

**Enclosure 1**

**Question:**

'Can you give us a list of the systems that have finally gone out of date or been sold in the last five years? What level of value was recovered from them'?

**Response:**

**LISTING OF ADF PLATFORMS DISPOSED OF WITHIN THE LAST FIVE YEARS**

**Sale of ADF Platforms within the last five years:**

<b>Date of Sale</b>	<b>Platform Sold</b>	<b>Purchaser</b>	<b>Sales Proceeds<sup>(i)</sup></b>
December 1998	Two ex RAAF H748 aircraft sold by tender.	West Air, Sweden.	\$1,000,007
October 1999	HMAS <i>Moresby</i> sold at public auction.	Caravelle Investments Limited, Hong Kong.	\$584,985
October 1999	HMAS <i>Flinders</i> sold at public auction.	A New Zealand Consortium.	\$518,460
April 2000	Minesweeper Auxiliary vessel Bermagui sold at public auction.	Mosman Bay Boat Charters Pty Ltd, Sydney.	\$190,000
April 2000	Minesweeper Auxiliary vessel Kooraaga sold at public auction.	Klokan Fishing Pty Ltd, Nelson Bay, NSW.	\$170,000
June 2000	Three RAAF Dakota aircraft sold at public auction.	Historical Aircraft Restoration Society, Sydney, NSW	\$95,000
		Mr. D.Lang, Highbury, SA	\$35,000
		Mr.B.McDermott, Sydney, NSW (fuselage only)	\$5,000
	Spares sold to a range of purchasers		\$173,298
January 2001	HMAS <i>Ardent</i> sold via private treaty. <i>Ardent</i> was to be gifted to the NT Government, which declined the offer in August 2000.	Britton Marine (Australia) Pty Ltd, Yowie Bay, NSW.	\$150,000
November 2000	Two ex Navy HS748 sold by tender.	TAG Aviation Pty Ltd, England	\$1,430,000
	One ex RAAF HS748 aircraft sold by tender.	International Air Parts (Australia), Warriewood, NSW (fuselage only)	\$10,000
	Spares (including engines) sold to a range of purchasers		\$775,270

(i) Sales Proceeds exclude GST and Commissions

**Gifting:**

- HMAS *Swan* was gifted to the Western Australian Government under deed of gift arrangements in November 1996. *Swan* was sunk as a dive site in December 1999 off the coast of Dunsborough, south west of Western Australia.
- HMAS *Ovens* was gifted to the Western Australia Museum under deed of gift arrangements in November 1998. *Ovens* is on display to the general public as a museum exhibit.
- HMAS *Onslow* was gifted to the Australian National Maritime Museum, Sydney, under deed of gift arrangements in April 1999. *Onslow* is on display to the general public as a museum exhibit at Darling Harbour, Sydney.
- HMAS *Perth* was gifted to the Western Australian State Government under deed of gift arrangements in December 1999. *Perth* is to be sunk in late 2001 or early 2002, as a dive site off the Albany coast.
- HMAS *Hobart* was gifted to the South Australian Government under deed of gift arrangements in August 2000. *Hobart* is to be sunk as a dive site in Yankalilla Bay off the southern coast of South Australia's Fleurieu Peninsula in late 2001.

**Notes on gifting:**

ADF platforms listed as "gifted" were subject to deed of gift arrangements between the Commonwealth of Australia and the relevant recipient.

Bids for ADF platforms, where gifted, are developed through consultation between Defence staff, museums, State governments and communities. Such bids are evaluated to confirm the financial viability of the proposal and the infrastructure available for the proposal's successful implementation. A preferred bidder is then recommended and Ministerial approval sought.

When ADF platforms are gifted, costs including towing are met by the supporting State government. The State government accepts other liabilities, such as the need to gain federal/state environmental agency approval for the sinking of a major vessel. This gifting activity takes place via a restricted, rather than open, tender process.

**Miscellaneous:**

- HMAS *Torrens* was sunk in June 1999 off the coast of Perth. *Torrens* was used as a target for a MK48 torpedo trial conducted by HMAS *Farncomb*.
- HMAS *Bayonet* was sunk in September 1999 southwest of Cape Schanck, Victoria. *Bayonet* was in a poor and deteriorated condition.

## **ADF PLATFORMS IN THE PROCESS OF DISPOSAL**

- HMAS *Brisbane* is expected to decommission in Sydney, NSW, in October 2001.
- HMAS *Orion* is in the process of being gifted to the Western Australian State Government under deed of gift arrangements.
- HMAS *Otama* is available for disposal, awaiting development of disposal options.
- Mk44 Torpedos are available for disposal, having been replaced by the MU90/IMPACT lightweight torpedo.
- RAAF MACCHI aircraft and spares are available for disposal.
- Navy Inshore Minehunters (MHI) will be available for disposal in the latter half of 2001.
- RAAF B707 aircraft tail number A20-627 has recently retired from RAAF service.
- Between nine and eleven Squirrel helicopters will be available for disposal towards the end of 2001.

## Defence Follow-up questions

### **Question 1: Report of the Senate Finance and Public Administration Legislation Committee (SFPALC), The Format of the Portfolio Budget Statements, Third Report.**

**The SFPALC concluded that Senators were ‘exhibiting varying levels of patience with the current levels of instability in the reporting frameworks in some portfolios; there is a clear expectation that the frameworks should stabilise sooner rather than later.’ (Report, p. 39)**

- **Do you feel you are achieving year-on-year stability in the outputs/outcomes structure and performance measures which are contained within your Budget documents and annual report?**

Response: The Management Advisory Board predicted that “*defining and costing of outputs, however, that will have the most significant impact on Agencies in the implementation phase. Post- implementation, the focus will be on monitoring and refinement of outputs, output delivery, and costing/pricing decisions.*” (Beyond Bean Counting – Effective Financial Management in the APS – 1998 & Beyond)

The number of Defence Outputs reduced from twenty-two in 1999-2000 to five in 2000-01. In 2001-02 one of the five was split into two. While the “new” Outputs are mapped to the “old” in external reports, Defence acknowledges that Parliament’s capacity to compare information from year to year is somewhat affected by these changes. However, Defence considers that specification of its Outputs has improved and, while further changes to the Output structure cannot be ruled out after 2001-02, it is expected to stabilise.

Without full system functionality to support the accrual/output framework, Defence has been required to derive its Output costs through a complex set of rules that attributes accrual-based input costs to the Outputs. These rules were complex, required regular updating and were prone to error (a simplified set will be used with improved system functionality). The result has been significant variations in Output costs in each of the external reports produced so far under the accrual/output framework and Defence has had difficulty in being able to explain to Parliament the underlying causes of these variations (eg between real changes and accounting changes).

Defence is giving priority to the implementation of a better management accounting system, including improved costing functionality, the results of which are expected to be progressively introduced from 2002-03.

### **Question 2: Currently agencies check with ANAO on an ad hoc basis as to whether accounting policy is in accordance with accounting standards. The ANAO has suggested that agencies should be encouraged to consult with it on the**

**accounting policies in respect of new or complex financial arrangements at the time of budget preparation.**

- **Do you agree with this view?**

Response: Defence agrees that the advice of ANAO could be sought at the time of Budget preparation in relation to complex financial arrangements. The majority of advice on budget preparation is sought from the Department of Finance and Administration, as the agency responsible for the administration of budget matters.

**Question 3: The PBS does not currently provide forward performance information in addition to forward financial information. This does not assist members and senators to understand how agencies are performing today and how they expect to perform in the longer term.**

- **Would you discuss the merits and feasibility of providing forward performance information in addition to forward financial information in the PBS?**

Response: The provision of forward non-financial performance information would be complex and sensitive for Defence in that there are a range of factors which contribute to its ability to forecast Defence capability. However, Defence is now establishing a planning framework, set within Government's strategic direction, which specifically links resourcing with non-financial performance targets. Defence will work to a rolling corporate plan that will bring together strategic investment priorities, operational requirements, corporate business strategies and proposed funding arrangements with appropriate performance and accountability measures. This will put Defence in a position to provide forward non-financial performance information, taking into account the national security sensitivity of that information.

**Question 4: Your 2001–02 PBS (p. 25) comprises of six outputs with a total price appropriated for outputs of \$17 516 million. Three of the outputs are priced at approximately \$5 000 million each. (Defence PBS 2001–2002, p. 25)**

- **Would you discuss whether you consider that these outputs are sufficiently disaggregated to support transparency and accountability for its performance to stakeholders?**

Response: The approach adopted in Defence's external reports has been to provide financial information at the Output level, with lower-level information provided on an exception basis, where such information facilitates understanding of the report. Lower-level information is provided to satisfy the requirements of particular readers (eg members of the Senate Foreign Affairs, Defence and Trade Legislative Committee (SLC) in relation to facilities, the top twenty acquisition projects and the Defence Co-operation Program). The balance that Defence attempts to achieve is to provide enough information for accountability purposes while maintaining the overall utility of the reports and observing any relevant national security constraints.

Defence provides a comprehensive technical pre-brief to SLC Members, which saves time during formal hearings, and will continue to provide this assistance to the Committee as required. Additional detailed information is also provided in response to specific questions from Senators.

**Question 5: An annual report is not tabled in Parliament for some time after the Parliament has had the opportunity to consider the Budget estimates. This issue was raised by the Senate Finance and Public Administration Legislation Committee in *The Format of the Portfolio Budget Statements, Third Report (page 41)*.**

**There appears merit in agencies providing at budget time, an estimated actual performance outcome to allow comparison of that information with the estimated actual financial information in the budget papers.**

- **Would you comment on this proposal?**

Response: Defence provides an estimate of the budget year's financial and non-financial results and the projected financial result for the year preceding it in the Portfolio Budget Statements. A description of the projected non-financial performance could be produced to facilitate better understanding by Parliament of the projected result, taking into account the national security sensitivity of that information.

Defence would still prefer to report against the revised estimates in the Annual Report, rather than against the projected result provided in the Portfolio Budget Statements.

**Question 6: Many outcomes involve the achievement of a desired state of affairs over a longer-term. It may not be possible to report meaningfully against all aspects of the outcome in the shorter term. The ANAO considers that there are benefits in agencies specifying intermediate outcomes. These include:**

- **assisting management to articulate and communicate achievable short-term objectives across the organisation;**
- **demonstrating practical linkages between outputs and desired outcomes; and**
- **assisting in planning, monitoring and performance reporting of long term objectives.<sup>1</sup>**

- **Would you comment on the use of intermediate outcomes to measure progress towards achieving your longer-term outcomes?**

Response: The Government has provided Defence with a single outcome: the defence of Australia and its national interests. The achievement of this outcome is ongoing, without any intermediate steps. Defence contributes to this outcome through

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<sup>1</sup> *ATO Performance Reporting under the Outcomes and Outputs Framework: Australian Taxation Office, Audit Report No.46, 2000-01, p.47.*

delivery of the six Defence outputs: Defence Operations, Navy Capabilities, Army Capabilities, Air Force Capabilities, Strategic Policy and Intelligence.

**Question 7: It has been suggested that the following could assist departments/agencies to accurately measure their outputs:**

- **develop a data dictionary of the terminology used in their outcomes and outputs framework;**
  - **promulgate agency wide measurement methodologies and counting rules to ensure consistent measurement of performance measures particularly, where more than one functional area is involved in reporting agency performance; and**
  - **set up appropriate audit trails to monitor progress against delivery of their outputs.**
- **Has the guidance provided by DoFA been useful?**
  - **Do you already use some or all of the above methods? If yes, which ones?**

Response: The DOFA guidelines have been a useful, if generic, starting point for agencies to develop their outcome and output framework. Defence is now moving beyond this stage, through strategy mapping and balanced scorecard initiatives, to develop a more comprehensive and informative performance framework. The methods listed above are already in use with Defence, and continue to be refined as Defence seeks to implement its organisational renewal arrangements.

**Question 8: The main aim of the CUC was to encourage agencies to recognise their assets and promote good asset management.**

- **Would you discuss whether in practice the CUC has been beneficial?**

Response: The CUC is good in concept, but benefits to date for Defence have been constrained by the environment within which it operates. The CUC reinforces that assets are not a free good, and its introduction has encouraged Defence to consider asset ownership and use on the basis of the business merits of a proposal, such as decisions concerning the lease versus buy versus privately financing of assets.

Other related arrangements, such as the in-and-out-on-the-same-day mechanism for the funding and payment of the CUC, and the degree to which the proceeds of asset sales can be retained by an agency, have limited the ability of Defence to optimise the management of its balance sheet.

**Question 9: From time to time agencies can achieve a significant operating surplus separate from the Capital User Charge. There appears merit in requiring agencies to specifically identify the details of any surplus to output level with explanations in the agency annual report which can be matched to the audited financial statements.**

- **Details of the composition of the Defence operating surplus for 1999-2000 are not readily accessible in the Defence Annual Report. Is the surplus broken down to output and project level in the Annual Report with explanations?**
- **The Committee understands Defence will have an operating surplus for financial year 2000-2001. Do you propose to identify the details of the surplus at output and project level in the Defence Annual Report 2000-2001?**

Response: The surplus is not broken down to output or lower levels in the Defence Annual Report for 1999-2000.

As with its 2001-02 Portfolio Budget Statements, Defence intends to provide a comprehensive explanation of its financial performance, against its published budget, in its 2000-01 Annual Report. This will include an analysis of the activities and other factors making up Defence's operating result.

While "surplus" revenue over the cost of specific Defence outputs might be identifiable in certain circumstances through an estimated attribution process, much of Defence's operating surplus in recent years (including 2000-01) is not in fact related to delivery of outputs. Like most agencies, Defence has a range of revenue sources that are not earned through sale of its outputs (to the Government or other entities). These include interest on financial investments, gains on sales of assets, and accounting-based revenues raised through corrections to previous accounts.