
The Parliament of the Commonwealth of Australia

Review of the Defence Annual Report 2004-05

Joint Standing Committee on Foreign Affairs, Defence and Trade

October 2006
Canberra

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ISBN 0 642 78649 6

Cover photo captions:

‘The crew of an AP-3C Orion, flying as part of No. 10 Squadron's 92 Wing Detachment B in Darwin, after returning from another successful sortie during Operation Resolute.’ (Official No: 20060808adf8248214_114)

‘Patrol Boat HMAS Armidale leaving Darwin harbour on Operation Breakwater – a major air and sea operation that targeted border incursions by foreign fishing boats off Australia’s northern coastline.’ (Official No: 20060321ran8100087_022)

‘An Australian Army loadmaster conducts his pre-flight checks on a Chinook helicopter supporting Australian and coalition forces deployed in southern Afghanistan.’ (Official No: 20060406adf8143085_007)



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Foreword

This report focuses on the activities, achievements and undertakings of the Australian Defence Force (ADF) and the Department of Defence during the period July 2004 to June 2005. Australian Defence Force personnel were involved in 17 offshore operations during this period of time. Two of those operations were particularly noteworthy. First, the strengthening of the presence in Iraq with the deployment of a 450-strong Task Group to the Al Muthanna Province and second, the humanitarian relief effort undertaken in response to the tragic aftermath of the South-East Asian tsunami.

The Al Muthanna Task Group (AMTG) contributed in a real and tangible way to the reconstruction efforts in Iraq. Members of this Committee were privileged to visit the AMTG and observe first-hand the commitment, pride and professionalism of these men and women and the positive impact they were having on the lives of Iraqis in the Province. The AMTG has since moved from Al Muthanna to join the Overwatch Battle Group-West (OBG-W), based in the southern Iraqi province of Dhi Qar, where they undertake a security overwatch role as part of a larger Coalition Force.

The tsunami relief operation was another demanding mission and one that was completed with professionalism with compassion. The many achievements of the ADF during this relief operation were tempered by the sad loss of nine personnel, and the injuries of two others, in the helicopter crash on Nias in early April 2005. Such accidents are a reminder that the men and women of the ADF do a dangerous job, often in unforgiving environments, through the spectrum of operations from humanitarian relief, to peacekeeping to warlike.

During the 2004-05 reporting period, in addition to the focus on military operations, Defence continued to address procurement reform and financial management remediation, as well as according particular attention to military justice matters, intelligence reforms and the management of ADF recruitment and retention problems.

The four major topics reviewed in this report provided the Committee with an opportunity to examine how Defence was commanded, managed and operated in the context of the strategic environment as articulated through the Defence Updates (the most recent being in December 2005), and the Defence Capability Review extant at the time. The first topic examined the attainment of Prescribed Agency Status for the Defence Materiel Organisation (DMO), the implications of prescription for the ongoing reform process and an overview of certain key projects and project management methodologies.

Given the intensity and persistence of ADF operational deployments, and the need to maximise the survivability and efficacy of our people and platforms, topic two examined a range of issues in relation to the Chinook helicopter. In particular, upgrades to the helicopter were discussed as they pertained to the deployed role in Afghanistan, as well as an examination of their future in the context of the enhancement and modernisation of the ADF helicopter fleets being considered by Project AIR 9000. A parallel issue which was also examined was the overall future of tactical airlift across the three Services.

Topic three addressed the roles and responsibilities of the Joint Offshore Protection Command (JOPC). This section focused on the people, the operational tasking and strategic command and control issues. Specifically, we considered the range of current operations, the impact on personnel of maintaining a high tempo, and the management and effectiveness of the inter-agency relationships.

Our final topic was an examination of the progress on the remediation of Defence's qualified financial statements. While elements of this topic were considered during 2003-04, the ongoing nature of these issues was considered to be of such a magnitude that they warranted further examination.

To conclude the review of the Defence Annual Report 2004-05, the Acting Chief of the Defence Force, Lieutenant General Ken Gillespie, and the Secretary, Mr Ric Smith, made themselves available for a wide-ranging discussion on current issues in the Department. The Committee appreciated the candour and commitment displayed by the Defence leadership during this session.

Finally, the Committee would like to record their appreciation for the excellent work that continues to be done by the men and women of the ADF in support of operations in Australia, in our region, and around the world.

Hon Bruce Scott, MP
Chairman
Defence Sub-Committee



Membership of the Committee

Chair	Senator A B Ferguson	
Deputy Chair	Hon G J Edwards, MP	
Members	Senator A Bartlett	Mr S W Gibbons, MP
	Senator P M Crossin	Mr B W Haase, MP
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	Mrs J Gash, MP	
Secretary	Dr Margot Kerley	

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		Mr K W Wilkie, MP
Secretary	Dr Margot Kerley	
Defence Adviser	Wing Commander Anne Borzycki	
Administrative 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.¹

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

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

² 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

ADF	Australian Defence Force
ADO	Australian Defence Organisation
AEW&C	Airborne Early Warning and Control
AFMA	Australian Fisheries Management Agency
ANAO	Australian National Audit Office
APS	Australian Public Service
ASLAV	Australian Light Armoured Vehicle
ASPI	Australian Strategic Policy Institute
AVO	Australian Valuation Office
CA	Chief of Army
CAF	Chief of Air Force
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
EWSP	Electronic Warfare Self-Protection
HUG	Hornet Upgrade Program
JOC	Joint Operations Command

JOPC	Joint Offshore Protection Command
JORN	Jindalee Operational Radar Network
JSF	Joint Strike Fighter
Kinnaird Review	The Defence Procurement Review 2003
MRTT	Multi-Role Tanker Transport
PBS	Portfolio Budget Statements
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RFSU	Regional Force Surveillance Unit
RoE	Rules of Engagement
SDSS	Standard Defence Supply System
VCDF	Vice Chief of the Defence Force



List of recommendations

Recommendation 1

The Committee recommends that the Defence Materiel Organisation provide annual updates on the top ten high risk projects of the year using the Maturity Score methodology, noting that commercial-in-confidence imperatives will apply.

Recommendation 2

The Committee recommends that they be provided an update on the progress of the development of options for the optimum fleet mix to meet the ADF's future airlift requirements.

Recommendation 3

The Committee recommends that an invitation be extended to Defence sub-committee members to observe and/or participate in a security contingency wargaming activity between Defence and relevant government agencies.

Recommendation 4

The Committee recommends that Navy reports on the utility and effectiveness of the multi-crewing concept once a full Division of Armidale-class patrol boats (for crew rotation purposes) has been delivered.

Recommendation 5

The Committee recommends that Defence advise the course of action taken in relation to establishing the general inventory 'best estimate' and the results of the assessment/review.

Recommendation 6

The Committee recommends that Defence report on the 'highly technical issues' that have been presented to the Australian Accounting Standards Board for consideration.

Recommendation 7

The Committee recommends that Defence report on the progress of implementation of the ADF Recruiting Strategic Plan 2005-2010, specifically in relation to the conversion ratio of inquiries, to applications, to enlistments and the review of entry requirements.

Recommendation 8

The Committee recommends that Defence and the Department of Veterans' Affairs examine, and then report to the Committee, options to better identify affected F-111 deseal/reseal personnel.

Introduction

- 1.1 During the period July 2004 to June 2005, Defence saw a continued focus on military operations, procurement reform and financial management remediation.
- 1.2 The Australian Defence Force (ADF) was involved in 17 offshore operations during the year. Two of these operations are noteworthy. First, the strengthening of the presence in Iraq with the deployment of a 450-strong Task Group to the Al Muthanna. Second, the humanitarian relief effort undertaken in response to the tragic aftermath of the South-East Asian tsunami. The tsunami relief operation was a demanding mission and one that was completed with professionalism and compassion. The many achievements of the ADF during this relief operation were tempered by the sad loss of nine personnel, and the injuries of two others, in the helicopter crash on Nias in early April. Such accidents are a reminder that the men and women of the ADF do a dangerous job, often in unforgiving environments, through the spectrum of operations from humanitarian relief, to peacekeeping to warlike.
- 1.3 The *Defence Update 2005* was released in December 2005 and builds upon the White Paper, the previous Defence Update and the Defence Capability Plan. *Defence Update 2005* outlined the way the Government continues to 'shape the ADF as a highly capable and

flexible military force able to meet a wide range of strategic and responsive tasks.’¹

- 1.4 During 2004-05, particular attention was also accorded to military justice matters, intelligence reforms and issues of Australian Defence force (ADF) recruitment and retention.
- 1.5 The four topics selected for examination as part of the review of the *Defence Annual Report 2004-05* cover some of these issues. They range from the long-term such as the ongoing reforms to the Defence Materiel Organisation (DMO) and the remediation of Defence’s qualified financial statements, to the more immediate, such as the management and coordination of the various aspects of people, systems and platforms that enable the ADF to fulfil the roles, and meet the tasking, necessary to achieve national interest objectives.
- 1.6 The DMO was accorded prescribed agency status on 1 July 2005, and in cooperation with Defence, particularly Capability Development Group, has been actively addressing the deficiencies identified in the Kinnaird Review of Defence procurement. The first topic addresses aspects of the DMO in the context of its Prescribed Agency Status and the changed relationship with Defence, as well as providing an overview of selected acquisition projects and a general introduction to their project management methodologies.
- 1.7 The second area for examination was primarily focused on the Chinook helicopter, its upgrade program and the deployment to Afghanistan, as well as the broader issue of the future of the ADF’s helicopter fleet in the context of the AIR 9000 project. A related topic that was also briefly examined was the future light tactical airlift capability of the ADF, in particular, determining the appropriate force mix of rotary, fixed-wing or a combination of both aircraft.
- 1.8 Topic three examined the roles, responsibilities and inter-agency relationships of the Joint Offshore Protection Command (JOPC). In March 2005 the Minister for Defence and the minister for Justice and Customs, officially opened the JOPC to enable a more effective, efficient and coherent whole-of-Government approach to various high priority operations conducted in Australia’s offshore areas. Augmented patrols commenced on 30 March and this report examined the activities being undertaken under the auspices of the JOPC, in particular Operations RELEX II and CRANBERRY, the

¹ Defence Portfolio, *Portfolio Additional Estimates Statement 2004-05*, p. 3

future direction of the Command and ongoing development of relationship with other Government agencies.

- 1.9 Defence's qualified financial statements, and the steps Defence is taking to improve this situation, are examined in topic four. Defence notes that 'a full financial controls framework that will standardise financial transactional and management processes across Defence is being introduced to improve the integrity of ... financial data, budgeting and financial statements.'² Specifically, this review examines the remediation plans and the rectifications and progress to date, the Australian National Audit Office Categorisations and impacts on Defence, as well as addressing in a general sense compliance with accounting methodologies and Defence's future expectations in relation to financial management.

Defence objectives, personnel and 2005-06 Budget allocation

- 1.10 The Portfolio Budget Statements (PBS) 2005-06, in conjunction with the Portfolio Additional Estimates Statements 2005-06 (PAES), provide the 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), in *Australia's National Security: A Defence Update 2003* (the Defence Update 2003), and *Australia's National Security: A Defence Update 2005* (Defence Update 2005). The underpinning principles of the White Paper remain valid, however, noting that the strategic environment of recent times is dynamic and challenging, and that the Defence strategy for Australia has evolved to meet these changing demands. The Defence Updates provide a framework to ensure the ongoing security of Australia and our national interests, as well as enabling the development of an ADF that is capable enough and flexible enough to contribute with increasing effectiveness to global, regional and domestic tasking as necessary.
- 1.11 A key enhancement announced in the *Defence Update 2005* was the development of a Hardened and Networked Army (HNA). HNA is a 'ten year plan that will allow the Army to be more capable, more survivable, and more able to provide a broader range of options that

² *Defence Portfolio Budget Statements, 2005-06* p. 7.

can be employed for longer and if necessary, in more lethal scenarios.’

³ HNA will be achieved by a combination of increased personnel numbers, new force structures of combined arms battlegroups and enhanced and new equipment and support systems.

1.12 From the period 2004-05, the ADF was maintaining a force structure that comprised the following combat elements:

- a surface combatant force of five Adelaide-class guided missile frigates (FFGs) which will be reduced to four by the end of 2007, and seven Anzac-class frigates;
- 16 Seahawk naval combatant helicopters, six Sea King maritime support helicopters, 13 Squirrel naval training helicopters, and ten (increasing to a final of 11 in early 2006) Super Seasprite naval combatant helicopters which have achieved interim acceptance for training prior to estimated operational acceptance of full capability not before mid-2006);
- 12 Fremantle-class patrol boats (reducing to 10 by mid-2006 with the remainder to be decommissioned by mid-2007) and an Armidale-class patrol board (increasing to 14 by the end of 2007);
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships, one heavy landing ship and six heavy landing craft;
- a mine hunter force comprising six Huon-class coastal mine hunters (two of which have been placed in extended readiness from 2006), two auxiliary minesweepers and two clearance diving teams;
- a hydrographic force comprising two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne-depth sounder aircraft and a deployable geospatial support team;
- an afloat support force comprising one auxiliary oil tanker (to be replaced by 2006 with a more environmentally-friendly double-hulled tanker) and one fleet replenishment ship;
- five Army infantry battalions at 90 days readiness or less, supported by a range of armour, aviation, engineer, artillery,

³ *Australia's National Security: A Defence Update 2005*, Minister for Defence Speech, 15 Dec 05

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 Surveillance Units;
- a Special Operations Command 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 Hornet squadrons and one operational F-111 squadron (to be retired from service by about 2010), supported by a training wing comprising four units, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements;
- an air transport and air-to-air refuelling force that operates two C-130 Hercules airlift squadrons, one squadron of DHC-4, B-707 and B-737, and Special Purpose Aircraft (B300 Beechcraft and Challenger). Airborne Early Warning & control aircraft will be deployed from 2007;
- a maritime patrol force of two front-line P-3C Orion squadrons and one conversion unit; and
- agencies responsible for intelligence collection and analysis.⁴

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.'⁵

1.14 For 2004-05 the most recent Budget estimates for Defence are shown in the PBS.

1.15 Table 1.1 below reproduces the key information.

⁴ Defence Portfolio Budget Statements 2005-06, pages 9-10, *Portfolio Additional Estimates Statements 2005-06*, p. 4.

⁵ Defence Portfolio Budget Statements 2005-06, p. 10

Table 1.1 Defence Resourcing Summary – 2004-05

	2004-05 Actual Result \$000	2005-06 Budget Estimate \$000
Revenue from Government for outputs	15,749,688	15,977,721
Own source revenue ¹	499,225	371,341
Equity injection from Government	393,286	1,121,148
Net Capital receipts	105,697	371,341
Administered appropriation ²	2,793,453	2,539,359
Total Defence resourcing	19,541,349	20,034,423

Notes

1. Own-source revenue excludes 'assets now recognised' revenue and 'net gains from sales of assets' revenue.

2. The administered appropriation 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 2005-06, p. 32; Defence Annual Report 2004-05, p. 11.

1.16 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.

Table 1.2 Average Annual Strength of Services (number of persons) – 2001-02 to 2005-06

	2001-02	2002-03	2003-04	2004-05 Actual	2005-06 Budget Estimate
Navy	12,598	12,847	13,133	13,089	13,209
Army	25,012	25,587	25,446	25,356	25,484
Air Force	13,322	13,646	13,455	13,368	13,498
Total Permanent Force	50,932	52,080	52,034	51,813	52,191

Source Defence Annual Report 2004-05, p. 90; Defence Portfolio Budget Statements 2005-06, p. 186.

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

Table 1.3 2004-05 ADF Reserve and civilian staffing

Reserve Force	2004-05 Actual result	2005-06 Budget Estimate
Navy	1,243	1,850
Army	15,845	16,000
Air Force	2,187	2,300
Total Reserve Force	19,275	20,150
Civilian Staffing	17,754	13,370 ¹

Note:

1. Includes Defence Material Organisation

Source Defence Portfolio Budget Statements 2005-06, p. 186; Defence Annual Report 2004-05, pp. 90-91.

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

Table 1.4 2004-05 Total Defence Workforce

Workforce	2004-05 Actual result	2005-06 Budget Estimate
Military	71,090	72,341
Civilian	17,754	13,370
Professional service providers	1,913	1,341
Total Workforce	90,757	87,052

Source Defence Portfolio Budget Statements 2005-06, p. 186; Defence Annual Report 2004-05, p. 93.
(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

1.19 The review examined a combination of information from the Portfolio Budget Statements 2005-06 (including Portfolio Additional Estimates Statements 2005-06) and the Defence Annual Report 2004-05.

Focus areas

- 1.20 The four focus areas selected for scrutiny at the public hearing on 3 March 2006 provided an opportunity to examine how Defence was addressing the new strategic environment as articulated through the Defence Updates and the Defence Capability Review. The four focus areas were:
- Prescribed agency status for the DMO, implications for ongoing reform and selected project updates;
 - Chinook helicopter: AIR 9000 upgrades, future and effectiveness for deployed operations in Afghanistan.
 - Joint Offshore Protection Command: roles, responsibilities, future; and
 - Remediation of Defence's financial statements.
- 1.21 In addition, the Secretary of Defence and the Acting Chief of the Defence Force attended the hearing. This session with the dual leaders of the ADFO provided an opportunity to scrutinise a range of issues across the entire Defence Annual Report.

Defence Materiel Organisation

Background to Reform

- 2.1 In August 2003 Mr Malcom Kinnaird, AO, reported to the Secretary of PM&C that significant reform was necessary to the processes by which defence capabilities were assessed, acquired and maintained.¹ 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.²

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

2.3 Defence acted quickly to implement the Kinnaird recommendations. A new Capability Development Group (CDG) was formed, by amalgamating previously dispersed Defence Capability elements. The DMO re-structured and re-organised into three major areas to enhance its operation: domains, program managers, and operations. Further, the CEO DMO, restructured the reform process to reflect six key themes to 'drive change and ensure the DMO achieves its vision of becoming the premier program management and engineering services organisation in Australia.'³ Within these themes a number of initiatives are being developed. These key themes are:

- **Professionalise** our workforce
- **Reprioritise** work so that effort is concentrated on the high-priority activities
- **Standardise** systems and work practices to ensure staff work efficiently and effectively
- **Benchmark** the DMO against the best Australian and international organisations of similar scale and scope
- **Improve industry relations** so they are more mature, share risks and avoid duplication of costs
- **Lead reform in Defence** by developing and implementing successful reforms in the DMO, which may facilitate change in Defence.⁴

Prescribed Agency Status

2.4 Another milestone in the implementation of the Kinnaird Review recommendations was reached on 1 July 2005 when the DMO was accorded prescribed agency status. Prescription effectively de-merged the DMO and Defence with the DMO becoming directly accountable to the Minister under the Financial Management and Accountability Act 1997, for the efficient, effective and ethical use of Commonwealth resources within the DMO. It is important to note that the DMO was not being created as a separate executive agency, 'but will remain an integral part of the Defence Portfolio.'⁵

3 Department of Defence, *Defence Annual Report 2004-05*, p. 263

4 Department of Defence, *Defence Annual Report 2004-05*, p. 263

5 Department of Defence, *Defence Portfolio Budget Statements 2004-05*, p. 242

- 2.5 During the public hearing, the CEO of the DMO, Dr Stephen Gumley, reported on the according of Prescribed Agency Status by noting that although the 1 July 2005 date had been ambitious in terms of the supporting tasks required to be completed to ensure prescription, the DMO and Defence nonetheless believed 'it was important to get on with the change agenda'. In an introductory assessment of this achievement, Dr Gumley said:

I think the prescribed agency status is the correct one for DMO at this stage of its development, and already we are seeing the benefits flow through to capability in that the organisation is lifting its productivity and becoming more efficient.⁶

- 2.6 The Committee requested information on the practical effect of Prescribed Agency Status and the de-merger of the DMO and Defence. Essentially, they sought to understand the degree of separation and how this would impact the management of the relationship between both entities, particularly as Defence had noted that prescription gave CEO DMO

the necessary independence to manage his organisation and control resources and staffing to deliver outputs ... [including] setting the DMO's own financial management policy ...⁷

- 2.7 CEO DMO noted that the relationship was now a full 'customer-supplier' relationship ensuring clear accountability and responsibility. This 'customer-supplier' relationship is underpinned by comprehensive agency agreements to cover both the acquisition of Defence equipment and their sustainment in-service, as well as activities normally expected of Defence in support of the organisation. These arrangements are the Materiel Acquisition Agreements and Materiel Sustainment Agreements.

- Materiel Acquisition Agreements cover each capability project and each agreement specifies the project in terms of the scope to be delivered, the schedule for the delivery and the budget that is available.⁸
- Materiel Sustainment Agreements formalise the DMO's sustainment services to Defence and the price the DMO receives for

6 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript p. 2

7 Department of Defence, *Defence Annual Report 2004-05*, p.260

8 Department of Defence, *Portfolio Budget Statements 2005-06*, p 254

these services. These agreements are based around the DMO sustainment products which have been designed around the key platforms, systems or fleets supported by the DMO.⁹

- 2.8 While this 'customer-supplier' relationship was considered effective for the major projects within the DMO, it was still to be implemented for the minor projects. Dr Gumley noted that getting the 100 or so minors within this structure was a key goal.¹⁰
- 2.9 One of the more complicated aspects of the prescription process was the separation of the financial statements of the DMO from Defence. This process necessitated, among other things, setting up a second chart of accounts within the Defence corporate information and financial management systems, a separate direct appropriation of funds to provide for policy advice and management service, and the transfer of civilian and military staff positions.¹¹ Indeed, a key feature of the Defence Portfolio Budget Statements 2005-06 was the separation of the DMO from the rest of Defence.

Project Management and Reporting

- 2.10 The Defence Annual Report 2004-05 provided details of approved major capital equipment projects ie those approved capital equipment programs costing generally in excess of \$20m and which, following approval, are transferred from the Defence Capability Plan to the DMO for their acquisition. The top 30 major capital equipment projects were detailed and ranked on the basis of approved project cost, cumulative expenditure to 30 June 2005 and actual expenditure for 2004-05.¹²
- 2.11 The Committee observed that the traditional practice of reporting projects by value alone presents only one means by which to analyse project management achievements. A further, and significant, other component that must be considered relates to risk. The Committee therefore sought further information on what methodologies had been developed for use by the DMO to assess the risk of a project beyond the dollar cost.

9 Department of Defence, *Portfolio Budget Statements 2005-06*, p 270

10 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript p. 4

11 Department of Defence, *Portfolio Budget Statements 2005-06*, p. 4

12 Department of Defence, *Defence Annual Report 2004-05*, pp 267-283

- 2.12 CEO DMO advised the Committee that the DMO reports to the Defence Committee on a monthly basis, generally updating on the top 60 or so projects defined by cost. However, he noted that in addition to this traditional method of reporting, he further reports on those projects which are regarded as being of 'high interest to government' or 'having an unusual risk profile'¹³
- 2.13 The methodology by which DMO assesses the risk profiles for individual projects involves the development of, and assessment against, a 'maturity score'. These maturity scores comprise several assessment criteria which are evaluated and scored to combine to produce a total out of 70. As CEO DMO noted during his testimony:
- The job of every project manager is to deliver the project gradually and manage risks intensively until, at the end of the day, you deliver the capability to the war fighters with a score of 69 or 70 out of 70.¹⁴

Maturity Scores

- 2.14 The matter of managing DMO project risk by the use of the maturity score process was further pursued by the Committee. In order to facilitate an understanding of the process, within the bounds of maintaining commercial confidentiality in relation to the actual details of the process, CEO DMO broadly outlined the key stages and assessment criteria.
- 2.15 Essentially, a range of project attributes are assessed and scored, with 70 being the highest combined total achievable. This total score enables DMO project managers to logically work their way through a project, assessing the risk at each stage. There will inevitably be a number of key stages and milestones for each project, however three in particular stand out: project commencement, first-pass approval and second-pass approval.
- 2.16 At project commencement CEO DMO advised the Committee that a maturity score of 10 or 15 out of 70 would not be unusual as there is generally a high risk associated with this early stage. The job of the DMO project managers is to de-risk the project to the point where a maturity score of 21 is attained to enable presentation to Government

13 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript, p. 2

14 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript pp 2-3

for first-pass approval¹⁵. This maturity score of 21 is considered the benchmark for first-pass approval.¹⁶

- 2.17 Between first-pass and second-pass approval¹⁷ the Government funds DMO to further de-risk projects and to look at alternatives. A maturity score of around 35 out of 70 is necessary before a project can be presented to Government for second-pass approval.¹⁸
- 2.18 The development of a project is measured every month and the movement of maturity scores is monitored and evaluated as part of a constant and deliberate risk management process. CEO DMO advised that on a month to month basis, maturity scores do change and that backwards movement sometimes occurred. Such a backwards movement could be the result of an unexpected technical problem or a scheduling difficulty if equipment did not turn up. The regular measurement, monitoring and reporting of project progress enables tracking to occur so that once a score in the high 60s is reached, the project can be handed to the war fighter¹⁹.
- 2.19 The Committee observed that the maturity score process, and the actual final score out of 70, provided a sound and simple method by which to report the assessed level of risk for any given project and therefore facilitate a better understanding of the complex issue of project development in terms of risk management. The traditional ranking of Defence projects by dollar value alone does not provide such a clear and concise understanding of risk, progress or relativities across projects.

15 First-pass approval refers to the process whereby Defence gives Government the opportunity to narrow the alternatives being examined by Defence to meet an agreed capability gap. First-pass approval allows a project to be included in the Defence Capability Plan and the Major Capital Investment Program. (Source: *Defence Capability Development Manual 2005*, p. 69)

16 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript p 2.

17 Second-pass approval refers to a key milestone in project management which requires more detailed, rigorous costing and assessment of each option submitted for consideration by Higher Defence Committees and Government than for first-pass. The project cannot proceed until this approval is obtained from Government, but it does not provide authority to spend public moneys. (Source: *Defence Capability Development Manual 2005*, p. 72)

18 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript, p. 2.

19 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript, p. 3.

- 2.20 Indeed, the maturity score for each project was considered by the Committee to provide such an effective snapshot of project status and the progress over time of risk mitigation strategies that it was deemed highly desirable for inclusion in future Defence and DMO capital project reports.
- 2.21 CEO Defence Materiel Organisation commented that a regular report-back to the Committee on the status of project risk using the maturity score methodology was achievable, he nonetheless noted that he would also desire to extend this reporting to include successful projects.²⁰

Recommendation 1

The Committee recommends that the Defence Materiel Organisation provide annual updates on the top ten high risk projects of the year using the Maturity Score methodology, noting that commercial-in-confidence imperatives will apply.

Selected Project Updates

- 2.22 The discussion in relation to the DMO assessment of project risk, and subsequent risk management by the application of the maturity score methodology, provided the foundation from which issues in relation to several key projects were pursued by the Committee. Of the capital projects reported in the *Defence Annual Report 2004-05*, the following were particularly raised by the Committee for closer examination.
- FFG Upgrade Implementation (SEA 1390 Ph 2). This project will improve the anti-ship missile defence and air surveillance capabilities of the ships to ensure they remain effective and supportable to the end of their life. The project was behind schedule at the time of the public hearing. CEO Defence Materiel Organisation advised the Committee that scheduling delays, such as have occurred with SEA 1390 Ph 2, are generally difficult to recover from, consequently, while no more time was lost in the reporting year, the scheduling gap remained.²¹

²⁰ Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript, p. 10.

²¹ Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript p.8.

- Upgrade of M113 Armoured Vehicles (LAND 106). The project is upgrading 350 of the Army's fleet which provide transport and fire support for the Army's mechanised infantry forces to improve protection, firepower, mobility and habitability. The Committee was advised that scheduling difficulties that were being experienced in 2005 have been addressed and the project is again on schedule as a result of the contractor successfully remediating the outstanding technical problems. Any delays in the project are in the integrated logistic support package and are linked to the contractor having difficulty resourcing the necessary skilled people to undertake that work. Nonetheless, CEO Defence Materiel Organisation advised the Committee that the current forecast was for an in-service date of December 2006.²²
- Bushranger Infantry Mobility Vehicles (LAND 116). This project is acquiring 299 infantry mobility vehicles consisting of six variants: troop, command, assault pioneer, mortar, direct fire weapon and ambulance. The vehicles will provide two motorised infantry battalion groups to the Army and 12 troop variants to the Air Force Airfield Defence Guards. This particular project had been considered to be problematic, but has been effectively turned around. Indeed, CEO Defence Materiel Organisation noted the following:
 - ⇒ ADI did a fantastic job on that one in the first half of 2005. We were able to get them [Bushmasters] over to the overseas operations, they are highly regarded by the troops in the field and it has been a very big success story.²³
- Jindalee Operational Radar Network (JP 2025 Ph 3/4). The remaining work on this project relates to maintenance and support activities and engineering services that provide both facility sustainment and higher-end technical upkeep of the network's assets. From a project management perspective, this particular project is considered very successful. Capability continues to meet contracted rate of effort and exceeds availability targets. CEO

22 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript pp 14-15.

23 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript p. 10.

Defence Materiel Organisation specifically advised the Committee that 'the contractor did a good job on this one.'²⁴

- Collins Replacement Combat System (SEA 1439 Ph 4A). This project will provide a replacement combat system for the Collins-class submarines. The systems integration in Australia is progressing to schedule with the project on target for the first installation, into the first submarine, *Waller*, in November 2006. CEO Defence Materiel Organisation advised the Committee that the upgrade to the entire fleet by the end of the decade was 'entirely possible'. However, he advised that such an upgrade would be scheduled to occur during the normal maintenance/docking cycle of the submarine and that these docking cycles can be impacted by operational commitments.²⁵
- New Air Combat Capability (AIR 6000 SDD). This project aims to introduce a new air combat capability with the air dominance and strike functions currently provided by the F/A-18 Hornet and F-111 aircraft fleets. The Committee put a number of matters to Defence in relation to the Joint Strike Fighter and associated upgrade and expansion plans to support Australia's air combat capability into the future. The growth of regional military capabilities and the implications for Australia's future capability planning, especially with regard to retaining air power superiority was also considered. The Committee pursued this matter in more detail at separate public hearings in relation to Australia's regional air superiority. Further information with regard to this inquiry can be obtained from the Committee's website.²⁶

Conclusion

- 2.23 The Committee noted the Defence Materiel Organisation's progress with regard to the reforms recommended by Kinnaird. In particular, the achievement of Prescribed Agency Status on 1 July 2005 was a key milestone in this reform process. The financial independence and accountability that prescription accorded the Defence Materiel

24 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript p. 12.

25 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript p. 14.

26 <http://www.apf.gov.au/committee/jfadt/index.htm>

Organisation should see further progress in the efficient delivery of equipment acquisition and fleet sustainment. The Committee recognised that the process of the de-merger of the broader Australian Defence Organisation and the Defence Materiel Organisation has been a complex and demanding exercise. The achievements to date are acknowledged and reflect the commitment of the Defence Materiel Organisation and Defence to achieving ongoing reform.

- 2.24 A vital part of the ongoing reform process is to mitigate, to the extent possible, the risks associated with any particular project. The process by which the Defence Materiel Organisation evaluates, monitors and reports on project development and risk management is the 'maturity score' methodology. The discussion and detail provided in relation to maturity scores was of such interest and utility to the Committee that it was considered worthy of regular reporting.
- 2.25 Progress in relation to the specific major acquisition projects that were explored by the Committee was mixed, however CEO Defence Materiel Organisation believes he has a firm grasp on where the problems lie and is working with his project management staff, contractors and Australian industry to address these issues.

Chinook Helicopter Update

Background

- 3.1 The Defence Capability Plan is a detailed, costed plan for Australia's military capabilities over a 10-year period. The plan is reviewed regularly to take account of changing strategic circumstances, new technologies and changed priorities. Between the period when the Defence White Paper 2000 was announced in December 2000, and 30 June 2005, the Government had approved more than 140 major projects or phases of projects. During the course of 2004-05, 26 major capital equipment projects, including AIR 9000, Phase 5A, were approved by Government.¹
- 3.2 AIR 9000 is the project to provide helicopter capability to the ADF over the coming decades. The program aims to rationalise the helicopter fleets over time, reduce the number of platform types operated and encourage investment in Australian industry.
- 3.3 The Army's fleet of six Chinook aircraft will undergo a mid-life upgrade under Phase 5 of AIR 9000 to modernise the platform and address current and future capability deficiencies of the Chinook weapon system.
- 3.4 Concurrent with the Phase 5 upgrades is the operational deployment of the Chinook to support Australian and coalition forces engaged in the ongoing fight against terrorism in Afghanistan.
- 3.5 The Army's aviation capability contributes to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting

1 Department of Defence, *Defence Annual Report 2004-05*, p. 70

wider interests and supporting peacetime national tasks. The capability of Army aviation is achieved by providing aircraft and personnel at high readiness levels for tactical troop lift, counter-terrorist support, command and liaison and reconnaissance operations. The Committee notes the importance of a sound aviation safety culture, an ongoing attention to airworthiness management, and a robust training system, as additional essential elements in delivering an effective aviation capability. The Committee further notes that significant questions have been raised about these issues as a result of its inquiry into the falsification of Army aviation records, discussed at paragraphs 6.20 – 6.23 in Chapter 6 following.

- 3.6 Current aviation capability consists of Kiowa, Iroquois, Black Hawk and Chinook helicopters. The Kiowa in 1st Aviation Regiment are being progressively replaced by two squadrons of Armed Reconnaissance Helicopters. It is intended to replace the Iroquois helicopters with MRH-90 troop lift helicopters commencing in 2007.
- 3.7 The aim of this chapter is to examine the upgrades to the Chinook helicopter in terms of programmed upgrades under AIR 9000, the additional enhancements undertaken to improve survivability and effectiveness in Afghanistan and the impact on operational commitments. Further, a broader examination of AIR 9000 and the ADF's rotary-wing capability in a general sense is also provided.

Phase 5 Upgrade

- 3.8 Since the public hearing in March 2006 during which several aspects of the Chinook aircraft and its capability were examined by the Committee, an updated Defence Capability Plan has been released, *Defence Capability Plan 2006-2016*. However, all discussion and witness testimony throughout this Chapter in relation to the upgrades to the Chinook aircraft has been undertaken in the context of the Defence Capability Plan extant at the time of the public hearing in March 2006, ie *Defence Capability Plan 2004-2014 Public Version*.
- 3.9 AIR 9000 Phase 5 aims to address current and future capability deficiencies of the Chinook weapon system. There are two sub-phases of this project. Phase 5A, which will upgrade the engines presently installed on the Chinook with a view to reducing operating costs and improve operational performance ahead of the planned mid-life upgrade which is

occurring at Phase 5B.² This mid-life upgrade will address the modernisation of the Army's fleet of six Chinook medium-lift helicopters to their planned withdrawal date of around 2025.

3.10 Head of Aerospace Systems Division provided the Committee with an update of the progress in relation to the Chinook Phase 5A engine upgrade. Second-pass approval for the project occurred in December 2004 and the design that the ADF is buying is based on a modification that has already taken place on the US fleet. The engine and the modification kits are being acquired through the Foreign Military Sales system. The project is running to schedule with delivery of the engines and modification kits planned for September 2006.

3.11 Because the engine and modification kits have been purchased through the Foreign Military Sales system, the Head of Aerospace Systems Division commented that there was:

... not a lot of commercial activity associated with it ... [and that] the main commercial activity is with the Australian contractor, who will carry out the modification work in Australia.³

3.12 The Committee further sought information from Defence in relation to the operating costs of the Chinook, both before and after the Phase 5A engine upgrade. CEO Defence Materiel Organisation reported that the DMO sustainment portion of operating the fleet of six Chinook aircraft was \$8.4 million for this financial year, noting that this figure did not include other support costs such as aircrew and fuel. Head Aerospace Systems Division further advised that:

The business case for the project [Phase 5A upgrade] was based on obsolescence and life cycle cost, and the expectation was that upgrading those engines would not only provide improved performance and deal with the obsolescence problem, but also result in savings of around \$28 million through-life support costs.⁴

3.13 He accordingly assessed the Chinook as 'a very economically supported platform'.⁵

2 Department of Defence, *Defence Capability Plan 2004-2014 (Public Version)*, p. 61.

3 Air Vice Marshal Clive Rossiter, Head Aerospace Systems Division, Department of Defence, Transcript, p.29.

4 Air Vice Marshal Clive Rossiter, Head Aerospace Systems Division, Department of Defence, Transcript, p. 30.

5 Air Vice Marshal Clive Rossiter, Head Aerospace Systems Division, Department of Defence, Transcript, p. 30.

Afghanistan Deployment

- 3.14 Phase 5 of the upgrade program for the Chinook coincided with the deployment of the aircraft, aircrew and logistics and maintenance personnel to support Australian and coalition forces in the ongoing fight against terrorism, this time in Afghanistan. The previous deployment of the Chinooks was to the Middle East in 2003 to support the Australian commitment to the war in Iraq.
- 3.15 On 10 January 2006, the Minister for Defence announced that two Chinook helicopters and about 110 personnel from the Army's aviation element in Townsville would deploy to Afghanistan as part of Australia's continuing commitment to the fight against terrorism.⁶
- 3.16 In announcing the deployment, the Minister further noted that the aircraft were undergoing a \$25 million upgrade to ensure they would be combat ready for the deployment. The upgrade was part of a rapid acquisition project to provide the aircraft with enhanced Electronic Warfare Self Protection (EWSP) equipment, additional crew and passenger protection and advanced communications.⁷ The Vice Chief of the Defence Force advised the Committee that the rapid acquisition program to undertake enhancements to the aircraft was agreed by Government based on a re-assessment of the operating environment the aircraft would be entering and the overriding requirement to ensure the aircraft's survivability.⁸ The Committee accordingly sought further information on the nature of these enhancements and the implications for the deployed aircrew and aircraft.
- 3.17 Vice Chief of the Defence Force advised the Committee that the Chinook modifications were across the following broad areas:
- additional ballistic protection including hardening the skin of the aircraft,
 - an electronic warfare self-protection capability,
 - enhanced interoperability to optimise operation in a coalition environment, and

6 Minister for Defence Media Release 01/2006, *Chinooks to Deploy to Afghanistan*, 10 Jan 06

7 Minister for Defence Media Release 01/2006, *Chinooks to Deploy to Afghanistan*, 10 Jan 06

8 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 19.

- improved gun mounts and different weapons, mini-guns, to enhance firepower with less strain on the airframe.⁹

3.18 The Vice Chief of the Defence Force emphasised that there were two main considerations with regard to the operating environment in Afghanistan that were relevant to the aircraft enhancements:

- the harsh natural environment that will be a test for the pilots and their skills, and
- the man-made factors that further contribute to the hostility of the environment.

All our work is being done to ensure that the crews are trained and prepared, that the aircraft is prepared and that we can confront both those environments.¹⁰

3.19 The challenges and threats the Vice Chief of the Defence Force identified as issues for the Chinooks, the aircrew and the support personnel deployed to Afghanistan, were further reinforced in a report by the Australian Strategic Policy Institute (ASPI). ASPI described the situation in Afghanistan as follows:

The escalating insurgency, narco-economics and politics, high-level corruption and rampant banditry have all helped to create a climate of lawlessness and impunity in Afghanistan.¹¹

AIR 9000 Update

3.20 Project AIR 9000 is a multi-phase project which the *Defence Capability Plan 2004-2014 (Public Version)* stated as its aim 'to rationalise the helicopter fleets over time, reduce the number of platform types operated and encourage an investment in Australian industry ...'¹² As noted earlier in this Chapter, since the public hearing in March 2006 an updated Defence

9 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, pp. 19-20.

10 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 20.

11 *Precarious State: Afghanistan and the international and Australian response*, Elsin Wainwright, Australian Strategic Policy Institute, Strategic Insights Paper 23, March 2006, p. 6.

12 *Defence Capability Plan 2004-2014 (Public Version)*, Department of Defence, Defence Publishing Service, Nov 03, p. 53.

Capability Plan has been released, *Defence Capability Plan 2006-2016*, which further refined and enhanced elements of the AIR 9000 Project.¹³

3.21 However, it should be noted that all discussion and witness testimony in relation to AIR 9000 has been undertaken in the context of the Defence Capability Plan extant at the time of the public hearing in March 2006, ie *Defence Capability Plan 2004-2014 Public Version*.

3.22 The progress of Project AIR 9000 has a direct bearing on the ability of the Army, and indeed the ADF, to deliver an effective aviation capability to support the national interest. The Army's combined arms warfighting concept relies on a total aviation package of armed reconnaissance, troop lift, and heavy-lift air. The Chief of Army has observed that,

... as the ADF moves towards the Seamless Force of 2020¹⁴, there are several Hardening and Networking the Army (HNA) capabilities that will increasingly enable the Army to be thinking about its role as a force that operates not simply on the ground but also as a force that operates from the air.¹⁵

3.23 He terms this new era for the Australian Army as 'the Army in the air' in which:

the land force's combined arms potential will be transformed by a growing ability to fight in, and from the air. Indeed, it is entirely feasible that in 2030 the Australian Army will be constituted as a force that operates largely from the air.¹⁶

3.24 From a Navy perspective, their helicopter fleet is considered to be:

13 *Defence Capability Plan 2006-2016 (Public Version p. 39)*, states that 'Project AIR 9000 seeks to provide the ADF with the most appropriate force mix of helicopters. Fundamental to this is a strategic plan for the efficient management of all ADF helicopter fleets, in order to meet operational requirements in a range of roles (airmobile, armed reconnaissance, medium lift, maritime support, anti-submarine, anti-surface warfare, training and support to special forces).

14 'Seamless Force' is a concept associated with the ADF's Force 2020 vision (*Force 2020*, Department of Defence, June 2002, p. 17). Essentially, the ADF aims to be 'a highly capable force whose culture of innovation will allow us to adapt to change. Our people will be fundamental to our capability, and our seamless approach to warfighting will enable us to maximise the strengths of the individual Services ... given our small size, the main reason why we must aspire to a Seamless Force is to maximise our collective warfighting capabilities and specialisations'.

15 *The Army in the Air, Developing Land-Air Operations for a Seamless Force*, Lieutenant General Peter Leahy, Australian Army Journal, Volume II, Number 2, Autumn 2005, p. 19.

16 *The Army in the Air, Developing Land-Air Operations for a Seamless Force*, Lieutenant General Peter Leahy, Australian Army Journal, Volume II, Number 2, Autumn 2005, p. 20.

an integral component of the parent ship's weapons and sensor suite ... [by extending] the detection range of the force, maximising the offensive range and reducing vulnerability to surprise attack.¹⁷

3.25 The Phases of the AIR 9000 Project are structured to address Army and Navy rotary-wing capability now and into the future with regard to both new platforms and enhancements and upgrades to existing in-service platforms.

- Phase 1 – development of the master plan for the rationalisation, enhancement and future development the ADF rotary-wing fleet.
- Phase 2 – acquisition of additional troop-lift helicopters
- Phase 3 – Seahawk mid-life upgrade
- Phase 4 – Black Hawk upgrade/replacement
- Phase 5A – Chinook upgrade – engine upgrade
- Phase 5B – Chinook upgrade – mid-life upgrade
- Phase 6 – Sea King replacement
- Phase 7 – new Navy and Army helicopter training system
- Phase 8 – new Navy combat helicopters

3.26 With regard to status of the various Phases of AIR 9000, Defence provided the following overview¹⁸:

- Phase 2 - Acquisition of additional troop-lift helicopters. Twelve French MRH 90 aircraft have been selected and a contract signed accordingly.
- Phase 3 – Seahawk upgrade. A proposal to Government for the mid-life upgrade is anticipated in the latter half of 2006 or early 2007.
- Phase 4 – Black Hawk upgrade/replacement. A decision has not yet been made in relation to this phase.
- Phase 5 – Chinook upgrades. A decision in relation to Phase 5A, to re-engine the aircraft, has been made and is under contract as discussed earlier in this chapter. Phase 5B, the mid-life upgrade, is scheduled for

17 *The Navy Contribution to Australian Maritime Operations, RAN Doctrine 2 – 2005*, Department of Defence, March 2005, p. 158.

18 Lieutenant General David Hurley, Chief Capability Development Group, Department of Defence, transcript, p. 21.

within the next 5-6 years in order to achieve the planned withdrawal of the aircraft at around 2025.

- Phase 6 – Sea King replacement. A submission to Government was being prepared in relation to this Phase with Defence noting that Phases 4 and 6 have some synergies and that a business case is being assessed which could combine both Phases. However, it was stressed that ‘replacing the Sea King [is] one of the higher priorities in the shorter term.’¹⁹
- Phase 7 – Navy and Army helicopter training systems. This Phase of AIR 9000 will have two sub-phases. The Kiowa withdrawal date is currently planned for the 2012-2015 timeframe.
- Phase 8 – new Navy combat aircraft. This Phase will examine the eventual replacements for Sea Hawk and Sea Sprite when they reach their life-of-type.

3.27 The level of Australian industry involvement across all the phases of the AIR 9000 project was of interest to the Committee, particularly as the project aimed to:

encourage investment in Australian industry to help build a sustainable aerospace industrial base that can provide high levels of support to the ADF and compete as part of the global supply chain ...

Australian industry involvement will be provided under the umbrella of long term strategic agreements with suitable commercial entities. The areas in which requirements are anticipated to focus include:

- rationalisation options for ADF helicopter platforms;
- initiatives to optimise aircraft configurations and component commonality;
- initiatives for optimising logistics infrastructure and support arrangements; and
- simulator and training aids.²⁰

3.28 Head Aerospace Systems Division advised the Committee that achieving a commonality of components is something the DMO and ADF aim for because it can reduce life-cycle costs. However when the business cases

19 Lieutenant General David Hurley, Chief Capability Development Group, Department of Defence, transcript, p. 26.

20 *Defence Capability Plan 2004-2014* (Public Version), Department of Defence, Defence Publishing Service, Nov 03, p. 53.

are considered, sometimes risks are identified which preclude such a course of action. Nonetheless, he noted that some of the more essential elements do achieve this commonality to optimise interoperability requirements, for example, electronic warfare equipment, self-protection equipment and secure communications. Other areas of major opportunity tended to be in the ground support systems, mission planning systems, and training systems.

- 3.29 In a broader sense, the Australian industry involvement in AIR 9000 has been positive with Australian assembly of both the Tiger Armed Reconnaissance Helicopter and the 12 MRH 90 troop-life helicopters. Head Aerospace Systems Division stated that:

Before those contracts came on board, Australian aerospace had a footprint in Australia of maybe about 50 people. It is up around 450 people today with both those programs.²¹

- 3.30 In reviewing the *Defence Capability Plan 2004-2014*, the Australian Strategic Policy Institute (ASPI) noted that the overall cost of the AIR 9000 project, with regard to upgrades of existing platforms only, had increased significantly. The Black Hawk upgrade had increased by about 50%, the Seahawk upgrade by more than 60%, and the Chinook helicopter had more than tripled in cost.²² The Committee therefore sought an explanation from Defence in relation to these ASPI-identified cost increases.

- 3.31 CEO Defence Materiel Organisation observed that:

It is not just the unit prices of the individual platforms, it has been all the auxiliary systems ... for example, the cost of simulators for some of the helicopter fleets. So when it comes to the total project cost compared with where we were in the 1990s, there is no doubt that the cost of the entire helicopter class of assets has increased.²³

- 3.32 The Committee expressed an interest in the issue of the costs associated with operating and upgrading the ADF's rotary-wing fleet in the broader context of future airlift requirements. Particular reference was made to the tactical role played by the Chinook and the Caribou.

21 Air Vice Marshal Clive Rossiter, Head Aerospace Systems Division, Department of Defence, Transcript, p. 30.

22 *Reviewing the Defence Capability Plan 2004-2014: The good, the bad and the ugly*, Aldo Borgu and Mark Thomson, Australian Strategic Studies Institute, Strategic Insights Paper 3, February 2004, p. 4.

23 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript, p. 24.

- 3.33 Defence referred to their study into the ADF's future airlift requirements and noted that they had developed around five different options for a possible mix of airlift capability. Some of those involve extending the life of the Caribou, others the withdrawal of it from service. A recommended course of action as to the way ahead has not yet been put to Government.²⁴ However, it was observed by Defence that while the Caribou is a sound tactical transport aircraft, it is limited in utility to the non-combat environment because it lacks self-protection systems.²⁵

Recommendation 2

- 3.34 **The Committee recommends that they be provided an update on the progress of the development of options for the optimum fleet mix to meet the ADF's future airlift requirements.**
- 3.35 Nonetheless, Defence stressed that determining the fleet mix to meet the ADF's future airlift requirements was not a simple matter and would involve options comparisons, business case assessment, examination of life-cycle costs as well as evaluating the inherently different ways in which rotary-wing aircraft are operated compared to fixed-wing aircraft.
- 3.36 Finally, in considering the ADF's rotary-wing capability, both now and into the future, the Committee sought information as to the capacity of this capability given the under-achievement of Army's flying hours during the reporting period. In particular, the Committee sought advice as to the contributing factors to this under-achievement: recruitment shortfalls, aircrew separations, training failures, or maintenance issues.
- 3.37 The Deputy Chief of Army advised the Committee that there were two key aspects to the helicopter rates of effort: estimation and achievement of flying hours. A 10-year rolling projection is produced to inform and guide, amongst other things, logistics planning and contractor effort. At additional estimates each year these projections are refined for the amount of flying that will actually occur. The types of activities and occurrences that can impact achievement under the 10-year projection are:

24 Lieutenant General David Hurley, Chief Capability Development Group, Department of Defence, Transcript, p. 25.

25 Lieutenant General David Hurley, Chief Capability Development Group, Department of Defence, Transcript, p. 26.

... availability of pilots, the implications of fleet maintenance and these days ... operational deployments ... We find traditionally that we do not fly as much on operations as we do at home because of some of the operational limitations such as weather ... then when the pilots come home, they might go on post-operational leave ...²⁶

- 3.38 Deputy Chief of Army stressed to the Committee that while the types of occurrences above limited the flying hours available for pilots:

... that in no case has any reduction in our flying hours limited our capability. The consequences of any reduction in the amount of flying we do tend to be on our support tasks rather than on our capability tasks.²⁷

Conclusion

- 3.39 The effectiveness of the ADF's aviation capability is underpinned by the maintenance of a capable and ready rotary-wing force. The way in which the ADF's helicopter fleet is operated has evolved and expanded in recent years to meet the demands of a changing strategic environment. The project phases of AIR 9000 reflect the fact that the future of the ADF's aviation capability relies heavily on a rotary-wing force.
- 3.40 The Chinook medium-lift helicopter is a vital platform within the total rotary-wing force mix. The Phase 5 upgrades to the aircraft, combined with the self-protection enhancements necessitated by the Afghanistan deployment, should ensure the effectiveness and survivability of the aircraft to its planned withdrawal date of 2025.
- 3.41 To conclude, the Committee acknowledges the commitment and dedication of the Army personnel comprising the Chinook detachment in Afghanistan, and extends its best wishes to them.

26 Major General Ian Gordon, Deputy Chief of Army, Department of Defence, Transcript, p. 69.

27 Major General Ian Gordon, Deputy Chief of Army, Department of Defence, Transcript, p. 69.

Joint Offshore Protection Command

Introduction

- 4.1 In March 2005 the Minister for Defence and the Minister for Justice and Customs, officially opened the Joint Offshore Protection Command (JOPC) to enable a more effective, efficient and coherent whole-of-Government approach to various high priority operations conducted in Australia's offshore areas. The Minister for Defence saw this new command as:

... a key component of an integrated, whole-of-government approach to maritime security ... [with] a single response and interdiction system that can respond quickly to varying national and area-specific counter-terrorism alerts.¹

- 4.2 The Minister for Justice and Customs further added that:

while Coastwatch would continue to coordinate law enforcement activities in the areas of customs, immigration, quarantine and fisheries, the JOPC would deliver an over-arching military capability for offshore maritime protection.²

- 4.3 The Vice Chief of the Defence Force, under the authority of the Chief of the Defence Force, is responsible for the day-to-day command of

1 Joint News Release, Minister for Defence & Minister for Justice and Customs, *Boost for maritime counter-terrorism protection*, 30 March 2005.

2 Joint News Release, Minister for Defence & Minister for Justice and Customs, *Boost for maritime counter-terrorism protection*, 30 March 2005.

ADF operations, joint exercises and ADF contributions to national support tasks through the Joint Operations Command (JOC). JOC was established in 2004 to 'provide simpler and more effective command and control arrangements.'³ JOC comprises the following elements:

- Headquarters with separate strategic and operational level staffs;
- Three environmental components (maritime, land and air);
- Three specialist components (Special Operations, Joint Logistics and Joint Offshore Protection Command); and
- A number of direct command units which provide functional support.

4.4 At the time of the public hearing in relation to the *Defence Annual Report 2004-05*, the ADF activities being performed under the auspices of the JOPC were essentially captured by Operations RELEX II and CRANBERRY.

4.5 Since March 2006, a range of Defence operations, including RELEX II and CRANBERRY, have been consolidated into a single operation to further enhance the security of Australia's offshore maritime areas and streamline the management of resources and personnel. This new operation is termed Operation RESOLUTE. However, for the purposes of discussion and witness testimony throughout this Chapter, Operations RELEX II and CRANBERRY are still referred to as separate operations.

4.6 Defence noted that the ADF achieved a range of peacetime national tasks:

... predominantly through Operation RELEX II, the conduct of air and surface patrols across Australia's northern approaches... [and] continued to work cooperatively with Coastwatch in meeting the requirement of the national civil surveillance program. ADF contributions were conducted under Operations RELEX II and CRANBERRY.⁴

4.7 The Defence Update 2005 noted that in the contemporary strategic and threat environment, a whole-of-Government approach to national security was essential to optimise resources and coordinate response capabilities. The establishment of the JOPC is an example of this contemporising of Australia's approach to security issues.

3 Department of Defence, *Defence Annual Report 2004-05*, p. 148.

4 Department of Defence, *Defence Annual Report 2004-05*, p. 149.

This Command ensures that Australia has the capability to respond immediately to an emerging offshore maritime terrorism incident and to otherwise protect our borders and critical infrastructure. Defence, the Australian Customs Service and the Australian Federal Police working together provide Australia with the highest level of border protection.⁵

- 4.8 This support to national security operations is likely to remain a feature of ADF tasking well into the future. Indeed, the Defence Update 2005 notes that Australia is increasing its cooperation with regional states 'in the areas of intelligence and surveillance'⁶ and that this cooperation could increase in the future. Accordingly, the diversity of tasks undertaken by the ADF in recent times is likely to remain constant. Such future roles and responsibilities will necessitate the development of strong and positive inter-agency relationships as well the development of clearly articulated reporting and command chains to ensure information dissemination and critical decision-making are not compromised.
- 4.9 This Chapter aims to examine the roles, responsibilities and operation of the Joint Offshore Protection Command in the areas of command and control, operational activities and management of personnel issues.

Command and Control

- 4.10 The long-term effectiveness of the JOPC in enhancing Australia's maritime security will be underpinned by the quality and timeliness of the cooperation and coordination between the agencies involved. Essentially, appropriate command and control structures, with clear and unambiguous reporting processes and information dissemination systems, will generate positive outcomes for the Government in support of Australia's national interests.
- 4.11 Given that the JOPC is a relatively new construct, the Committee sought information on the implementation of the Command, including inter-agency relationships and the management and coordination of operations. The Vice Chief of the Defence Force, in

5 Department of Defence, *Australia's National Security: A Defence Update 2005*, pp 10-11.

6 Department of Defence, *Australia's National Security: A Defence Update 2005*, p. 15.

his dual role as Chief of Joint Operations, reported that after only a short period of operation, the inter-agency relationships are good.

- 4.12 He further added that while the JOPC itself was a new Command, Defence has been working with the respective agencies for some time. However, the new organisation provided a framework in which a range of activities could be managed and coordinated to achieve the best outcomes. The JOPC:

can almost move seamlessly from worrying about fisheries – working with Customs and fisheries organisations ... to taking on a greater security role when fishing vessels end up as a concern for us because of terrorism, right through to moving further into combat operations.

... I think there is still some way to go, but we are in the early stages of it and I think everybody sees the utility of this organisation and how much better the coordination of a whole range of maritime security issues can be.⁷

- 4.13 The Committee explored the role, and command relationships, of the JOPC with regard to protection of critical infrastructure, such as the North-West Shelf or the Harold E. Holt communications facility, particularly given the dispersed nature of such critical infrastructure and the myriad of associated tasks and agencies with a vested interest. Defence noted that the tasks likely to be undertaken by the ADF had not changed since the establishment of the JOPC, rather, the new Command now enabled a more effective and better coordinated allocation of resources, and subsequent operational control of activities.

- 4.14 A point that Defence stressed in relation to the protection of critical infrastructure scenario above was that dealing with such a security scenario would not be limited to federal agencies alone.

One of the issues that we gain out of having this unified organisation which is looking at all of the crossover points is that we have a much more focused ability to look at those issues and to talk to all of the agencies, including the Western Australian government and the Queensland government, because they have their own sovereignty rights in terms of what part of the water they are responsible for ...

7 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 37.

What JOPC has enabled us to do is put emphasis into an organisation, get unification of coordination and therefore far better engagement with a whole range of agencies.⁸

- 4.15 In order to ensure the ongoing development of these inter-agency relationships, between both federal agencies and government departments, and the relevant state and territory agencies and governments, an active engagement strategy is in place. This engagement involves, for example, security patrols and the fostering of links with industry to develop the necessary understanding of who has responsibility for what and where. Another key element of this engagement strategy involves planning for likely security contingencies and the subsequent wargaming of these contingencies.⁹

We do that in a multi-agency environment. So not only does Defence have a view of what it would do and who it would do it with, but also we work on that with other agencies. I think it is coming along well.¹⁰

Recommendation 3

- 4.16 **The Committee recommends that an invitation be extended to Defence sub-committee members to observe and/or participate in a security contingency wargaming activity between Defence and relevant government agencies.**

Operations Update

- 4.17 As noted earlier in this Chapter, the two key peacetime national tasks undertaken by the ADF at the time of the public hearing in March 2006, and under the command of the JOPC, were Operation RELEX II and Operation CRANBERRY (since consolidated as Operation RESOLUTE).

8 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 43.

9 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 44.

10 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 44.

- 4.18 The stated objective of Operation RELEX II was to 'conduct air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals'.¹¹ This operation had been ongoing since March 2002. The ADF supported this activity with the following resources:
- one frigate and one amphibious ship
 - two P-3 Orion maritime patrol aircraft
 - up to 6 Fremantle-class patrol boats
 - up to 3 ADF transit security elements¹²
- 4.19 The stated objective of Operation CRANBERRY was 'to coordinate the intelligence and provide surveillance information to the civil authorities that are operating in northern Australia'.¹³ This operation had been ongoing since June 1997. The ADF supported this operation with a range of assets including:
- Fremantle-class patrol boats
 - P-3 Orion maritime patrol aircraft
 - Regional Force Surveillance Units¹⁴
- 4.20 The Committee requested Defence provide information across a range of issues in order to gain an appreciation of the current status of these two operations, and of specific activities associated with the operations. Several issues were of interest to the Committee and these are explored in the following paragraphs.
- 4.21 First, there was concern expressed by some Committee members as to the defensive posture of some of the vessels being intercepted and the subsequent increase in risk to Australian military personnel engaged in boarding party activities. Defence acknowledged that there had been a trend in this direction, which, while not at a level to cause concern, was nonetheless being monitored and appropriate tactics and techniques were being developed.¹⁵

11 Department of Defence, *Defence Annual Report 2004-05*, p. 165.

12 Department of Defence, *Defence Annual Report 2004-05*, p. 165.

13 Department of Defence, *Defence Annual Report 2004-05*, p. 165.

14 Department of Defence, *Defence Annual Report 2004-05*, p. 165.

15 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 37.

- 4.22 Defence observed that one of the advantages of the new Armidale-class patrol boats was that they could operate in far higher sea states than the Fremantle-class vessels, they have larger inflatable boats and therefore a far better boarding capacity and capability, and have two dedicated boarding teams. These features will mitigate against some of the issues currently encountered when attempting to board the more aggressive 'ice boats'. Furthermore, they have space onboard where they can take apprehended persons and keep them safe and looked after in good condition.¹⁶
- 4.23 Second, the range of options available to the ADF once vessels-of-interest have been detected was pursued by the Committee. For example, were they authorised to apprehend, pass off to another craft, or tow to a port for processing? The time spent waiting for the authorisation to undertake a certain course of action could result in the diversion of resources from further vital surveillance tasks. Defence acknowledged that these were genuine issues to be resolved and that they were actively engaged with other agencies to improve performance in these areas.
- 4.24 Third, a further dimension to the post-detection action that was of interest to the Committee related to the handling and processing of apprehended vessels and personnel. Currently, there are four main ports to which such vessels and personnel can be taken: Broome, Darwin, Gove-Nhulunbuy and Thursday Island. The determination of appropriate ports for processing apprehended vessels and personnel is essentially a matter for the Australian Fisheries Management Agency and Customs, with quarantine and safety considerations paramount.
- 4.25 Defence provided the Committee with an overview of the current practice employed by Navy when handling intercepted vessels. The course of action that is pursued is determined by a number of things, but two in particular: the seaworthiness of the vessel and the weather conditions at the time.¹⁷

Wherever possible, we will try as the first priority, to get the vessel to steam under its own power with a small [ADF] steaming party aboard. If it cannot be steamed ... we will tow it. If we believe it is unable to be towed due to the state

16 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 37.

17 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 41.

of the vessel, or it is going to sink, then we will go through the process of destroying it at sea. If on our first boarding we determine that the vessel represents a serious quarantine risk ... we will seek permission to destroy it at sea as well.¹⁸

4.26 Fourth, given the strong focus during the hearing on the role of Navy, the Committee sought information about the roles of the Air Force and Army in relation to supporting Operations RELEX II and CRANBERRY.

4.27 Defence reported that Air Force AP-3C Orion aircraft, based out of Darwin, flew 1,745 hours in support of the operations. It is worth noting is that the actual performance target set for these aircraft was 250 flying hours. While these hours were nominally in support of Operation RELEX II, the areas where the aircraft were operating contributed to the overall surveillance picture for Operation CRANBERRY as well.¹⁹

4.28 Another contributor to the total surveillance package available to the JOPC is the Regional Force Surveillance Units (RFSU). Defence advised that the RFSUs are focused on patrolling 'areas of interest to either gain intelligence or to observe activities that might be going on to provide evidence.'²⁰ As with the Air Force AP-3C contribution to these operations, the annual performance target for patrol days was exceeded. One of the main strengths of the RFSUs was considered by Defence to be their community engagement network and the benefits these networks brought in terms of intelligence-gathering. The members of these units, and their extended families in the communities throughout the north of Australia are considered to:

keep a pretty good handle on what is going on in that part of the world – far better than people would expect that we could do in an area so vast.²¹

4.29 Finally, the Jindalee Operational Radar Network (JORN) was another capability that contributed to the surveillance picture in the north,

18 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 41.

19 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 46.

20 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 46.

21 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 46.

and was an integral part of the total ADF package available to the JOPC.

People

4.30 The Committee observed that the operational tempo across the board for the ADF had increased markedly in recent times, particularly in relation to deployed commitments away from Australia. At the same time, several of the national security activities underway, which are now commanded through the JOPC, are long-standing operations and were stood up before the current level of deployment activity commenced. In the context of this increased tempo, and noting the finite resources available to the ADF, the Committee sought to understand the impact of this tempo on the individual servicemen and women engaged in Operations RELEX and CRANBERRY in particular, and generally supporting maritime security undertakings.

4.31 The Vice Chief of the Defence Force provided a strategic level assessment of the tempo and concurrency of ADF operations when he advised the Committee that:

One of the principal tasks as the Chief of Joint Operations is to balance our preparedness requirements and the concurrency issues that affect the current deployments and possible or contingency deployments ... I am comfortable at the present time that the oversight we pay to preparedness is that we are capable of sustaining the current effort for operations like RELEX and CRANBERRY and their not having an adverse impact on what we are doing in the Middle East or Afghanistan.²²

4.32 The personnel management and leadership implications in relation to tempo and tasking, specifically as they related to Operations RELEX and CRANBERRY, were further explored by the Committee. For example, access to recreation and shore leave entitlements, and recruitment and retention impacts. The Vice Chief of the Defence Force advised that initiatives were in place to look after people, particularly in Navy, and that attaining an appropriate balance

22 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 33.

between work, recreation and family was an important issue to manage, because 'we work some of our people particularly hard'.²³

- 4.33 The Deputy Commander JOPC outlined some of these initiatives including extra crewing, building up of the numbers of people on board a ship, and multi-crewing when the new patrol boats come into service. He explained that the way he currently operates the vessels, under direction from Chief of Navy, is that Fremantle crews, for example, can only be used for 70% of the time that they are at sea doing their job and the remaining 30% of the time they must be alongside for respite from the arduous operations they undertake.²⁴
- 4.34 The Deputy Commander JOPC advised that when the fleet of new patrol boats were into full operational service, he would have more flexibility because they would be multi-crewed and he could use them for 90% of the time they would be at sea. The Committee sought further information in relation to the multi-crewing concept.
- 4.35 Essentially, when the new Armidale class patrol boats are in service and in a mature state, there will be 14 vessels and 21 crews and they will be broken up into divisions of four. Six crews will therefore rotate between the four vessels in a division to give a minimum of 250 days at sea on patrol. These six crews will remain with a particular division of four patrol boats and rotate between them. (Defence noted that at this stage the management of the extra vessels – hulls 13 and 14 – is still to be determined by Navy.)²⁵
- 4.36 The Deputy Commander JOPC anticipated the amount of time a crew member would be at sea in the new multi-crewing construct would be in the order of 130 to 140 days per year. At the moment he foresees a routine of eight to nine days at sea and then one day alongside for a logistics visit. They would then go out again for a patrol period of a maximum of six weeks. On return after this patrol period, there would be a crew change, with the new crew remaining alongside for around three weeks for training, to clear leave balances and get ready for the next patrol.²⁶

23 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 34.

24 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 34.

25 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 35.

26 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 38.

- 4.37 Navy is intending to home port four of the vessels in Cairns with the remainder home ported in Darwin.
- 4.38 The first Armidale-class patrol boat, *HMAS Armidale*, was commissioned on 24 June 2005. On current planning, five Armidale-class patrol boats will be brought in to service by the end of 2005-06, with the remaining seven patrol boats (and their eleven crews) being progressively brought into service by July 2007. These first five boats will be supported by seven crews enabling the Navy to implement the multi-crewing concept.²⁷

Recommendation 4

- 4.39 **The Committee recommends that Navy reports on the utility and effectiveness of the multi-crewing concept once a full Division of Armidale-class patrol boats (for crew rotation purposes) has been delivered.**
- 4.40 While the multi-crewing concept will assist in achieving a better balance in the working and personal lives of Navy personnel supporting JOPC tasking, there was a further dimension requiring management and that was the manner in which the operations were being conducted. The Vice Chief of the Defence Force believes that the ADF is using their limited assets more wisely than in the past and still achieving the same outcomes. He advised that the seasonal nature of much of the illegal fishing, combined with the knowledge that this activity tended to happen at certain places and at certain times, has over time enabled a more effective utilisation of people and vessels.²⁸
- 4.41 Nonetheless, Defence added that the threat was still constant throughout the year, because of the three different sorts of vessels being encountered:
- Fast, high-speed, cheap to build vessels that can get in and out fairly quickly.

27 Defence Portfolio, Portfolio Budget Statements 2005-06, Department of Defence, p. 125.

28 Lieutenant General Ken Gillespie, Vice Chief of the Defence Force, Department of Defence, Transcript, p. 34.

- Smaller, type-3 boats that have further to travel and tend to be weather restricted.
- Larger 'ice-boats' which tend to follow where the fishing is best rather than being restricted by weather.²⁹

4.42 Defence advised that the intelligence-gathering process was improving as was the manner in which this intelligence was used. And while Operations RELEX and CRANBERRY were two distinct operations³⁰, Defence was becoming more flexible in the manner in which resources allocated to these operations were used so that assets could be moved between one and the other as tasking requirements dictated. Vice Chief of the Defence Force commented that this approach to resource allocation allowed patrols to cover a broader area with much quicker reaction times.³¹

Conclusion

4.43 Since the formal establishment of the Joint Offshore Protection Command, Defence and the other government agencies who are part of, or work with, the Command, have made excellent progress in pulling together as an entity to achieve a whole-of-Government approach to national security. The Committee notes that achieving a high level of coordination and cooperation is essential to optimise scarce resources and the progress to date is promising.

4.44 The activities and operations which fall within the JOPC span of control are complex, demanding and risky for the ADF personnel involved. Further, effective detection, interception and apprehension of those undertaking illegal activity in Australia's maritime approaches has a direct and critical bearing on our national security. The Committee notes the manner in which lessons learned are being incorporated into the overall planning and prosecution of the range of maritime security operations.

29 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, pp. 35-36.

30 Operation RELEX is primarily focused on air and surface patrols to deter illegal migration. Operation CRANBERRY is primarily focused on surveillance and intelligence-gathering to support the civil agencies operating in northern Australia, of which detecting illegal fishing activity is a part. Both Operations have since been consolidated as Operation RESOLUTE.

31 Commodore Campbell Darby, Deputy Commander Joint Offshore Protection Command, Department of Defence, Transcript, p. 35.

- 4.45 While the outcomes of the range of maritime security operations being commanded by JOPC are generally positive, there is no doubt that these are coming at a price, that is, the negative impacts on the servicemen and women engaged in these tasks. The tempo and persistence of operational tasking is high, and regular respite from arduous and demanding duty is necessary for the long term health of not just the individuals, but the actual workforce itself. The Committee acknowledges that the ADF is taking steps to minimise these impacts and that personnel management strategies are being developed and implemented which address individual needs and recruitment and retention concerns.

Remediation of Defence's Financial Statements

Background

- 5.1 In recent years Defence has come under increasing criticism for its financial management practices. 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 the 2004-05 Statement by the Chief Executive and Chief Finance Officer for Defence remained qualified.
- 5.2 Defence concluded again, as they had in 2003-04, that they could not attest that the overall statements were true and fairly stated. However, they went on to note that 'while the overall result remains disappointing, it does reflect improvement on the 2003-04 statements'.¹
- 5.3 The Australian National Audit Office (ANAO) continued to monitor defence management performance closely. In order to address ANAO identified deficiencies, and improve reporting to Government, Defence reported the following initiatives:
- implementation of 16 remediation strategies;

1 Department of Defence, *Defence Annual Report 2004-05*, p. 5

- establishment of program offices in the Chief Finance Officer Group and the Defence Materiel Organisation to drive audit remediation strategies and to provide independent advice to the Secretary and the Financial Statements Project Board on achievement of remediation outcomes;
- rigorous monitoring of remediation strategies by the Financial Statements Project Board, augmented by a representative from the Department of Finance and Administration and a private sector accounting specialist; and
- development of a financial controls framework that will standardise financial transactions and management processes across the portfolio to improve the integrity of defence financial data, budgeting and financial statements.

- 5.4 Defence continued to progress a range of improvements to its financial management and business systems and processes. As of 31 January 2006, Defence was working through 95 ANAO 2003-04 audit findings, and 47 ANAO 2004-05 audit findings, some of which were the subject of consultation between Defence and the Australian National Audit Office. While some audit findings have been resolved, 'enduring improvements will take some years'².
- 5.5 Defence believed that a significant step had been taken towards transforming their financial management situation with the establishment of the Defence Financial Controls Framework Project. The project intends to 'draw together in a structured and integrated fashion all of the components necessary to build a best practice financial management environment'³ that 'standardise and document the way Defence financial business is undertaken ...'⁴
- 5.6 The ANAO remained critical of Defence's internal control environment 'which is designed to prevent and detect errors in accounting and financial reporting,' and which '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 deficiencies in controls and accounting records have resulted in significant uncertainties in relation to the material balances described above.'⁵

2 Department of Defence, *Defence Portfolio Additional Estimates Statements 2005-06*, p. 119

3 Department of Defence, *Defence Annual Report 2004-05*, p. 40.

4 Department of Defence, *Defence Annual Report 2004-05*, p. 40.

5 *Australian National Audit Office, Independent Audit Report*, 4 November 2005.

- 5.7 This Chapter examined two broad areas in relation to the Department of Defence's financial statements: the audit and financial reporting environment; and the progress with regard to remediation of the ANAO audit findings.

Accounting and Audit Standards

- 5.8 The Committee re-stated a position from the Review of the Defence Annual Report 2003-04 with regard to the appropriateness of the rigid application of business accounting standards to Defence. The Secretary of Defence accepted that there had been difficulties, and that the next stage of accounting reform would be more of a challenge with regard to conforming to international financial reporting standards, nonetheless, he believed that Defence should aspire to those standards.⁶
- 5.9 The Secretary of Defence also observed that he believed Defence was under-prepared in terms of management and training for the audit standards now in place. He advised the Committee that this under-preparation was linked to the lack of training for personnel across the spectrum of requirements. There were deficiencies:
- right from the level of awareness of the issues and how important they are through to the actual implementation of the sorts of controls we want.⁷
- 5.10 While considering the matter of conforming to business accounting and audit standards, the Committee sought information in relation to certain recommendations made as part of the review of the *Defence Annual Report 2003-04*. The detail sought was with regard to accepting the unique nature of Defence's financial situation and adapting business accounting procedures to accommodate this uniqueness. In particular, the matter of inventory reporting was considered an area where a solution could be found that acknowledged the unusual requirements of Defence and adapt financial accounting practices accordingly.
- 5.11 The Secretary advised that Defence had 'established some boundaries for stratification and reduced the area of uncertainty'⁸ with regard to explosive ordnance and were proceeding in a similar direction with the general inventory. The question of where to draw the line, and when and

6 Mr Ric Smith, Secretary, Department of Defence, Transcript, p. 53.

7 Mr Ric Smith, Secretary, Department of Defence, Transcript, p. 52.

8 Mr Ric Smith, Secretary, Department of Defence, Transcript, p. 53.

how to stratify, was being examined by Defence with specific consideration being given to the nature of inventory.

We are having some discussion with the auditors about the nature of it [inventory], so we may be thinking more about whether it is a consumable rather than inventory and therefore there is a different accounting treatment.⁹

- 5.12 The inventory stratification process was made all the more difficult because original pricing records and data could not be found. Accordingly, the Australian Accounting Standards Board (AASB) has advised Defence that a 'best estimate' approach is acceptable where the original data cannot be found. The cost of this 'best estimate' approach for general stores inventory could be substantial, noting that up to 600,000 line items of inventory would have to be priced. Defence is currently considering how best to pursue this option cognisant of the fact that the need for accountability must be balanced with a cost effective approach.¹⁰

Recommendation 5

- 5.13 **The Committee recommends that Defence advise the course of action taken in relation to establishing the general inventory 'best estimate' and the results of the assessment/review.**
- 5.14 The Chief Finance Officer for Defence made the following comments in relation to the application of, and adherence to, accrual accounting practices and audit requirements:

Some of it might be more technical than we need, but I will readily say ... that there are also standards that we ought to be meeting, just as a reasonable matter of doing business efficiently, that we are not. Where I can find highly technical issues that we would spend money on that are not worth pursuing, I will take that up with the Australian Accounting Standards Board ...¹¹

9 Mr Philip Prior, Chief Financial Officer, Department of Defence, Transcript, p. 53.

10 Government response to the Joint Standing Committee on Foreign Affairs, Defence & Trade, *Review of the Defence Annual Report 2003-04*, 6 March 2006.

11 Mr Philip Prior, Chief Financial Officer, Department of Defence, Transcript, p. 54.

Recommendation 6

- 5.15 **The Committee recommends that Defence report on the 'highly technical issues' that have been presented to the Australian Accounting Standards Board for consideration.**
- 5.16 While Defence acknowledged that transitioning to a full accrual accounting and audit framework had been challenging, and would continue to be so, the Secretary of Defence advised the Committee that he:
- would like to think we can continue to aspire to corporate sector standards, but getting there from here will be very challenging. In part because the investment that it will take will not deliver the benefit to our business that it might to a private sector company.¹²

Australian National Audit Office Findings – Remediation Update

- 5.17 The Australian National Audit Office (ANAO) audit of the Department of Defence financial statements for the year 2003-04 identified 95 findings that required resolution.
- 5.18 The remediation plan implemented to address these audit findings identified accountable officers to progress remediation in their particular areas of responsibility. The 57 audit findings that were not allocated to a General or Specific Remediation Plan were grouped together as Remediation Plan S9.
- 5.19 Defence noted that an important part of the remediation process was to ensure timely resolution of the ANAO issues to prevent escalation from Categories B and C to the most serious category, Category A.^{13 14}

12 Mr Ric Smith, Secretary, Department of Defence, Transcript, p.58.

13 Department of Defence, *Defence Annual Report 2004-05*, p. 52.

14 The issues arising from the ANAO audit activity are rated in accordance with the seriousness of the particular matter identified. The rating indicates to the audited entity the priority it needs to give to remedial action. ANAO define their category ratings as follows:

A	Those matters which pose significant business or financial risk to the entity and must be addressed as a matter of urgency: this assessment should take account of both the likelihood and consequences of the risk eventuating.
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- 5.20 In a submission to the Review of the *Defence Annual Report 2004-05*, an analysis conducted by The Firm Consultancy Group into the ANAO Category A and Category B risks identified for Defence, and other government departments, noted that Defence exceeded all others in terms of risk factors, and that the number of these risk factors was increasing. Indeed, it was suggested that the Category A and Category B 'risks' identified by the ANAO's audit could in fact be understated from an overall business risk perspective. The submission contended that this understatement and consequent conservative assessment by ANAO was the result of Defence excluding assessment of certain major capability acquisition projects or major capability development projects.¹⁵
- 5.21 Defence advised the Committee that accounting standards required the measurement of impairment of physical projects ie a capability degradation or a cost increase which goes into the valuation of assets under construction or the value of assets when they are handed over from DMO to Defence. The two types of audit conducted by the ANAO, financial and performance, are distinct and separate. The performance audits, rather than the financial statements audits as reported in the Annual Report, were the focus for DMO projects. The performance audits evaluated projects one by one to determine risk and appropriateness of management. CEO DMO summed up his position in relation to the elements of the submission by The Firm Consultancy Group as follows:

I am not aware of any accounting methodology where you would put contingent liabilities onto your balance sheet for something that potentially might happen. When you know there is a reasonable probability it will happen, that is when you take a contingent liability onto your balance sheet ... I certainly do not have the concerns that are expressed in this letter.¹⁶

B	Control weaknesses which pose moderate business or financial risk to the entity or matters referred to management in the past which have not been addressed satisfactorily: these would include matters where the consequences of the control weaknesses might be significant; however there is little likelihood of the consequences eventuating.
C	Matters which are procedural in nature or minor administrative failings: these could include relatively isolated control breakdowns which need to be brought to the attention of management.

15 Mr Peter Goon, The Firm Consultancy Group, Submission No 1 – Review of the Defence Annual Report 2004-05, 2 March 2006.

16 Dr Stephen Gumley, CEO Defence Materiel Organisation, Department of Defence, Transcript, p.63.

- 5.22 Defence advised the Committee that 37 of the 95 audit findings had been completed and forwarded to ANAO for clearance, with the remainder of the 2003-04 findings still to be finalised. Furthermore, a strategy for remediation of the 53 additional issues identified by ANAO in relation to the 2004-05 report was being implemented.¹⁷ Accordingly, the Committee sought an update from Defence in relation to remediation of these ANAO issues and the status of those findings not yet resolved.
- 5.23 Defence advised that 71 findings were still outstanding : 32 Category A, 26 Category B and 13 Category C, but stressed that not all of those findings related to matters in connection with the financial statements. For example, one of the Category As was in relation to Reserve Force remuneration.¹⁸ Overall, the number of Category A, B and C findings were reduced with more progress being made in 2004-05 than in any previous year, particularly with regard to reducing the uncertainty on inventory and explosive ordnance. However, the Secretary of Defence expressed his personal disappointment that the remediation of leave records remains incomplete.¹⁹

Leave Provisions Remediation

- 5.24 As reported in the *Defence Annual Report 2004-05*, activity undertaken during 2004-05 in relation to remediation of the military leave provisions qualification included:
- implementing a risk stratification and sampling methodology to quantify the risk to Defence accounts;
 - providing an accurate representation of the military leave liability by ensuring the integrity of military leave data captured and recorded in PMKeyS; and
 - applying quality assurance to business processes, record keeping strategies, reporting structures, relevant policy foundations, training initiatives and a controls framework.
- 5.25 Major outcomes achieved were the remediation of military long service leave and completion of a sample of military annual leave. During the 2005-06 reporting period Defence planned to complete the military annual

17 Department of Defence, *Defence Annual Report 2004-05*, p. 52.

18 Mr Ric Smith, Secretary, Department of Defence, Transcript, p. 55.

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

leave sample and review leave processing controls including cessation audits.²⁰

5.26 The activities undertaken during 2004-05 in relation to the remediation of the civilian leave provisions qualification included risk stratification and sampling, PMKeyS integrity, and quality assurance processes as per the military leave considerations above. A major outcome achieved was undertaking the pilot phase of leave stratification, with completion of further sampling and verification of leave balances planned for 2005-06.²¹

5.27 In order to more fully understand the issues that were preventing the completion of the remediation of leave records, the Committee sought details from Defence as to the obstacles they believed they were facing.

5.28 Defence advised that essentially, it comes down to the validation of the \$1.7 billion provision on the balance sheet for employee entitlements. Simply put, the matching of computerised records with documentary records, and verifying them, was the core of the problem. Defence further explained:

Auditors ordinarily would rely on internal control processes within an organisation to allow them to come to a view that the number the system generates is reliable ... When they come to the view, as they did some two years ago, that the controls are no longer reliable ... and therefore, to form their opinion, they must refer to a different substantiation approach, which is to substantiate the actual transaction ...²²

5.29 To physically check the actual records (including sign-offs and balances) of approximately 80,000 people is where the problem arises. Given the volume of records to be checked, and the fact that some records, eg long service leave, have accumulated over many years, the scope of the task is significant. The remediation activity therefore requires examination of records going back many years and finding the documentary evidence to substantiate a balance.

5.30 Defence admitted that until the internal controls were fully functioning again, the auditors would be unable to confirm the financial records, and would have to continue to rely on the substantiation approach.²³

20 Department of Defence, Defence Annual Report 2004-05, p. 49.

21 Department of Defence, Defence Annual Report 2004-05, p. 49.

22 Mr Philip Prior, Chief Financial Officer, Department of Defence, Transcript, p. 56.

23 Mr Philip Prior, Chief Financial Officer, Department of Defence, Transcript, p. 56.

Nonetheless, Defence advised that the remediation plans were progressing.

Asset Valuations Remediation

- 5.31 The Committee examined the remediation activity undertaken by Defence in relation to the ANAO reported qualifications of Defence land and buildings, and infrastructure, plant and equipment. The remediation activities associated with these qualifications are covered under Defence Remediation Plans S8 and S12.
- 5.32 In relation to Remediation Plan S8, Property Valuations, the major outcomes achieved in 2004-05 included:
- Completion of all land, buildings and infrastructure valuations by 30 June 2005;
 - completion of other plan and equipment valuations, except for Chief Information Officer, by 30 June 2005;
 - undertook quality assurance of valuation data and load the data into the financial system;
 - released request for tender for the next three year cycle ie 2005-06 to 2007-08; and
 - documented the revaluation process in the Asset Management and Accounting Manual.²⁴
- 5.33 In relation to Remediation Plan S12, Provisions for Contaminated or Potentially Contaminated Land, Buildings and Infrastructure, the major outcomes achieved in 2004-05 included:
- conducted a detailed review of all extant policies to ensure current reporting requirements were met;
 - provided clear guidance in the 2004-05 valuations instructions to the Australian Valuation Office;
 - implemented the Contamination Priority Sites Investigation Program; and
 - pilot review completed for the ACT/Southern NSW region.²⁵

24 Department of Defence, Defence Annual Report 2004-05, p. 51.

25 Department of Defence, Defence Annual Report 2004-05, p. 55.

- 5.34 The Committee specifically sought information in relation to 'major variations' as reflected in the *Defence Annual Report 2004-05* which related to land, buildings and infrastructure. Defence advised that variations were likely to be the result of assets, eg buildings and facilities, not previously having been brought to book or as a consequence of having been revalued.²⁶ With regard to equipment and items of inventory, variations could occur as a result of having been recorded incorrectly and subsequently corrected, or having been recorded in the wrong location, and subsequently moved to the correct location on the balance sheet.
- 5.35 By way of explanation with regard to the land and buildings valuation process, Defence advised that there had been a complete valuation done by the Australian Valuation Office. For some valuations they may have applied a more detailed valuation process, or identified particular buildings or elements that had not previously been identified separately, or identified the commercial value which could have increased. The variations as reported therefore reflected the sum of all such possible effects.²⁷
- 5.36 In summarising the Defence position in relation to Remediation Strategies S8 and S12, the Secretary noted:
- In 2003-04 we had a full qualification on our lands and buildings valuations and records. That was a very bad situation and reflected something that had been carried forward. We put in a lot of effort and spent a lot of money with the Australian Valuation Office in getting it all brought up to date ...²⁸

Cost of Remediation

- 5.37 As previously noted, Defence advised that the remediation plans were progressing and generating gains for the Department. In terms of 'gains for the Department', the Committee sought further information with regard to the actual cost of the remediation plans, in terms of both implementation costs and subsequent savings as remediation occurs.
- 5.38 Defence advised that the extent of the dollar value of the problem, that is, the quantum of the qualifications, continued to decline and as this occurred 'it becomes easier to deal with the problems, as we can get

26 Dr Ian Williams, Chief Finance Officer, Defence Materiel Organisation, Department of Defence, Transcript, p. 61.

27 Dr Ian Williams, Chief Finance Officer, Defence Materiel Organisation, Department of Defence, Transcript, p. 62.

28 Mr Ric Smith, Secretary, Department of Defence, Transcript, p.62.

[them] under control.’²⁹ With regard to the costs associated with implementing the remediation strategies, Defence advised that for 2004-05 the cost was \$65.1 million. This figure comprised \$30.5 in employee costs, and \$34.6 million for supplier costs (private contractors and other outgoings).³⁰

Conclusion

5.39 Defence acknowledged that there remains work to be done, however emphasised that good progress was being made. The Secretary of Defence made the point that a lot of people, a lot of money and a lot of time and effort were being directed towards the remediation plan. He noted that generally the successes were not publicly recognised and this could have an impact on morale. He therefore believed that the ANAO shift to adding positive references in its reports, was encouraging.³¹ Indeed, the relationship between ANAO and Defence had matured as both worked towards achieving resolution of the areas of concern.

We do believe we are making headway. We have regular discussions with ANAO. I am heartened by the strong beneficial relationship that exists between us and the ANAO and the indication that we are getting from them is that they are also seeing the progress. So it is not just a self-assessment, we are also getting the feedback from the Audit Office.³²

29 Mr Philip Prior, Chief Financial Officer, Department of Defence, Transcript, p. 59.

30 Mr Philip Prior, Chief Financial Officer, Department of Defence, Transcript, p. 65.

31 Mr Ric Smith, Secretary, Department of Defence, Transcript, p. 59.

32 Mr Philip Prior, Chief Financial Officer, Department of Defence, Transcript, p. 59.

Personnel and Related Issues

- 6.1 The Chief of the Defence Force (CDF) and the Secretary of Defence were invited to attend an open session to respond to a range of questions at the discretion of the Committee. The Chief of the Defence Force was unable to appear personally and was represented by the Vice Chief of the Defence Force.
- 6.2 The key issues that were examined during this open session related to a range of personnel matters. Specifically, the Committee explored the following issues: the problems, and remediation initiatives, in relation to recruitment and retention of ADF personnel; maintenance of Army aviation records; and progress in relation to compensation for F-111 Deseal/Reseal affected personnel.

Recruitment and Retention

Overview

- 6.3 The Chief of the Defence Force and the Secretary of Defence noted Defence's demanding agenda and the impact of this agenda on the men and women of the Australian Defence Organisation (ADO), and reported that they 'are heartened by the performance of our people'.¹

1 Department of Defence, *Defence Annual Report 2004-05*, p. 7.

- 6.4 In 2004-05 the overall separation rate for the ADF increased slightly, although remaining under the ten-year average, and overall recruiting targets were not met. Defence noted that this situation reflected, 'among other things, the tighter labour market conditions' and that they were 'pursuing a number of initiatives to improve recruiting generally and to retain personnel who are in specialist and technical trade categories in particular.'²
- 6.5 The overall recruiting achievement against targets for the Permanent and Reserve forces for 2004-05 was 77 %, which was 9 % lower than in 2003-04. Individual recruitment achievements by Service and by Permanent and Reserve force were as follows:
- | | |
|------------------------------|--------------------------|
| ■ Navy Permanent – 73 %, | Navy Reserve – 25 % |
| ■ Army Permanent – 81 % | Army Reserve – 76 % |
| ■ Air Force Permanent – 91 % | Air Force Reserve – 52 % |
| ■ ADF Permanent – 80% | ADF Reserve – 72 % |
- 6.6 ADF recruiting is Defence's highest workforce priority. Initiatives to improve recruitment in 2005 ranged from targeted advertising campaigns for Defence critical jobs, enhanced training for recruiting staff, and partnership in the 'Steps to the Future' Youth forum together with other young Australian community groups. Some 20 new recruiting initiatives were identified for development in the ADF Recruiting Strategic Plan 2005-10, which was endorsed by the Chiefs of Service Committee in October 2005.
- 6.7 As noted above, the total number of separations from the Permanent force also increased slightly due largely to increased separations by Army and Navy other ranks. As with the recruitment situation, comprehensive retention initiatives were also being developed.
- 6.8 Individual service separation rates were as follows:
- | |
|------------------------|
| ■ Navy – 12 %; |
| ■ Army – 13 %; |
| ■ Air Force – 8 %; and |
| ■ ADF – 11 %. |

2 Department of Defence, *Defence Annual Report 2004-05*, pp. 7-8.

ADF Recruiting Targets and Achievement

- 6.9 The Committee expressed concern about the poor ratio in relation to recruiting inquiries converted into actual recruitment, and requested information into the manner in which ADF recruiting targets were set and the process by which applicants were 'filtered' through the recruiting continuum. Defence accordingly provided an overview of the workforce planning process to clarify the strategic and capability considerations in building and recruiting an appropriate ADF workforce.
- 6.10 The Defence Personnel Executive advised the Committee that the targets, entry standards, and the policy that underpins how Defence Force Recruiting (DFR) conducts its recruiting operations are determined by the three single Services to meet single Service capability requirements, and not by DFR. Target-setting is a multiple-stage process with a range of inputs. For example, evaluating the capability need, determining how many people of a particular trade and employment group would be necessary to meet the need, an assessment of the training required, projection of training failures, the time frame to build towards a certain capability, and the likely pool from which the supply would be met.
- 6.11 Nonetheless, Defence acknowledged that at first glance, it could be construed that the number of people who inquire, apply and then enlist is 'skewed to the extent that we should be doing better with the number of applications actually turning into people joining the ADF.'³ Indeed, the 'initial inquiries' are measured on the basis of each and every call to the 131901 Defence Force Recruitment centre and captured all types of inquiries, many as simple as seeking a brochure about a specific Service trade. Defence noted that these types of general inquiries were not considered applications in the traditional sense, hence a perception of 'skewing' with regards to the conversion ratio.
- 6.12 Regardless of the measurement methodology, Defence assessed that the candidate management of applicants and inquirers was lacking and that more needed to be done with regard to 'keeping them interested, keeping them keen and keeping in touch ...'⁴ To this end, the recently employed national marketing manager for recruitment was developing:

... a new customer relationship management plan so that Defence recruiters, who might in some cases be looking after a database of

3 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 74.

4 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 75.

400 candidates, will know how best to keep those people interested in joining an ADF career.⁵

- 6.13 A complicating factor for Defence with regard to efforts to optimise candidate management related to the alignment of the recruiting system with the training system, particularly when some specialised trade courses were of such complexity and duration that only a small number were run each year. Careful management of the timing between enlistment and commencement of training was therefore essential. The Head of the Defence Personnel Executive noted that this was especially so:

in this environment where a lot of people are after the same skill sets, we cannot afford that gap. We need to get the people as quickly as possible once they have expressed an interest in coming and a desire to come here. We know that and we are working to that.⁶

- 6.14 Defence advised that a strategic plan for recruiting had been developed and that a broader issue for consideration, amongst the 27 specific items in that plan, related to the 'filtering' process which starts with general inquiries, through to formal applications through to eventual enlistments. While high standards and a desire for quality personnel were important to ensure a robust ADF, there was an acceptance that 'there are some standards that the Services set that perhaps for a modern day ADF might be worth reviewing.'⁷ For example, medical restrictions imposed for certain conditions that could either be managed (such as asthma) or that would not necessarily impact on employment in some areas of the ADF (colour blindness, overweight).

Recommendation 7

The Committee recommends that Defence report on the progress of implementation of the ADF Recruiting Strategic Plan 2005-2010, specifically in relation to the conversion ratio of inquiries, to applications, to enlistments and the review of entry requirements.

5 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 75.

6 Major General Mark Evans, Head Defence Personnel Executive, Department of Defence, Transcript, pp 76-77.

7 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 75.

Recruitment Initiatives

- 6.15 Ensuring the right mix of personnel, with the right skills and experience to deliver the ADF's capability is a priority for Defence. One of the cornerstones of this people-mix, and an increasing challenge for Defence, is recruitment. The Director General of Defence Force Recruiting gave context to the scope of the challenge during the hearing when he observed:

... it is highly competitive now to get out and recruit. Are [our entry] standards still applicable, given the requirement to recruit 8,741 full-time and part-time people to come and join the ADF this year? That is half the size of the New South Wales police force. We have to recruit every year – so they are big numbers.⁸

- 6.16 The manner in which Defence is meeting these challenges was pursued by the Committee during the hearing. Defence highlighted a selection of recruitment initiatives, both new and ongoing, that were explored accordingly.

- Involvement in the New Apprenticeships scheme through a range of ADF training establishments by offering high quality training leading to technical employment within the ADF. Defence advised that they had entered into discussions with civilian firms and regional TAFEs with regard to establishing strategic partnerships in the provision of trade training.
 - ⇒ The Director General Defence Force Recruiting acknowledged that technical trades and skilling was one of the top priorities for the ADF and that more needed to be done to address shortfalls, for now and into the future.⁹
- The direct entry recruitment of submariners was being considered by the Navy having learned from the lessons of a previous attempt in the early 1990s.
 - ⇒ Initial positive results have occurred with regard to inquiries, which are attributed in part to the heightened profile of the submarine fleet following screening of the television documentary about HMAS

8 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 75.

9 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 77.

Rankin. The producers of the documentary have given Defence permission to use it in ADF recruiting centres.¹⁰

- Non-traditional methods were also proving effective and being pursued by Defence. For example, banners on web sites and search engines were recording 'hits', particularly with some of the technical trades that were being targeted.¹¹
- Financial assistance for travel and accommodation to ensure that candidates wanting to join the ADF could access a recruiting centre or a recruiting capability ie a mobile team. Further, support could also be provided to enable a candidate, particularly for a critical trade, to visit a location where a major ADF platform, asset, or equipment was based or temporarily located.

6.17 An additional recruiting option available to Defence is lateral recruitment from overseas militaries. While recruitment such as this was not actively pursued, nor was it supported by targeted campaigns, it was nonetheless a viable means of meeting shortfalls, particularly in critical categories where the demand was not being met from within Australia. The Defence Jobs website has a section containing information for foreign military members seeking to transfer to the ADF. However, as stressed by Defence, foreign military personnel are not actively recruited and only those who approach the ADF are considered as potential candidates.

Separation Management

6.18 There was an acknowledgement by Defence that the ADF was staffed by highly skilled and trained personnel. A significant amount of time and training had been invested in them and it was in the interest of the ADF to keep them in the organisation. Further, retention of personnel had a positive flow-on in terms of costs and achievement of a balanced force. Defence advised that analysis of the separation rates, including the separation spikes, enabled better management of decision points and therefore separation behaviour. Specifically, one would see:

... a spike after the first 18 months of a person's service and then a second spike after four to six years ... there is an audit of our training establishments to reduce the separation rate there. We are now targeting people at the five- to six-year period, which is when

10 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 80.

11 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 80.

they come to the end of their enlistment period. There is a decision point there and we need to target that decision point to try and get more people to stay on ...¹²

6.19 Accordingly, a range of initiatives to manage separation behaviour were underway, some of these were long-standing, others were more recently introduced to meet evolving demands. Specific examples follow:

- Reducing the impact of the demands of ADF service on the family of members had a direct bearing on separation rates. Accordingly, Defence had been improving the support package provided to members, for example:
 - ⇒ Defence Childcare Program
 - ⇒ Defence School Transition Aide Program
 - ⇒ Services Workforce Access Program for Partners¹³
- Over the last 18 months rehabilitation initiatives had been enhanced to ensure that injured personnel were supported by a robust system to facilitate their timely return to the workforce.¹⁴
- Continuing remuneration reform in the ADF, in particular:
 - ⇒ the superannuating of specific skill-based elements of allowances in the nature of pay with effect from 12 August 2004; and
 - ⇒ developing a flexible salary structure for officers.¹⁵
- Support to the mental, physical and emotional well-being of ADF members by the continued implementation of a range of programs:
 - ⇒ the Defence Injury Prevention Program
 - ⇒ ADF Alcohol, Tobacco and Other Drugs Service
 - ⇒ ADF Suicide Prevention Program¹⁶

12 Major General Mark Evans, Head Defence Personnel Executive, Department of Defence, Transcript, p. 83.

13 Department of Defence, *Defence Annual Report 2004-05*, pp 111-112.

14 Brigadier Simon Gould, Director General Defence Force Recruiting, Department of Defence, Transcript, p. 78.

15 Department of Defence, *Defence Annual Report 2004-05*, p 104.

16 Department of Defence, *Defence Annual Report 2004-05*, pp 105-106.

Army Aviation Maintenance Records

- 6.20 During the public hearing on 3 March 2006, some members of the Committee advised that they had been made aware of allegations in relation to Army personnel in Darwin falsifying aviation maintenance records. Therefore, in order to examine these allegations further, the Deputy Chief of Army, representing the Chief of Army, briefed the Committee on the status of investigations into, and actions taken to date, in relation to the falsification allegations.
- 6.21 Given the nature of these allegations, the dissatisfaction by members of the Committee as to the timeliness and effectiveness of the investigatory processes, and the significant implications for Army aviation safety, the Committee held a further public hearing to examine these issues. This additional public hearing took place in Canberra on 16 June 2006.
- 6.22 The Committee remains to be satisfied in relation to the investigations and actions taken by Army to resolve this matter. Further, the Committee's concerns go beyond the specific forgery allegations to aviation airworthiness in a general sense, to systemic failures in the inquiry process, and the broader military justice implications.
- 6.23 Accordingly, given these concerns, the Committee intends to examine these outstanding issues as a separate matter after the tabling of the *Defence Annual Report 2004-05*.

F-111 Deseal/Reseal Update

- 6.24 In 1963, Australia ordered 24 General Dynamics F-111 aircraft from the United States of America. Unlike many other aircraft, the F-111 had fuel tanks that did not contain internal bladders; therefore the joints and mating surfaces in the aircraft's structure needed to be sealed to prevent fuel leaks. The original sealant proved inadequate to the task, and significant fuel leaks became apparent soon after delivery of the aircraft. The original sealant had to be removed (desealing) using chemical and physical methods (e.g. water jets, hand tools), before new sealant could be put in its place (resealing).
- 6.25 Four F-111 formal fuel tank Deseal/Reseal (DSRS) programs were implemented over two decades (1975-1999).
- DSRS Program 1 ran from October 1975 to December 1982.

- The Wing Program, used for maintaining the wing fuel tanks, was conducted from August 1985 to June 1992.
 - DSRS Program 2 ran from February 1990 to August 1993.
 - The Spray Seal Program ran from March 1996 to November 1999.
- 6.26 DSRS activities were also undertaken in an *ad hoc* manner, in so-called 'pick and patch' repairs.
- 6.27 In early 1999, concerns were raised by the officer in charge of the aircraft maintenance section at RAAF Base Amberley about various symptoms being experienced by workers in the F-111 Spray Seal Program. The symptoms included memory loss, fatigue, and other neurological problems. As a result, the Spray Seal Program was suspended, and in January 2000 an internal investigation into the F-111 DSRS programs was conducted. The investigation concluded that a significant number of personnel had presented with symptoms consistent with solvent or isocyanate exposure and had potentially been exposed throughout all the DSRS programs.
- 6.28 Consequently, on 19 July 2000, the Chief of Air Force appointed a Board of Inquiry (BOI) to conduct an investigation into the effects on Air Force maintenance workers of possible chemical exposure during all RAAF F-111 fuel tank repair programs, dating back to 1975.
- 6.29 The BOI noted deficiencies in the Occupational Health and Safety (OH&S) procedures as well as inadequate reporting of incidents and hazards, and supported the conduct of an epidemiological investigation into the health of F-111 DSRS workers. The investigation – the Study of Health Outcomes in Aircraft Maintenance Personnel (SHOAMP) – aimed to assess whether adverse health outcomes reported by DSRS personnel were associated with their involvement in DSRS programs or activities.¹⁷
- 6.30 The SHOAMP Report was completed and released on 26 October 2004. The Report found an association between involvement in the DSRS programs and a number of health conditions.
- 6.31 In December 2004, the Minister for Defence and the Minister for Veterans' Affairs announced the Government's response to the Study of Health Outcomes in Aircraft Maintenance Personnel.
- 6.32 The Minister announced that a lump sum benefit would be offered to DSRS personnel who worked on the F-111 DSRS program, and it was

17 *Study of Health Outcomes in Aircraft Maintenance Personnel (SHOAMP), Phase III, Report on the General Health and Medical Study*, Commonwealth of Australia, September 2004, pp xv-xvi.

agreed that the benefit would not distinguish between military, public servants or civilians. The lump sum benefit would be in addition to the rights of individuals under the various State and Commonwealth compensation schemes.

- 6.33 The Committee sought an update on the progress of compensation payments to the affected members, particularly in the light of ongoing negative media reporting as to the criteria to assess entitlements and the timeliness of claims processing. The Committee also sought information in relation to recently recovered documents/personal records that could be used to facilitate the processing of outstanding claims.
- 6.34 The Deputy Chief of Air Force advised the Committee that no new aircraft maintenance records had been discovered, nor did he believe that any Air Force records had been withheld which could assist the Department of Veterans' Affairs (DVA) in processing claims from DSRS personnel. He did however suggest that there could be confusion between what constituted aircraft records as opposed to individual service and training records.
- 6.35 Essentially, when affected individuals submitted claims, DVA relied on certain sets of records to determine eligibility, for example, personal history and medical files, trade progression sheets and records of training and employment. In some instances individuals no longer had copies of these service records and the Air Force had been assisting in recreating the relevant documents to assist claimants. The Deputy Chief of Air Force noted that the recreated personal service records were sourced from:
- ... the aircraft maintenance records in existence at the time, and ... whilst they involve the individual's activities in relevant aircraft maintenance tasks, they are not aircraft maintenance records.¹⁸
- 6.36 The Deputy Chief of Air Force reiterated to the Committee that there had been no discovery, or re-discovery, of F-111 aircraft maintenance records.
- 6.37 As an extension of the discussion in relation to claimant eligibility documentation, the Committee expressed concern that there was a significant disparity between the initial estimation by Air Force of numbers of personnel who could be affected by the DSRS program, and the numbers now seeking the ex gratia payment. Accordingly, the Committee requested advice from Defence as to why such a miscalculation could have occurred.

18 Air-Vice Marshal John Blackburn, Deputy Chief of Air Force, Department of Defence, Transcript, p. 70.

6.38 Deputy Chief of Air Force advised that initial estimations were based on those personnel involved specifically in any of the defined DSRS programs, but that many of the claims to which the Committee referred were arising for individuals who had conducted maintenance activities on the aircraft in relation to fuel tanks, but were not part of the overarching DSRS program.

... there were other activities associated with fuel tank maintenance that were conducted outside of the deseal/reseal program. That was quite different in its extent, the type of activity that was done and the chemicals used.¹⁹

6.39 With regard to the criticism by some that the record-keeping of Air Force had been deficient and was an aggravating factor in the difficulties now being faced in identifying DSRS affected personnel, Defence stated that:

... in 1975 we didn't maintain who was working on deseal/reseal in personnel records [as that] was not the sort of records we kept, and it wasn't an issue until much later.²⁰

6.40 Indeed, Defence advised that many lessons had been learned from the DSRS tragedy and that the organisation was much wiser in the way it monitored, actioned and remediated possible health and safety impacts on the workforce.

6.41 In conclusion, Defence assured the Committee that they continued to work closely and cooperatively with DVA and DSRS members as necessary to ensure all efforts are made to support the claimants in sourcing relevant documentation.

Recommendation 8

6.42 **The Committee recommends that Defence and the Department of Veterans' Affairs examine, and then report to the Committee, options to better identify affected F-111 deseal/reseal personnel.**

19 Air-Vice Marshal John Blackburn, Deputy Chief of Air Force, Department of Defence, Transcript, p. 72.

20 Lieutenant General Ken Gillespie, Vice Chief of Defence Force, Department of Defence, Transcript, p. 82.

