structural changes are necessary to the ADF to enhance this ability, beyond those already forecast in the *Defence Capability Plan 2004-14*.
- 6.37 The committee also agrees there are many benefits for the ADF in undertaking Category 2 and 3 Defence Assistance to the Civil Community. Personnel receive exposure to testing operating environments and conditions which develop their core defence skills. They also experience the complex reality of other geography and cultures, many of which contain the seeds of modern conflict. ADF members exposed to such operations often emerge more mature and confident in themselves and their organisation.
- 6.38 The committee does, however, note the convergence of a high operational tempo and the increased use of many ADF resources in national and international emergency tasks. It is reasonable to expect that the ADF will remain busy in an uncertain security environment for some years to come. It is also increasingly clear that the national surge capacity is contracting in favour of a 'just-in-time' approach to logistics and infrastructure across the country. This contraction by all levels of government and industry will increasingly leave the ADF as one of the few institutions capable of responding to major emergencies. Should a high operating tempo and a series of national or international disasters coincide, the types of capabilities listed in this report will be placed under considerable pressure. This pressure risks harming the health and commitment of many service personnel and damage to defence equipment procured primarily for security tasks.
- 6.39 To counter this potential harm, it is clear that the ADF has developed a robust support structure for its personnel. This structure combines awareness of the need to provide adequate conditions of service for

deployed personnel, concurrent support for families and significant mental-health intervention on return.