
The Parliament of the Commonwealth of Australia

Review of the Defence Annual Report 2013-14

Inquiry of the Defence Sub-Committee

Joint Standing Committee on Foreign Affairs, Defence and Trade

November 2015
Canberra

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Foreword

The *Review of the Defence Annual report 2013-14* is the second undertaken by the Defence Sub-Committee in the 44th Parliament. Reviews of Defence annual reports, which the Committee has undertaken annually in successive Parliaments since 2002, is an oversight activity that the Committee considers to be a key part of its role.

The Committee resolved to focus on five main areas for its *Review of the Defence Annual report 2013-14*:

- First Principles Review;
- Personnel matters;
- Mental Health;
- Capability Development and Major Projects; and
- Defence Support.

During the period of July 2013 – June 2014, the Australian Defence Force (ADF) was involved in three whole-of government operations – Operation Sovereign Borders, Operation Southern Indian Ocean and Operation Bring Them Home. The ADF also completed two operations – Operation NSW Bushfire and Operation Philippines Assist. The Department of Defence has also commenced major organisational change with the release of the First Principles Review, the abolition of the Defence Materiel Organisation and creation of the new Capability Acquisition and Sustainment Group.

The Committee considered the status of First Principles Review and the role of the Oversight Board throughout the implementation process. The Committee looked at reporting and transparency of performance, an issue that was raised in the

Review of the Defence Annual report 2012-13. For example, the Committee was disappointed to note the lack of information publically available on the Joint Strike Fighter program and the lack of transparency in reporting on this program.

Personnel matters were a major element of the Committee's review including Defence's critical categories of employment, Project Suakin and Reserve Policy, recruitment and employment of women, cultural reform, and military justice. Although the Committee was pleased with the reduction of critical categories of employment, it became apparent that more work needs to be done with recruitment programs to attract the necessary talent to the services. Retention in the services is also an area of concern, and measures such as rewarding experience gained outside of Defence need to continue. Tied to this is the implementation of Project Suakin, which the Committee recognises will play a large part in retaining personnel by increasing flexibility to service members.

Mental health issues were examined including identification of mental resilience at the recruitment stage, the culture towards mental health in the ADF, and work being done with personnel transitioning out of the Services. The Committee appreciates the work being done by Defence and the Department of Veterans' Affairs, and acknowledges the importance of collaboration between the two departments in addressing mental health conditions within the ADF. The Committee also notes improvements in the culture around mental health in the ADF, but believes that a positive attitude towards these issues needs to be fostered in middle leadership and passed down the lower ranks.

In examining capability development, the Committee notes the positive developments in the practice of using whole-of-life contracts with a five year review cycle or opt-out point. The Committee also notes the importance of the new Pacific Maritime Security Program for Australian industry and expects Defence to maximise domestic industry involvement, while involving an integrated approach that addresses the shortcomings of the original Pacific Patrol Boat Program. The implementation of First Principles Review is likely to impact on major projects' processes, for example adopting a 'smart buyer' model in the tendering stage.

The Committee is concerned about the amount of unfunded liabilities in Defence estate and infrastructure, and believes Defence should report the amount of the liability, how it has been created and where it exists. Although the Committee acknowledges Defence's efforts on fuel farms, the Committee believes current

reporting to be inadequate and better reporting should be undertaken on the progress of remediation and fuel management.

The Committee is pleased with the improvements to Defence Housing and the quality of housing options available to ADF families.

The Committee acknowledges the dedication and commitment of the men and women of the ADF and commends them on the outstanding service they provide to the nation. The Committee also acknowledges the work of the Australian Public Service in supporting ADF personnel on operations. Finally, the Committee expresses its thanks for the support given by family and friends of those personnel deployed and to those engaged in support of operations.

Senator David Fawcett
Chair
Defence Sub-Committee

Membership of the Committee

Chair The Hon Teresa Gambaro MP

Deputy Chair Mr Nick Champion MP

Members The Hon Bob Baldwin MP
(from 19 October 2015)

The Hon Michael Danby MP

The Hon David Feeney MP

Mr Laurie Ferguson MP

The Hon Alan Griffin MP

(from 4 December 2013 until 5 September 2014)

(from 10 February 2015)

Mr Alex Hawke MP

(until 12 October 2015)

Dr Dennis Jensen MP

Mr Ewen Jones MP (until 11 November 2015)

Mr Craig Kelly MP

The Hon Richard Marles MP

Mr Andrew Nikolic AM, CSC, MP

Senator Mark Bishop

(until 30 June 2014)

Senator Sean Edwards (from 1 July 2014)

Senator Alan Eggleston (until 30 June 2014)

Senator David Fawcett

Senator Mark Furner (until 30 June 2014)

Senator Alex Gallacher (from 1 July 2014)

Senator Helen Kroger (until 30 June 2014)

Senator the Hon Joseph Ludwig

(from 1 July 2014)

Senator the Hon Ian Macdonald

Senator Anne McEwen

Senator Bridget McKenzie

(from 1 July 2014)

Senator Deborah O'Neill

(from 1 July 2014)

The Hon Melissa Parke MP
(from 3 September 2014 to 10 February 2015) (from 24 June 2015)

Mr Keith Pitt MP
(from 19 October 2015)

The Hon Tanya Plibersek MP
(until 24 June 2015)

Mrs Jane Prentice MP
(from 22 September 2014)

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(until 21 July 2015)

Mr Wyatt Roy MP
(until 12 October 2015)

The Hon Philip Ruddock MP

The Hon Bruce Scott MP

Mr Luke Simpkins MP
(until 22 September 2014)

The Hon Dr Sharman Stone MP

Ms Maria Vamvakinou MP

Mr Nickolas Varvaris MP
(from 9 September 2015)

Senator Stephen Parry
(until 30 June 2014)

Senator Linda Reynolds CSC
(from 1 July 2014)

Senator the Hon Lisa Singh

Senator the Hon Ursula Stephens
(until 30 June 2014)

Senator Peter Whish-Wilson

Senator Nick Xenophon

Membership of the Defence Sub-Committee

Chair	Senator David Fawcett	
Deputy Chair	The Hon Alan Griffin MP (until 5 September 2014) (from 10 February 2015)	
	Senator Deborah O'Neill (from 23 September 2014 until 10 February 2015)	
Members	The Hon Bob Baldwin MP (from 11 November 2015)	Senator Sean Edwards (from 1 July 2014)
	Mr Nick Champion MP (<i>ex officio</i>)	Senator the Hon Joseph Ludwig (from 1 July 2014)
	The Hon Michael Danby MP	Senator the Hon Ian Macdonald
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	The Hon Teresa Gambaro MP (<i>ex officio</i>)	Senator Linda Reynolds CSC (from 1 July 2014)
	Mr Alex Hawke MP (until 12 October 2015)	Senator Deborah O'Neill (from 23 September 2014)
	Dr Dennis Jensen MP	Senator Peter Whish-Wilson (from 11 June 2015)
	Mr Ewen Jones MP (until 11 November 2015)	
	Mr Craig Kelly MP	
	The Hon Richard Marles MP	
	Mrs Jane Prentice MP (from 11 August 2015)	


Mr Andrew Nikolic AM, CSC, MP

Mr Nickolas Varvaris MP

(from 14 October 2015)

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Terms of reference

Pursuant to paragraph two 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

On 3 December 2014, the Joint Standing Committee on Foreign Affairs, Defence and Trade authorised the Defence Sub-Committee to review the Department of Defence Annual Report 2013-14.

1 Joint Standing Committee on Foreign Affairs, Defence and Trade, 'Resolution of Appointment'. House of Representatives Votes and Proceedings No. 7, 21 November 2013, p. 115.

2 Parliament of Australia, *44th Parliament Speaker's Schedule: Allocation to Committees of Annual Reports of Government Departments and Agencies*, p. 21.



List of abbreviations

ADF	Australian Defence Force
AMC	Australian Military Court
APS	Australian Public Service
ASPI	Australian Strategic Policy Institute
ATG	Air Task Group
BPC	Building Partner Capacity
CASG	Capability Acquisition and Sustainment Group (formerly DMO)
CDF	Chief of Defence Force
CDG	Capability Development Group
CO	Chief Officer (United States JSF Roundtable)
C-RAM	Counter Rocket, Artillery, and Mortar
DAPSCO	Defence APS Classification of Occupation
DHA	Defence Housing Australia
DMO	Defence Materiel Organisation
DMS	Defence Maritime [Services] Propriety Limited

DOT&E	Director, Operational Test and Evaluation (United States)
DSTG	Defence Science and Technology Group (formerly DSTO)
DSTO	Defence Science and Technology Organisation
DVA	Department of Veterans' Affairs
FPR	First Principles Review
FSR	Force Structure Review
GAO	Government Accountability Office (United States)
ICT	Information and communications technology
IOC	Initial Operational Capability
ISAF	International Security Assistance Force
ISIL	Islamic State of Iraq and the Levant
IV&V	Independent Verification and Validation
JSF	Lockheed Martin F-35 Joint Strike Fighter
KPI	Key Performance Indicator
LASER	Longitudinal ADF Study Evaluating Resilience
LIA	Live In Accommodation
LNG	Liquid Natural Gas
NATO	North Atlantic Treaty Organization
OBAS	On Base Advisory Service
OEM	Original Equipment Manufacturer
PAO	Polyalphaolefin [JSF coolant and fuelhydraulic systems]
PFI	Private Finance Initiative
PGPA	Public Governance, Performance and Accountability Act
PPP	Private–Public Partnership

PPB	Pacific Patrol Boat
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RFT	Request for Tender
RSL	Returned & Services League of Australia
SASR	Special Air Services Regiment
SeMPRO	Sexual Misconduct Prevention & Response
SES	Senior Executive Service
SOTG	Special Operation Task Group
TG Taji	Task Group Taji
UAV	Unmanned Aerial Vehicle
UN	United Nations
US	United States of America
VCDF	Vice Chief of the Defence Force
VSim	Verification Simulation



List of recommendations

3 Personnel matters

Recommendation 1

The Committee recommends that the Jobs Families Project be further developed to incorporate accurate assessments of both qualifications and experience that are required for a given role. The Committee further recommends that, in its implementation of the First Principles Review, the Department of Defence develop its strategic planning and appointment process to ensure employees have task-specific competence for their role, and that opportunities are actively created for personnel to obtain this relevant experience.

Recommendation 2

The Committee recommends that the Department of Defence collate and periodically publish figures on the effect of Project Suakin, including statistics on:

- The breakdown of personnel in each service category;
- ADF critical categories;
- Re-engagement by service and sector including assessment of industry skills captured; and
- Quantification of the benefits of personnel retention.

Recommendation 3

The Committee recommends that the Department of Defence develop more innovative ways to recruit, especially in the science, technology and engineering fields. The Committee further recommends that the Department, together with the Service Chiefs, utilise the following

initiatives to better attract people with science, engineering and technical skills:

- Engagement with secondary schools at the year 10 level such as visits, placements and work experience;
- The ADF Gap Year; and
- Defence University Sponsorship.

Recommendation 4

The Committee recommends that, whilst maintaining physical standards, the Department of Defence ensure the standards are fit for purpose and exercise flexibility on a case-by-case basis.

4 Mental health and wellbeing

Recommendation 5

The Committee recommends that the Departments of Defence and Veterans' Affairs report the progress and results of their mental health programs, including the LASER-Resilience Study.

Recommendation 6

The Committee recommends that the Department of Defence develop methods to collect and collate data on the On Base Advisory Service to measure its effectiveness.

5 Capability development and major projects

Recommendation 7

The Committee recommends the reporting to Parliament on the Joint Strike Fighter program be more comprehensive and equivalent to that made available to the US Congress.

6 Defence support

Recommendation 8

The Committee recommends that, to aid transparency and accuracy, the Department of Defence record and periodically report the quantum of unfunded liabilities held by Defence, including:

- Where the unfunded liability occurred;
- How the unfunded liabilities were created; and, where relevant
- Factors and decisions that led to funding being reallocated.

The Committee does not expect this reporting to form part of Defence's annual financial statements.

Recommendation 9

The Committee recommends that the Defence Annual Reports include appropriately detailed information on the Fuel Services Branch, in particular the progress of fuel farm remediation and remaining work to be done. The Committee further recommends that the Department of Defence actively explore options to engage and collaborate with industry on fuel management and security.

Recommendation 10

The Committee recommends that the Department of Defence, in partnership with Defence Housing Australia, prepare an effective consultation and communication framework with the community for use in ongoing and future redevelopments.

Introduction

Annual Report Review objectives and scope

- 1.1 The review of the *Defence Annual Report* is an important task as it provides an opportunity for the Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade to inquire into a broad range of Defence issues as part of the process of accountability of Government agencies to Parliament.

Focus areas

- 1.2 The Sub-Committee focussed on five main areas for its review of the *Defence Annual Report 2013-14*. These issues and the chapters in which they are addressed are:
- First Principles Review – addressed in Chapter Two;
 - Personnel matters – addressed in Chapter Three;
 - Mental health – addressed in Chapter Four;
 - Capability development and major projects – addressed in Chapter Five; and
 - Defence support – addressed in Chapter Six.

Conduct of the Review

- 1.3 The Review was announced via media release on 5 December 2014.
- 1.4 The Sub-Committee received two submissions from:
- The Returned & Services League of Australia (RSL); and

- Mr Michael Wunderlich (private capacity).
- 1.5 The Sub-Committee held a public hearing on 5 June 2015 and received evidence from the following witnesses:
- Senior Defence officials; and
 - A representative from the RSL.
- 1.6 The Sub-Committee held a subsequent public hearing on 16 June 2015 and received evidence from the following witnesses:
- Senior Defence officials; and
 - Senior Department of Veterans' Affairs officials.
- 1.7 The transcripts of the hearings are available on the Committee's website, along with published submissions.

ADF operations

- 1.8 The Australian Defence Force (ADF) participated in three whole-of-government operations in 2013-14. Operation Sovereign Borders commenced on 18 September 2013. It is a military-led, border security operation supported and assisted by a range of federal government agencies aimed at combatting people smuggling and protecting Australia's borders.¹ Operation Southern Indian Ocean is the ADF's contribution to the multi-agency and multi-national search for missing Malaysian Airlines flight MH370.² Operation Bring Them Home was the AFP-led government response to the shooting down of Malaysian Airlines flight MH17 over Ukraine.³
- 1.9 The ADF completed two operations in 2013-14. Operation NSW Bushfire Assist was conducted to help the Blue Mountains community recover after a series of bushfires.⁴ Operation Philippines Assist was conducted in the

1 Department of Immigration and Border Protection, 'Operation Sovereign Borders', <<https://www.border.gov.au/about/operation-sovereign-borders>> viewed 4 August 2015.

2 Department of Defence, 'Global Operations: Southern Indian Ocean', <<http://www.defence.gov.au/Operations/SouthernIndianOcean/>> viewed 4 November 2015.

3 Department of Defence, 'Defence Support to Operation Bring Them Home', 31 July 2014, <<http://news.defence.gov.au/stories/2014/07/defence-support-to-operation-bring-them-home/>> viewed 4 August 2015.

4 Department of Defence, 'Past Operations: NSW Bushfire Assist', <<http://www.defence.gov.au/Operations/PastOperations/nswbushfireassist/default.asp>> viewed 4 August 2015.

aftermath of Typhoon Haiyan, providing humanitarian assistance to the Philippines, in particular the Tacloban area.⁵

- 1.10 Australia's drawdown from Afghanistan continued in 2013-14 as the ADF's mission changed to mainly support roles.⁶ The ADF concluded its mission in Uruzgan on 15 December 2013, with the transfer of security responsibility to the government of Afghanistan and the Afghan National Security Forces.⁷ Operation Slipper, Australia's military contribution to the International Security Force (ISAF) in Afghanistan, ended on 31 December 2014. It has been replaced by Operation Highroad with the transition from ISAF to the new NATO-led Operation Resolute Support with its 'train, advise, assist' mandate on 1 January 2015.⁸
- 1.11 The numbers of Defence personnel on ADF operations, current as at 10 September 2015, are listed in Table 1.

Table 1 Defence personnel on ADF operations

Operation	Location	Personnel	Government Mandate
Accordion	Middle East Region	400	Ongoing
Aslan	Sudan	20	Reviewed Annually
Manitou	Middle East Region	241	Ongoing
Mazurka	Egypt	25	Ongoing
Okra	Middle East Region and Iraq	780	Ongoing
Paladin	Israel/Lebanon	11	Reviewed Annually
Palate II	Afghanistan	2	Reviewed Annually
Resolute	Australian Maritime Interests	500	Ongoing
Highroad	Afghanistan	250	Ongoing
Southern Indian Ocean	Indian Ocean	2	Ongoing

Source: Department of Defence, 'Operations', <<http://www.defence.gov.au/operations/>> viewed 4 November 2015.

5 Department of Defence, 'Past Operations: Philippines Assist', <<http://www.defence.gov.au/Operations/PastOperations/philippinesassist/>> viewed 4 August 2015.

6 *Defence Annual Report 2013-14*, p. 12.

7 Department of Defence, 'Last days at Tarin Kot', <<http://www.defence.gov.au/defencenews/stories/2014/Jan/0115.htm>> viewed 4 August 2015.

8 Department of Defence, 'Australia supports new mission in Afghanistan', *Media Release*, 31 December 2014, <<http://news.defence.gov.au/2014/12/31/australia-supports-new-mission-in-afghanistan/>> viewed 31 July 2015.

Operation Okra

- 1.12 Operation Okra is the ADF's 'contribution to the international effort to combat the Daesh (also known as ISIL) terrorist threat in Iraq and Syria'. Australia's contribution is being closely coordinated with the Iraqi government, Gulf nations and a broad coalition of international partners. About 780 ADF personnel have been deployed to the Middle East in support of Operation Okra. These personnel make up the Air Task Group (ATG), the Special Operations Task Group (SOTG) and Task Group Taji (TG Taji).⁹
- 1.13 In a 10 September 2014 speech, US President Barack Obama stated that the international coalition aimed to 'degrade, and ultimately destroy, ISIL through a comprehensive and sustained counterterrorism strategy'. This would be done through:
- A systematic campaign of airstrikes against ISIL;
 - Increased support for forces fighting ISIL on the ground;
 - Using counterterrorism capabilities to prevent ISIL attacks; and
 - Providing humanitarian assistance to civilians.¹⁰
- 1.14 Task Group Taji is deployed as a part of the coalition Building Partner Capacity (BPC) mission. The aim is to train the Iraqi Security Forces and build their capacity to defend their borders and restore Iraq's sovereignty. Training is focussed on core operational skills including planning and conducting operations, basic manoeuvre and integration of intelligence into operations.¹¹
- 1.15 Air Chief Marshal Mark Binskin, Chief of Defence Force, stated that force protection is a key element of 'what we have structured the force for' and that significant force protection and logistics support is committed to the force in Iraq.¹²
- 1.16 At the time of the 5 June 2015 public hearing, Defence reported to the Committee that Iraqi troops trained through the BPC with Australia had not yet been on operations. In line with this, Defence further reported that

9 Department of Defence, 'Operation OKRA', <<http://www.defence.gov.au/Operations/Okra/default.asp>> viewed 31 July 2015.

10 P Jennings, 'A holding strategy: the campaign against ISIL', in Australian Strategic Policy Institute (ASPI), 'Strike from the Air: The first 100 days of the campaign against ISIL', *ASPI Strategy*, December 2014, pp. 6-7. See also <<https://www.whitehouse.gov/the-press-office/2014/09/10/statement-president-isil-1>>.

11 Department of Defence, 'Task Force Taji farewelled', *Media Release*, 21 April 2015, <<http://news.defence.gov.au/2015/04/21/media-release-task-force-taji-farewelled-21-april-2015/>> viewed 31 July 2015.

12 Air Chief Marshal Mark Binskin, Chief of Defence Force, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 14.

troops trained by the BPC mission did not take part in the fighting involved in the city centre of Ramadi falling to Daesh. Iraqi forces advised and assisted by the ADF were involved in fighting at Ramadi.¹³

- 1.17 The Chief of the Defence Force advised that the ADF does not have any formal relationship with any Shia militia groups in Iraq. Although ADF personnel may 'occasionally bump into them around a base or see them', Defence does not train or support Shia militia groups.¹⁴
- 1.18 The Chief of the Defence Force stated that the first measure of its operations in Iraq was to 'disrupt and degrade' Daesh through airstrikes and working with Iraqi security forces. Defence characterised this as a success thus far, noting that 'Iraqi security forces have reclaimed probably about 25 per cent' of the territory Daesh had taken in 2014. Defence observed that success in Iraq would be measured by the training of the Iraqi forces and their ability to take and hold ground against Daesh, and ultimately secure their borders.¹⁵
- 1.19 The Chief of the Defence Force noted that then Prime Minister had planned a review of Operation Okra at its 12 month mark. This review will measure the success of Iraqi forces in being able to take and hold ground, and also their logistic capability and 'their ability to be equipped, supported and sustained'.¹⁶
- 1.20 The Committee notes that on 9 September 2015 the Government announced that air strike operations against Daesh would be extended into Syria.¹⁷

Committee comment

- 1.21 The Committee thanks both ADF and APS personnel on operations for their service, and those at home who support them. We owe a debt of gratitude to the men and women of the Defence Force for their service to Australia and wish them a safe return to their friends and families.
- 1.22 The Committee looks forward to the work of Task Group Taji showing results. As a key indicator of the success of Operation Okra overall, seeing

13 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, pp. 14–15.

14 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 14.

15 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 15.

16 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 15.

17 Prime Minister and Minister for Defence, 'Australia to extend air operations against Daesh into Syria', *Media Release*, 9 September 2015, <<http://www.minister.defence.gov.au/2015/09/09/prime-minister-and-minister-for-defence-australia-to-extend-air-operations-against-daesh-into-syria/>> viewed 7 October 2015.

Task Group Taji-trained Iraqi security forces take and hold ground will be an important marker of progress in the fight against Daesh.

First Principles Review

- 2.1 The Committee considered the status of the First Principles Review (FPR), in particular the role and work of the Oversight Board and the recommendation relating to the Defence Science and Technology Organisation (DSTO). In the context of implementing the FPR recommendations, the Committee considered how Defence will learn and change so that its reporting, both internally and to the Parliament, has more integrity and transparency.
- 2.2 The First Principles Review was commissioned in August 2014 to ensure that Defence is fit for purpose and is able to deliver against its strategy with the minimum resources necessary. The review panel was chaired by Mr David Peever (former Rio Tinto managing director) and included Professor Peter Leahy (former Chief of Army), Mr Jim McDowell (former BAE Systems executive), Professor Robert Hill (Defence Minister in the Howard Government) and Mr Lindsay Tanner (Finance Minister in the Rudd Government). Boston Consulting Group and a Defence in-house secretariat assisted the panel.¹
- 2.3 The Review report was titled *Creating One Defence* and released on 1 April 2015. In summary, the Review found that:
- The current organisational model and processes are complicated, slow and inefficient in an environment which requires simplicity, greater agility and timely delivery. Waste, inefficiency and rework are palpable.
- Defence is suffering from a proliferation of structures, processes and systems with unclear accountabilities. These in turn cause institutional waste, delayed decisions, flawed bureaucracy, over-

1 ASPI, 'One Defence: one direction? The First Principles Review of Defence', *ASPI Special Report*, April 2015, p. 1.

escalation of issues for decision and low engagement levels amongst employees.²

- 2.4 The Review made six key recommendations aimed at achieving ‘a more unified and integrated organisation that is more consistently linked to its strategy and clearly led by its centre’.³ These recommendations are:
- Establish a strong, strategic centre to strengthen accountability and top level decision-making.
 - Establish a single end-to-end capability development function within the Department to maximise the efficient, effective and professional delivery of military capability.
 - Fully implement an enterprise approach to the delivery of corporate and military enabling services to maximise their effectiveness and efficiency.
 - Ensure committed people with the right skills are in appropriate jobs to create the One Defence workforce.
 - Manage staff resources to deliver optimal use of funds and maximise efficiencies.
 - Commence implementation immediately with the changes required to deliver One Defence in place within two years.⁴
- 2.5 The Review made a further 70 specific recommendations, of which the government has agreed to 69 in principle. The exception concerned the future of the Defence Science and Technology Organisation.⁵
- 2.6 The Review recommended that the Defence Materiel Organisation (DMO) be disbanded, with its core responsibilities in relation to capability delivery transferred to a new Capability Acquisition and Sustainment Group (CASG).⁶ This change was implemented on 1 July 2015.⁷

2 David Peever, ‘First Principles Review: Creating One Defence’, April 2015, p. 13.

3 David Peever, ‘First Principles Review: Creating One Defence’, April 2015, p. 5.

4 David Peever, ‘First Principles Review: Creating One Defence’, April 2015, p. 7.

5 ASPI, ‘One Defence: one direction? The First Principles Review of Defence’, *ASPI Special Report*, April 2015, pp. 18, 27.

6 Department of Defence, ‘To equip and sustain – 15 years of the DMO’, *DMO Bulletin*, issue 3 2015, <<http://www.defence.gov.au/dmo/NewsMedia/DMOBulletin/Toequipandsustain-15yearsoftheDMO>> viewed 5 August 2015.

7 *Public Governance, Performance and Accountability Amendment (Listed Entities and Receipts) Rule 2015*, Explanatory Statement, <<https://www.comlaw.gov.au/Details/F2015L00929/Explanatory%20Statement/Text>> viewed 7 October 2015.

Oversight Board

- 2.7 Recommendation 6.3 of the FPR called for the creation of an Oversight Board. This Board and its membership was finalised on 11 May 2015. The membership comprises the members of the First Principles Review team as well as Erica Smyth, a company director with significant private and some public sector experience, and the current Deputy Chair of the Australian Nuclear Science and Technology Organisation Board.⁸
- 2.8 The Board will assist in ensuring the agreed recommendations are implemented in the way intended by the First Principles Review, in line with the One Defence business model. The Board will also provide assistance where required to the Secretary of Defence, the Chief of the Defence Force and Defence leadership with the implementation of the recommendations.
- 2.9 Mr Dennis Richardson, Secretary of Defence, reported that the Defence leadership will hold a monthly meeting with the Oversight Board.⁹ This is intended to give Defence leadership the ability to maintain a dialogue with the Board and to gain more information and clarification about the intentions of various recommendations as they are implemented.¹⁰
- 2.10 Defence highlighted that the Oversight Board reports directly to the Minister for Defence and does not report to Defence. The Oversight Board cannot direct actions. However, as Defence is accountable to the Minister, the Minister can intervene in the implementation on the advice of the Board.¹¹

Defence Science and Technology Organisation

- 2.11 Recommendation 2.17 of the FPR called for the Defence Science and Technology Organisation to become part of the new Capability Acquisition and Sustainment Group. This was the only recommendation not accepted by the Government.¹²

8 Minister for Defence, 'Membership of the First Principles Review Oversight Board', *Media Release*, 11 May 2015, <<http://www.minister.defence.gov.au/2015/05/11/minister-for-defence-membership-of-the-first-principles-review-oversight-board/>> viewed 5 August 2015.

9 Mr Dennis Richardson, Secretary, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

10 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

11 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

12 Minister for Defence, 'The First Principles Review announcement', *Transcript*, 1 April 2014, <<http://www.minister.defence.gov.au/2015/04/01/minister-for-defence-transcript-the-first-principles-review-announcement-1-april-2014/>> viewed 7 October 2015.

- 2.12 DSTO has been renamed the Defence Science and Technology Group (DTSG) as of 1 July 2015 in line with the One Defence business model recommended in the First Principles Review.¹³
- 2.13 The Committee raised the topic of funding and staffing levels at DSTO, to which Defence responded that 'DSTO is under no more pressure than any other part of Defence. Indeed, there are other parts of Defence that are under more pressure than DSTO'.¹⁴ On the number of vacant positions in DSTO, Defence reported that the number is quite small, stating:

You need to distinguish between what might be a so-called establishment and the number of positions they actually have. Right across the department the establishment would show a lot more positions than what we in effect have. We see DSTO as a very important part of the Defence enterprise going forward. We believe that it adds value across the organisation in terms of not only capability development but also ongoing support to the service chiefs – to the CDF, VCDF and the like. That is in broad terms where we are at, but DSTO is under no more pressure than any other part of the organisation.¹⁵

- 2.14 The Committee enquired whether Defence money spent up front on DSTO would deliver capability more efficiently, thereby allowing more money to be spent on other areas of the organisation instead of remediating capability. Mr Richardson responded that 'the issue of cost, schedule and the like is a lot more complex than simply more money being spent at the front end' with the issue of 'whether the additional dollars spent up-front should be spent in DSTO as opposed to somewhere else' being a 'moot point'. He also stated:

I do not see DSTO as being any more important than the intelligence agencies in Defence that play a central role in counterterrorism. I do not see them as being any more important than the air traffic controllers, the social workers, or the psychologists, who provide essential support to ADF families and the like. We are balancing out a lot of competing priorities across the organisation and DSTO does not get a raw deal in respect of that.¹⁶

13 Department of Defence, 'Defence Science and Technology Group', <<http://www.dsto.defence.gov.au/>> viewed 7 August 2015.

14 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 13.

15 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, pp. 13 - 14.

16 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 14.

Reporting and transparency of performance

2.15 The Committee questioned the glaring mismatch between the reporting of capability development and other elements in the Department's Annual Report and the assessment made by the FPR panel. The Committee questioned Defence about what steps it will take and what learnings it will draw from the FPR to improve the integrity and transparency of its annual reporting to Parliament.

2.16 Defence offered the following response:

The First Principles Review talks about a corporate planning process, which is also about understanding and managing Defence's performance over an annual cycle. ... The First Principles Review says we should consolidate the different elements of our planning to develop an enterprise view... and to develop more holistic performance measures so that we have a more strategic understanding of our performance and the capacity to drill down into parts of the organisation and to make judgements about the contribution of particular elements to an overall judgement about performance. The other thread to this is that the new PGPA Act requires that we have a richer conversation about how we relate the resources we have to the outcomes that we want to achieve.¹⁷

2.17 Defence stated that 'the real challenge' is:

... getting performance measures that give you the capacity to understand and measure performance, make real judgements about that and hold people or different parts of the organisation to account. They need to be real and specific enough to do that, but at the same time they need to be sufficiently strategic so that you can make an overall judgement about performance across a range of different areas.¹⁸

2.18 Defence admitted that they are 'grappling' with framing and describing goals in terms of performance and demonstrating this through the reporting process, stating:

It is a big area of work. It is central to the First Principles Review. The review team said that it is the spine that holds everything together and it is really about how we understand our

17 Mr Brendan Sargeant, Associate Secretary, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 32.

18 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 32.

performance and how we ensure that the money we have is spent where it needs to be spent.¹⁹

2.19 The Committee noted the value of independent expertise in major capability reporting frameworks and questioned whether this process should be applied to Defence's governance and reporting as a whole.

2.20 Defence responded:

... the end result of a good governance system is to have a holistic understanding of the organisation's performance and to be able to make judgements about the extent to which the organisation has allocated resources appropriately and used those resources appropriately. I think that the best way of achieving this is transparency. The governance system we are trying to build is one which is internally transparent and externally transparent to the maximum extent possible, taking account of security. ... The other issue is that we are trying to develop a governance system – and the First Principles Review requires this – that is whole of organisation: that allows us to make judgements across the whole enterprise and to understand how each element of the enterprise contributes to the whole.²⁰

2.21 Defence also explained that 'one of the really big issues' is that many of their processes are 'disaggregated' or 'too complex':

It is an old problem of complexity where you have silos. People work in silos. They work really well within the silo but you might find that they have left out critical information or they do not understand the connection with somewhere else. We have seen that many times. ... [P]eople tend to think about their performance in relation to their particular entity or group and not sufficiently about how it contributes to the whole. That is the balance that we have to shift.²¹

However, Defence also stated that the FPR reforms will provide 'the capacity to exercise ... appropriate surveillance over the organisation to make sure that things are connected appropriately'.²²

19 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

20 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

21 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

22 Mr Sargeant, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 33.

Defence White Paper and Force Structure Review

- 2.22 On 4 April 2014, the Prime Minister and Minister for Defence announced a new Defence White Paper would be released in 2015. The release of the 2015 White Paper will be followed up the release of a 10-year Defence Capability Plan and a Defence Industry Policy Statement.²³
- 2.23 During the inquiry, the White Paper and Force Structure Review were in its final stages of development and had yet to be issued. The Committee appreciates that Defence could not reveal detailed information pertaining to the reports. However, some general comments were made on the development of White Paper, in regards to ICT capability, international engagements, and naval projects.
- 2.24 Mr Richardson stated that ‘there has been a recognition in Defence for some time that we needed to intensify our engagement in the region’ and that this has ‘certainly been reflected in the development of the White Paper’.²⁴
- 2.25 The Chief of Defence Force expanded on that point noting that ‘soft power’ in the region is an aspect of international engagement that will continued to be focused on, noting that the White Paper will not diminish that focus but will instead ‘provide the structure around what we want to do for the next 20 years.’²⁵
- 2.26 Defence also mentioned the White Paper in the context of the Future Frigate Program, SEA 5000, and Australia’s naval shipbuilding plan.²⁶

Committee comment

- 2.27 The Committee welcomes the findings and recommendations of the First Principles Review. The Review was thorough and delivered on its terms of reference, although, in the view of the Committee, the terms of reference could have been broader to engage interaction between the Department and the Executive. Defence has undertaken to implement all but one of the Review’s recommendations within two years, and the Committee will be monitoring the efficacy of the implementation.

23 Department of Defence, ‘2015 White Paper’, <<http://www.defence.gov.au/whitepaper/>> viewed 30 July 2015.

24 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 29.

25 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 29.

26 Vice Admiral Tim Barrett, Chief of Navy, Department of Defence, and Mr Colin Thorne, General Manager Land and Maritime, Defence Materiel Organisation, *Committee Hansard*, Canberra, 5 June 2015, p.p. 36–37.

- 2.28 The Committee is encouraged by the decision to appoint an Oversight Board. The Committee believes that an independent but informed external review of implementation is essential. The Committee anticipates that Defence will fulfil its assurance to use the Oversight Board to effectively implement the recommendations of the First Principles Review.
- 2.29 The Committee welcomes commitments by Defence to increase the reporting and transparency of performance through the First Principles Review process. The Committee looks forward to seeing the results of this in future Defence Annual Reports. An essential part of the First Principles Review was the fiscal dimension of delivering Defence's strategy with the minimum resources necessary. The Committee anticipates improvements in reporting and better measures of resources against outcomes.

Personnel matters

3.1 The Committee considered the following personnel matters:

- Critical categories of employment;
- Project Suakin and Reserve Policy;
- Recruitment and employment of women;
- Cultural reform and SeMPRO; and
- Military justice.

Critical categories of employment

3.2 Critical categories of employment are areas in which Defence has a workforce shortage that is negatively affecting capability outcomes.

3.3 Defence informed the Committee that it has 13 critical categories of employment for the ADF, representing 3.5 per cent of the ADF workforce. This is down from a peak of 37 critical categories in 2008. All the current critical categories are within Navy in the engineering, technical, warfare operator and health workforces. Defence is 'conducting a review of the submariner employment offer in order to reduce the number of critical categories in that particular capability'.¹

3.4 Defence advised that the process of identifying Australian Public Service (APS) critical categories commenced in 2014. Ten APS occupations were initially identified as critical and this has been reduced to nine. Defence APS critical occupations are in engineering and technical, intelligence and security, health and project management.²

1 Department of Defence, *Question on Notice No. 3*, 5 June 2015.

2 Department of Defence, *Question on Notice No. 3*, 5 June 2015.

- 3.5 Defence works 'deliberately differentiated offers', which include financial incentives, to attract and retain people in critical categories. Defence has also remediated workforce shortfalls by revising workforce structures and training to allow an adequate supply of trained people.³
- 3.6 Defence reported that within Navy the number of critical categories has so far declined from 17 to 13, with gaps in most of the remaining critical capabilities also trending down.⁴
- 3.7 The Returned & Services League (RSL) noted that it supports deliberately differentiated offers, in particular financial incentives, to retain people in critical categories. It offered the proposal of providing further financial offsets for critical trades by reducing the senior ADF leadership group, noting that 'the size of the ADF leadership group appears to be out of all proportion to the numerical size of the ADF'.⁵
- 3.8 Defence is also using a 'job families' approach to monitor APS gaps in critical capabilities.⁶ The Job Families Project developed content for the Defence APS Classification of Occupation (DAPSCO) codes. This developed 2,100 occupation profiles that each contains an occupation description, duty statement, selection criteria and suggested learning and development pathway. The profiles aim to provide clarity on Defence's work and future career paths for APS employees.⁷
- 3.9 The Committee questioned whether the Job Families Project is adequate for delivering people with the right skills to successfully undertake certain jobs and noted that there was a shortfall in people with task-specific competence.
- 3.10 Defence made the following response:

It is important for us to define the skills required for specialist positions, to understand what those specialist positions are and to separate them from the more generic requirements you might have for being a senior leader or middle manager, where those skills and experiences are also very important. Part of our job family work is about meshing that with work-level standards to say that, as a middle manager, you are required to have these sorts of middle-management skills, but if you are a middle manager who is a medical specialist then you have also be required to have

3 Ms Rebecca Skinner, Deputy Secretary Defence People, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 16; *Defence Annual Report 2013-14*, p. 54.

4 Vice Admiral Barrett, Defence, *Committee Hansard*, Canberra, 5 June 2015, pp. 16, 23.

5 Returned Services League of Australia, *Submission No. 1*, pp. 3-4.

6 Ms Skinner, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 17.

7 *Defence Annual Report 2013-14*, p. 139.

this. You would not be able to win a role if you do not have the necessary and particular technical expertise for a particular role.⁸

- 3.11 The Defence Annual Report 2013-14 states that Project Suakin will also result in a reduction in turnover in critical trades.⁹

Project Suakin and Reserve policy

- 3.12 Project Suakin commenced in November 2013¹⁰ and is intended to provide a contemporary service model with a range of full-time, part-time, and casual service options. These options are designed to enable ADF members to continue to serve as their circumstance change across their working life.¹¹
- 3.13 Defence's Total Workforce Model, which is a part of Project Suakin, comprises of a range of flexible service options; running from permanent members rendering continuous full time service to reserve members who do not render service and have no service obligation but are liable for call out.¹²
- 3.14 The Chief of Defence Force told the Committee that under then current legislation, the only option is full-time ADF service; there is no allowance for part-time or casual options. The ADF has been operating with a part-time leave without pay mechanism to allow service members some flexibility in their working arrangements. Project Suakin seeks to bring policy and legislation together to allow a spectrum of service categories, starting from full-time and going to part-time reserve. CDF stated that this 'will give us greater flexibility in how capability can be produced with the people of a unit, so I see there are great capability benefits in that'.¹³
- 3.15 The Chief of Defence Force said Project Suakin 'is pushing bounds. There is no doubt about it. It is pushing organisational and legislative bounds'.¹⁴

8 Ms Skinner, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 18.

9 *Defence Annual Report 2013-14*, p. 130.

10 Assistant Minister for Defence, 'Launch of Project Suakin by Stuart Robert at HMAS Harman', *Media Release*, 26 November 2013, <<http://www.minister.defence.gov.au/2013/11/26/launch-of-project-suakin-by-assistant-minister-for-defence-stuart-robert-at-hmas-harman/>> viewed 4 November 2015.

11 *Defence Annual Report 2013-14*, p. 130.

12 Department of Defence, 'Project Suakin: Total Workforce Model', <<http://www.defence.gov.au/suakin/>> viewed 29 July 2015.

13 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 23.

14 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 23.

The Chief of Defence Force also added that Suakin gives individuals more flexibility and employment options.¹⁵

- 3.16 On 25 June 2015, the Assistant Minister for Defence introduced a package of three Bills to establish new ADF superannuation arrangements. As part of this, the consequential Bill intended to introduce the ADF's new workforce model 'by providing permanent members of the Australian Defence Force access to flexible service options.'¹⁶ The new superannuation scheme Bill intended to allow members on flexible service arrangements to 'have consistent comparative benefits to other ADF members, including access to death and invalidity and superannuation benefits'.¹⁷ The superannuation scheme forms 'an important part of the Government's plan to provide flexible working conditions for all ADF members under Project Suakin'.¹⁸ All three Bills were passed by both Houses on 20 August 2015.¹⁹

Recruitment and employment of women

- 3.17 The *Review into the Treatment of Women in the ADF - Phase 2 Report, 2012* recommended Defence publish a *Women in the ADF report* as a supplement to the Defence annual report. This report was to include information in the areas of women's participation, women's experience, access to flexible work, and sexual harassment and abuse. To this end Defence published *Women in the ADF Report 2013-14: Supplement to the Defence Annual Report 2013-14*.²⁰
- 3.18 At a public hearing, Defence stated that women make up 15.3 per cent of the Defence Force. In the individual services, women make up 18.9 per cent of Navy, 12 per cent of Army, and 18.7 per cent of Air Force. Defence highlighted that these figures for Army are in the context of opening up of

15 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 23.

16 House of Representatives, *Defence Legislation Amendment (Superannuation and ADF Cover) Bill 2015*, Explanatory Memorandum, p. 2.

17 House of Representatives, *Australian Defence Force Superannuation Bill 2015*, Explanatory Memorandum, p. 17.

18 Minister for Finance and Minister for Defence, 'New military superannuation scheme arrangements', *Media Release*, 13 May 2014, <<http://www.minister.defence.gov.au/2014/05/13/minister-for-finance-and-minister-for-defence-new-military-superannuation-scheme-arrangements/>> viewed 21 October 2015.

19 *Journals of the Senate*, No. 110 – Item 26, 20 August 2015, p. 3017; Assistant Minister for Defence, 'Landmark reforms to ADF conditions of service', *Media Release*, 25 June 2015, <<http://www.minister.defence.gov.au/2015/06/25/assistant-minister-for-defence-landmark-reforms-to-adf-conditions-of-service-25-june-2015/>> viewed 23 September 2015.

20 *Women in the ADF Report 2013-14: Supplement to the Defence Annual Report 2013-14*, p. 6.

some of the combat arms to women in a phased approach, starting in September 2011.²¹

3.19 The *Women in the ADF Report 2013-14* states that each service has set a recruitment growth target for women. Both Navy and Air Force have set a target of increasing the participation of women to 25 per cent by 2023, while Army has set a target of 15 per cent by 2023.²²

3.20 The Chief of Navy emphasised that Navy's approach to women is just as much about recruitment as it is about retention; this 'has allowed us to keep separation rates for our female officers and sailors at a lower level'.²³

3.21 Navy described some of the measures aimed at retaining women:

Some of those measures range from increasing flexible workplace arrangements where we can ... I have a strategic adviser on women, which allows us to focus on the things that currently are perceived to be barriers to retention. ... we are bringing together groups of women and men to understand what more can be done to remove some of the inhibitors to people wanting to remain for a career choice rather than just a short-term job aspiration. So the emphasis has been on retention measures.²⁴

3.22 Similarly, the Chief of Army noted that a comparable effort is underway in Army. This includes reconsidering recruitment pathways and flexible options for career progression, addressing potential unconscious bias against women in the judgements of merit, changing advertising to promote the opportunities for women, and holding regular focus group sessions on the appropriateness of arrangements in Army units.²⁵

3.23 The Committee sought information regarding the role of Ms Julie McKay as the gender advisor the Chief of the Defence Force. Ms McKay is Executive Director of the National Committee for UN Women.

3.24 The Chief of the Defence Force advised the Committee:

She is a key member on the Gender Equality Advisory Board, which has external members. I am using her and her expertise to look at the organisation and at where we can do better. Recruitment is a particular area she is looking at ... we think we are trying to recruit women with our advertising, but from a

21 Air Chief Marshal Binskin, Defence, *Committee Hansard*, 5 June 2015, pp. 18–19.

22 *Women in the ADF Report 2013-14: Supplement to the Defence Annual Report 2013-14*, pp. 52–53.

23 Vice Admiral Barrett, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 19.

24 Vice Admiral Barrett, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 19.

25 Lieutenant General Angus Campbell, Chief of Army, Department of Defence, *Committee Hansard, Transcript*, Canberra, 5 June 2015, p. 19.

female perspective we are not even getting close. ... I use her quite broadly across the organisation – she brings a great skill set to it.²⁶

3.25 The Committee questioned whether physical employment standards had been reduced in order to open up certain positions. The Committee particularly questioned the physical employment standards of the Special Air Service Regiment.

3.26 Defence described the physical employment standards:

The physical employment standards have been developed in relation to opening up ADF employment and positions so that there is no initial bias taken in what the person needs to be to fill that position. It takes away the need to view a person by their gender or any other perspective so that they are matched to a position or prior to a position on their ability to fill it.²⁷

3.27 In response to the Committee's concerns about physical employment standards, the Chief of Army commented that:

It has resulted in a focus of the necessary physical standards. There has been no reduction. I am very confident that there has been no reduction, but there has been a focus on what the necessary physical standards for land combat operations are ...²⁸

3.28 On the Special Air Service Regiment, Lieutenant General Campbell stated:

... it has always been, as a general point, acknowledged that it is not large muscles that make our Special Forces soldiers special. You need to be fit and tough, mentally and physically resilient, and for a range of roles you need to be strong in terms of weights and distances and so forth.²⁹

3.29 On women in the Defence APS, Defence reported that around 41 per cent workforce is women, compared to slightly over 50 per cent for the APS generally, while about 27 or 28 per cent of the Defence Senior Executive Service (SES) are women. Defence said there are a variety of reasons for this but suggested one of them was because over 20 per cent of the Defence APS workforce are former ADF, who are 'overwhelmingly are male and slightly older'. On the proportion of women in the Defence APS, Defence stated 'we are still well short in where we would like to be'.³⁰

3.30 The Committee enquired into the recruitment of female graduates, particularly in the areas of science and engineering. The Secretary of

26 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 18.

27 Air Vice Marshal Tony Needham, Head of People Capability, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 21.

28 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 21.

29 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 21.

30 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 18.

Defence responded that in 2014 they had set a target of 40 per cent APS graduate recruits but had fallen just short at 39 per cent. Mr Richardson observed:

Recruiting more women into the engineering space is a little more difficult for the obvious reasons that the percentage of women in those schools at universities is less than you would want, but we do have an active program of engaging with the universities and the relevant faculties.³¹

Cultural reform and SeMPRO

- 3.31 The *Review into the Treatment of Women in the ADF - Phase 2 Report, 2012* recommended that Defence establish a dedicated Sexual Misconduct Prevention and Response Office (SeMPRO) to coordinate timely responses, victim support, education, policy, practice and reporting for any misconduct of a sexual nature, including sexual abuse in the ADF.³²
- 3.32 SeMPRO commenced in July 2013 and is focused on providing services for both ADF members and Defence APS employees who have been affected by sexual misconduct. It also provides advice and guidance to commanders and supervisors on sexual misconduct matters as well as providing the single point of data collection, analysis and mapping of sexual misconduct within Defence. This data is intended to enable Defence to enhance strategies for prevention and response.³³
- 3.33 The Committee praised the cultural reform program of Defence but questioned whether SeMPRO could be improved to further increase its efficacy. Defence responded that 'SeMPRO... [is] a developing capability. It is still fairly new and will take some time to really develop its full suite of capabilities'.³⁴
- 3.34 On cultural reform and SeMPRO Defence stated:
- I think we are being held up around the world as best practice.
- ...
- Our aim is to continue to grow this, and we are not taking our eye off the ball on it at all.³⁵

31 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 18.

32 Department of Defence, 'About SeMPRO', <<http://www.defence.gov.au/sempro/about/default.asp>> viewed 29 July 2015.

33 *Defence Annual Report 2013-14*, p. 113.

34 Ms Skinner, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 22.

35 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 21.

- 3.35 The Committee enquired into the mechanisms for feedback on the function and ongoing development of SeMPRO. Defence responded by saying it does actively reach out to people who have been abused and have used SeMPRO in order to get feedback.³⁶
- 3.36 Defence further stated that Ms Elizabeth Broderick and the Australian Human Rights Commission do external reviews, which include visits to bases and ADFA. Defence receives the feedback from these reviews and uses it to adjust and improve SeMPRO.³⁷

Military justice

- 3.37 The 2005 report of the Senate Foreign Affairs, Defence and Trade References Committee on the effectiveness of Australia's military justice system recommended the creation of a permanent military court, completely independent of the ADF chain of command, which would comply with the constitutional requirements for a federal court.³⁸ This was recommended to 'extend and protect a Service member's inherent rights and freedoms, leading to impartial, rigorous and fair outcomes'.³⁹
- 3.38 The Australian Military Court (AMC) was created in 2007, however it was found unconstitutional by the High Court in *Lane v Morrison*.⁴⁰ The High Court ruled that the legislation creating the AMC was invalid as it required the AMC to exercise the judicial power of the Commonwealth, without being set up as a court established under Chapter III of the Constitution, in which the power to create the federal judiciary is contained.
- 3.39 In 2010 the then Government introduced the Military Court of Australia Bill to Parliament. This sought to create an independent and constitutionally valid military court. This legislation lapsed when Parliament was prorogued in 2010. It was reintroduced in 2012 but lapsed again when Parliament was prorogued in 2013.
- 3.40 The Returned & Services League of Australia (RSL) submitted that '[t]he current system of military justice may not be ideal but it is constitutionally safe. More to the point, trials by Courts Martial are well understood and

36 Ms Skinner and Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 22.

37 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 22.

38 The Senate Foreign Affairs, Defence and Trade References Committee, *The effectiveness of Australia's military justice system*, June 2005, pp. liii – liv.

39 The Senate Foreign Affairs, Defence and Trade References Committee, *The effectiveness of Australia's military justice system*, June 2005, p. xxii.

40 (2009 239 CLR 230).

respected'. The RSL made the point that it continues to oppose the Military Court of Australia Bill.⁴¹

- 3.41 In a public hearing, the RSL stated: 'We believed that, had the legislation passed, it would once again have been overturned'. The RSL went onto state:

Any change away from the courts martial must ensure two things: (1) it must be as close to possible to the norms of justice in this country – in other words, must mirror the civil justice system as near as possible; (2) it must be safe in terms of the Constitution, and particularly section 80.⁴²

Committee comment

- 3.42 The Committee is pleased to see the gradual reduction in critical categories of employment. Although Defence claimed that '[y]ou would not be able to win a role if you do not have the necessary and particular technical expertise for a particular role'⁴³, the Committee is not convinced that the Jobs Families Project will suffice in providing people with the right skills and knowledge for specialised jobs. Furthermore, the Committee notes Defence's claim is at odds with conclusions in the First Principles Review, which stated that:

As recently as 2013, Defence started classifying its enabling staff by job family and identifying their learning and development requirements. However, on the whole, efforts have been piecemeal, inconsistent and focused on the number of budgeted staff and roles, rather than the skills required today and in the future. The fact that Defence does not systematically collect, store and update comprehensive information on the skills of its enabling workforce is a major failing. As a consequence, Defence lacks the necessary skills to achieve its mission in some areas.⁴⁴

Defence's claim that an employee would not be placed into a role without the necessary and particular technical expertise needs to be more than an aspiration – it must be achieved. To do this, Defence must make an accurate assessment of both qualifications and experience required to achieve task-specific competence for a given role. With more military off-

41 Returned Services League of Australia, *Submission No. 1*, p. 4.

42 Rear Admiral Ken Doolan (Ret'd), National President, Returned Services League of Australia, *Committee Hansard*, Canberra, 5 June 2015, p. 3.

43 Ms Skinner, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 18.

44 David Peever, 'First Principles Review: Creating One Defence', April 2015, p. 56.

- the-shelf and commercial off-the-shelf contracts being entered into, the opportunities for Defence and industry personnel to obtain relevant experience must be actively created.
- 3.43 The Committee appreciates that the aim of Project Suakin is to provide flexible service options for ADF personnel. The Committee looks forward to its aims being realised and having a practical effect for personnel. As the relevant legislation has now been passed and the project is further implemented, the Committee recommends that the effect of Project Suakin be quantified. For example, the Committee believes it would be valuable for statistics to be generated on the breakdown of personnel in each service category as well as measurements of the effect on retention.
- 3.44 The Committee supports the general focus on retention measures in addition to recruitment. While targeted recruitment has a role to play, retention measures will provide benefits in reducing training costs and preventing experience drain. It is important that Defence continues to encourage re-engagement and reward experience gained outside Defence, and address issues that cause personnel to leave the services. The Committee recognises that Project Suakin will be central to this through increased flexibility and service options to those in the ADF.
- 3.45 The Committee notes the progress Defence has made on personnel matters. In particular, the Committee notes the respective Service Chief's intent to support and encourage wider diversity in their ranks. The Committee sees this as preferable to targeting specific groups as broader diversity throughout will have positive benefits for both culture and capability.
- 3.46 The Committee is mindful that there has been minimal progress on the issue of military justice in this term of parliament and notes that the issues identified by the previous Senate Foreign Affairs, Defence and Trade References Committee remain extant.
- 3.47 Noting the ongoing critical shortages in engineering, technical and health fields, there needs to be a focus on attracting necessary talent to the services to address these deficiencies. Defence should begin fostering an interest in these fields at the secondary school year 10 level with visits, placements and work experience, followed up in later years with innovative programs like the ADF Gap Year and Defence University Sponsorship. The ADF Gap Year should be expanded to include science and engineering disciplines, with a focus on retention through a transfer to tertiary education either in the Australian Defence Force Academy or through Defence University Sponsorship.
- 3.48 The Committee recognises that a baseline physical standard is necessary in the specialist categories, including Special Air Services Regiment. However, Defence needs to continue to ensure that the physical standard

is relevant to the capability outcome sought. There needs to be a pragmatic approach to physical requirements, ensuring that achievement of capability outcomes meet the expectations of a soldier working in a team on a battlefield.

Recommendations

Recommendation 1

The Committee recommends that the Jobs Families Project be further developed to incorporate accurate assessments of both qualifications and experience that are required for a given role. The Committee further recommends that, in its implementation of the First Principles Review, the Department of Defence develop its strategic planning and appointment process to ensure employees have task-specific competence for their role, and that opportunities are actively created for personnel to obtain this relevant experience.

Recommendation 2

The Committee recommends that the Department of Defence collate and periodically publish figures on the effect of Project Suakin, including statistics on:

- The breakdown of personnel in each service category;
- ADF critical categories;
- Re-engagement by service and sector including assessment of industry skills captured; and
- Quantification of the benefits of personnel retention.

Recommendation 3

The Committee recommends that the Department of Defence develop more innovative ways to recruit, especially in the science, technology and engineering fields. The Committee further recommends that the Department, together with the Service Chiefs, utilise the following initiatives to better attract people with science, engineering and technical skills:

- Engagement with secondary schools at the year 10 level such as visits, placements and work experience;
- The ADF Gap Year; and
- Defence University Sponsorship.

Recommendation 4

The Committee recommends that, whilst maintaining physical standards, the Department of Defence ensure the standards are fit for purpose and exercise flexibility on a case-by-case basis.

Mental health and wellbeing

- 4.1 The Committee enquired into a range of mental health issues including screening at recruitment, the culture towards mental health in the ADF, the transition from service to being a veteran, and non-liability health care. These matters were also dealt with exhaustively in the Committee's inquiry into the care of ADF personnel wounded and injured on operations, which reported in the 43rd Parliament.

Other inquiries and reports

- 4.2 The Senate Foreign Affairs, Defence and Trade References Committee is currently undertaking an inquiry into the mental health of serving ADF personnel. It is due to report by 19 February 2016.
- 4.3 In July 2014, the Australian Centre for Posttraumatic Mental Health (now Phoenix Australia) released a report entitled *The Australian Defence Force Mental Health Screening Continuum Framework*. This was aimed at developing:

An enhanced mental health screening framework that is able to respond to changes in operational tempo and take into account the demands of operational and non-operational environments for maritime, land, and air forces.¹

In response to this report, in June 2015, Defence announced it would overhaul mental health screening of the ADF.

- 4.4 The *Review of Mental Health Care in the ADF and Transition Through Discharge* was released in January 2009. This report compared mental

1 Australian Centre for Posttraumatic Mental Health, *The Australian Defence Force Mental Health Screening Continuum Framework*, 11 July 2014, p. 9.

health care support in the ADF with the world's best practice and assessed the extent to which mental health needs of serving and transitioning ADF members were being met. The review highlighted successes and gaps in the delivery of mental health programs and transition services and made 52 recommendations to improve the delivery of those services. This review instituted the beginning of the ADF Mental Health Reform Program.²

4.5 Other Defence guidance includes:

- *The ADF Mental Health and Wellbeing Plan 2012-2015*; and
- *Capability through mental fitness: 2011 Australian Defence Force mental health and wellbeing strategy*.

Recruitment

4.6 The Committee sought information on the recruitment and training processes of the ADF in relation to the identification of mental resilience and the likelihood of developing Post-Traumatic Stress Disorder (PTSD).

4.7 Defence informed the Committee that a psychological assessment is a part of Defence Force recruitment and that it aims to identify risks to a person's mental health. Defence described the assessment:

... if you are a candidate who is going to an officer recruiting board, a psychologist would sit on that recruiting board and make part of the assessment of that board. A psychologist interview is a very important part of the recruiting process ...³

4.8 Defence discussed the introduction of the LASER⁴-Resilience study, a longitudinal assessment of resilience. This study aims to:

... identify people who will do well in the military, as opposed to people who might not do well, and then look at them to see if you can determine what makes someone more likely to succeed and do well versus someone who may not.⁵

2 Department of Defence, 'ADF Mental Health Reform Program', <<http://www.defence.gov.au/Health/DMH/MentalHealthReformProgram.asp>> viewed 8 October 2015.

3 Air Vice-Marshal Needham, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 7.

4 Longitudinal ADF Study Evaluating Resilience

5 Rear Admiral Robyn Walker, Commander Joint Health Command, Department of Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 6.

Defence further stated that the study has begun, however a collection of data is not yet complete.⁶

Mental health and the ADF

- 4.9 The Committee discussed the culture of the Defence forces towards mental health conditions with Defence witnesses.
- 4.10 The Chief of Army stated that 'what we are trying to do culturally is to see issues of mental wellbeing as understood and accepted as a normal component of human health and human support needs to our force'.⁷
- 4.11 He further stated:
- Culturally, we want it to be understood and not to be seen as something that is isolating or something that is not spoken about or something that people avoid acknowledging because it is automatically assumed to be the end of their career – or because it is assumed it will not be understood – and so forth.⁸
- 4.12 The Committee questioned Defence about the progress being made in cultural change regarding mental health, and specifically, the persistence of the perception that revealing a mental health issue will damage a career.
- 4.13 The Head of Joint Health Command responded by raising the difficulties in dealing with people with mental health conditions. Rear Admiral Walker stated that 'many people do not present as though they have a mental health condition and they will certainly not admit to you they have got a mental health condition'.⁹
- 4.14 Rear Admiral Walker said:
- I can assure you most of them do not turn up and say: 'Hello, I have a mental health problem, I need some help'. It is often: 'I am not sleeping well' or 'I have got trouble at home' or 'I am not performing at work', and you have to tease it out. It is actually quite a difficult thing to do.¹⁰
- 4.15 Rear Admiral Walker further stated:

6 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 6.

7 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 1.

8 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 2.

9 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 3.

10 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 3.

It is often difficult to persuade high-performing individuals in the military, who are tough, that they might need some help. ... It is really difficult getting people to admit they might have a depression. ... With PTSD, it is often really difficult getting people to put that on the table.¹¹

- 4.16 Defence used the analogy of a broken bone, saying a broken bone is easy to identify and has a linear, well-understood treatment pathway. They contrasted this with mental health conditions, which can be very difficult to identify and have no defined pathway to rehabilitation.¹²
- 4.17 The Chief of Army acknowledged that 'there are circumstance[s] where individuals will need to transition, will need to actually leave the service in order to get well'.¹³

Mental health conditions in the ADF

- 4.18 Defence gave the following statistics for the approximate 57,000 personnel in the full time, permanent Defence force:
- There were a total of 4,592 rehabilitation cases from July 2013 to June 2014.
 - 3,359 had a physical condition as the primary diagnosis and there was a 75 per cent successful return to work. 'Physical' was defined as a trauma injury including injuries to knees, backs and arms.
 - 420 had a medical condition as the primary diagnosis and there was a 76 per cent successful return to work. 'Medical' includes heart attack, pneumonia or something gastrointestinal.
 - 813 had a mental health condition as the primary diagnosis and there was a 52 per cent successful return to work.¹⁴
- 4.19 Defence said that this final statistic was 'fantastic, but not good enough'; stating that the ADF has come a very long way but the 'journey is going to continue', and that the 'learning and education about mental health has to be a continuing experience'.¹⁵
- 4.20 The Committee sought a comparison between the ADF and the general population or similar organisation regarding the prevalence of mental health.

11 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 3.

12 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 16 June 2015, pp. 2, 4.

13 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 2.

14 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 3.

15 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 2.

- 4.21 Defence responded that 'about one in five ADF members, at the time of that research, were expected to have a mental health condition. So that is about 20 per cent, 22 per cent'. Defence further stated that 'we reflect the civilian population' to be the same.¹⁶

Transitioning out of the Service

- 4.22 On 5 February 2013 Defence and the Department of Veterans' Affairs signed a Memorandum of Understanding (MOU) that recognised that the responsibility for the delivery of care and support is shared across both departments. This MOU introduced the idea of the 'Support Continuum', the structure of systems across the two departments that aims to deliver seamless care and support.¹⁷ The MOU also defined the role of each department; Defence has the lead in caring for and supporting current serving members, while DVA has the lead for caring for and supporting ex-service members, eligible widows and widowers, and dependants.¹⁸
- 4.23 Defence and DVA are also jointly implementing the Support for Wounded, Injured or Ill Program to develop a whole-of-life framework for the care of wounded, injured or ill ADF members.
- 4.24 The Committee raised concerns about the transition from military service to civilian life as veterans.
- 4.25 The DVA observed:
- In the process of transition from successful military career ... you lose a great deal. You lose a sense of identity, you lost a sense of purpose, you lose a sense of orientation, and a number of our young men and women feel that.¹⁹
- 4.26 DVA went on to state:
- In the process of transition, what a lot of people underestimate is not only the mental dislocation going from serving in a unit – in a wing, on a ship or in a military unit, an army unit, somewhere – but also in moving towards their final destination of a stable

16 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 7.

17 Minister for Defence and Minister for Defence Science and Personnel, 'Defence and DVA forge closer ties to support ADF members', *Media Release*, 6 February 2013, <<http://www.minister.defence.gov.au/2013/02/06/minister-for-defence-and-minister-for-defence-science-and-personnel-joint-media-release-defence-and-dva-forge-closer-ties-to-support-adf-members-2/>> viewed 30 July 2015.

18 *Department of Veterans' Affairs Annual Reports 2013-14*, p. 15.

19 Mr Craig Orme, Department of Veterans' Affairs, *Committee Hansard*, Canberra, 16 June 2015, p. 5.

second life. There is a physical dislocation in that as well as the mental dislocation. If you are physically unwell or mentally unwell, that dislocation is exacerbated.²⁰

- 4.27 Veterans' Affairs said that they are attempting to address this by providing people with the opportunity to engage while they are still in Defence to prepare them for their transition.
- 4.28 One part of this was 'to get greater integration of DVA officers onto the bases to get closer to the point of contact' as 'it was only in 2010 that we did not have a DVA presence on bases'. DVA stated that now the On Base Advisory Service (OBAS) 'is on about 43 bases around Australia, and we have attempted to co-locate those DVA officers as closely as we can to the health providers and the rehabilitation providers on bases'.²¹ The OBAS is a key initiative under the Support for Wounded, Injured or Ill Program.²²
- 4.29 DVA characterised this program as:
- ... a great success so far, not only engaging with those who are transitioning but also being able to provide awareness information and lectures to people, engaging with commanders and seeing the people around from DVA as part of the fabric of military service.²³
- 4.30 Defence raised another program aimed at assisting people transition from military service in which all members leaving the ADF have their details automatically passed onto DVA - unless they opt out. In addition, Defence runs transition seminars around the country in which they are given a transition handbook that includes a transition checklist and contacts with DVA and other external support organisation that can help them.²⁴
- 4.31 According to Defence, the percentage of ADF members consenting to have their details provided to the DVA is around 70 per cent.²⁵

Department of Veterans' Affairs

- 4.32 DVA currently has a client base of 320,000 people. This includes families of veterans. DVA categorised their clients as follows:
- Stable and mature clients who have been clients of DVA for a long time and are in a state of fairly stable relationship with DVA.

20 Mr Orme, DVA, *Committee Hansard*, Canberra, 16 June 2015, p. 5.

21 Mr Orme, DVA, *Committee Hansard*, Canberra, 16 June 2015, p. 7.

22 *Department of Veterans' Affairs Annual Reports 2013-14*, p. 15.

23 Mr Orme, DVA, *Committee Hansard*, Canberra, 16 June 2015, p. 7.

24 Air Vice-Marshal Needham, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 8.

25 Air Vice-Marshal Needham, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 8.

- Clients who are entering the system and getting to the level of maturity in their relationship with DVA.
 - People who are not yet clients of DVA but are serving with the ADF, or have served and left.²⁶
- 4.33 The Committee enquired into the proportion of veterans who are clients of DVA.
- 4.34 DVA responded that the exact proportion is unknown as someone can become a client in a number of ways; they can be a current or ex-serving member, a partner, spouse or widow of a veteran, or a child of a veteran. A person does not necessarily have to be a veteran to be a client of DVA.²⁷
- 4.35 DVA provided information on notice regarding the proportion of veterans who are clients:
- Of the around 450,000 personnel who have served in the Australian Defence Force since the start of the Vietnam War, it is estimated that a third have made a claim with DVA. This estimate includes personnel who are not currently receiving any services or benefits from DVA, for example, deceased veterans who were DVA clients, individuals who no longer require support from DVA, and individuals whose claims were rejected.²⁸
- 4.36 The Committee then enquired into the proportion of veterans who are clients and have a mental health condition. DVA advised:
- From post-1999 conflicts, we estimate that around 58,100 have served until March of this year. Of those 58,100, we have 8,817 [15.1%] with one or more accepted disabilities and we have 3,355 [5.7%] with one or more accepted mental health disabilities. So that is 3,355 of the 58,100. For PTSD and other stress disorders, we have 2,540 [4.3%].²⁹
- 4.37 DVA provided the following data regarding veterans with mental health conditions, as at 27 March 2015. In this context, DVA classified a 'veteran' as any former or current member of the ADF with a claim accepted by DVA.

26 Mr Orme, DVA, *Committee Hansard*, Canberra, 16 June 2015, p. 8.

27 Mr Orme, DVA, *Committee Hansard*, Canberra, 16 June 2015, p. 8.

28 Department of Veterans' Affairs, *Question on Notice No. 2*, 16 June 2015.

29 Mr Orme, DVA, *Committee Hansard*, Canberra, 16 June 2015, pp. 8-9.

Table 2 Veterans with mental health conditions accepted by DVA

Number of veterans with:	Related to service (liability)	For any cause (non-liability)	Net total
One or more accepted disabilities	143,652	34,451	147,318
One or more accepted mental health disabilities	45,953	15,526	49,668
PTSD and other stress disorders	28,875	11,705	31,501
Depression or dysthymia	11,649	4,102	13,976
Alcohol & other substance use disorders	13,273	322	13,532
Anxiety	10,406	2,214	11,932
Adjustment disorder	1,911	N/A	1,911
NOTE Some veterans are counted multiple times if they have more than one condition			

Source: Department of Veterans' Affairs, Question on Notice No. 1, 16 June 2015.

4.38 Note the estimated current population below does not represent all DVA clients but an estimation of the number of veterans who are alive as at 27 March 2015.

Table 3 Accepted service related conditions for veterans

	Older veterans including World War II	Veterans of Vietnam War	Veterans of conflicts from East Timor onwards (Post-1999)
Estimated current population	59,600	44,400	58,100
With at least one accepted condition related to service	32,572	35,984	8,877
With at least one accepted mental health condition related to service	9,076	25,910	3,355
With PTSD or other stress disorder	3,137	20,161	2,655

Source: Department of Veterans' Affairs, Question on Notice No. 1, 16 June 2015.

4.39 A particular concern for the Committee was the nature of liability and non-liability health care and the identification of the context in which PTSD has arisen.

4.40 The DVA website describes non-liability health care as where 'DVA pays for the treatment for certain mental and physical conditions without the need for the conditions to be accepted as related to service'.³⁰

30 Department of Veterans' Affairs, 'Treatment of your health conditions', <<http://www.dva.gov.au/health-and-wellbeing/treatment-your-health-conditions>> viewed 30 July 2015.

4.41 DVA stated:

One of the critical issues for our department is establishing the liability. There is no doubt we have a veteran and there is no doubt that they have a condition, but there is a legislative requirement to understand that the condition and their service are related. In some cases they are not.³¹

4.42 Defence stated:

... we have never tried, with someone in the military who has PTSD, to abandon them and say it is because of their early childhood or their family experiences. But we do have very good data that shows that, for some people, one exposure to a traumatic event might result in PTSD while, for another part of the population with PTSD, it is very clear it is the result of cumulative episodes of what we call traumatic events.³²

4.43 Defence went on to state:

... we have never intimated that we are blaming people's childhood for post-traumatic stress disorder in veterans.

...

But it is not always as a result of being in the military. We are here to provide that treatment. We provide treatment whatever the cause is. When it comes [to] the DVA, they will determine whether it is related to service. We provide that treatment to everybody in service and we never abandon our people.³³

Committee comment

4.44 The Committee notes the significant inquiry completed in June 2013 on the care of ADF personnel wounded and injured on operations. The Committee understands that outcomes of this inquiry are still being developed and implemented.

4.45 The Committee acknowledges the work being done by the Departments of Defence and Veterans' Affairs in dealing with mental health issues in both serving ADF members and veterans. Specifically, the Committee is assured by the attitude of the senior Defence leadership on the culture developing around mental health conditions in the ADF. However, these

31 Mr Orme, DVA, *Committee Hansard*, Canberra, 16 June 2015, p. 5.

32 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 6.

33 Rear Admiral Walker, Defence, *Committee Hansard*, Canberra, 16 June 2015, p. 6.

broad improvements in Defence culture contrast with the lived experience of some current serving members, which indicates that this attitude is not yet pervasive. In the coming months and years this attitude needs to be fostered in the middle leadership on bases, and indeed the lower ranks, so that a positive and productive culture around mental health in the ADF is embraced.

- 4.46 The Committee recommends the Departments of Defence and Veterans' Affairs produce statistics to illustrate the progress and results of their mental health programs. In particular, the Committee recommends that the results of the LASER-Resilience Study be published as they become known.
- 4.47 The Committee welcomes the transitioning program and On Base Advisory Service. It is important to have a Department of Veterans' Affairs presence on bases. As the OBAS is a relatively new program, it will be important to continue to develop and refine it so that it best meets the needs of ADF personnel as they transition to civilian life. The Committee looks forward to seeing the results of these initiatives.

Recommendations

Recommendation 5

The Committee recommends that the Departments of Defence and Veterans' Affairs report the progress and results of their mental health programs, including the LASER-Resilience Study.

Recommendation 6

The Committee recommends that the Department of Defence develop methods to collect and collate data on the On Base Advisory Service to measure its effectiveness.

Capability development and major projects

- 5.1 The Committee considered the following capability development and major project matters:
- Reputational risk;
 - Outcomes based and performance based contracting;
 - The Pacific Maritime Security Program;
 - The Future Frigate program;
 - The Joint Strike Fighter program; and
 - A range of other matters.

Reputational risk

- 5.2 The Committee expressed concern about a possibly excessive preoccupation with 'reputational risk' within Defence, particularly in Defence Materiel Organisation, now Capability Acquisition and Sustainment Group (CASG). The Committee was also concerned that defending against a risk to reputation has the potential to impair transparency.
- 5.3 The Secretary of Defence agreed with the Committee's views. He responded:

I actually agree with you ... I think if you devote your energies to getting things right, however you might define that, reputations look after themselves. ... If we get something wrong, that damages our reputation, and we should be prepared to wear that. If we get things right, that will go away.¹

1 Mr Richardson, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 34.

5.4 The Vice Chief of the Defence Force gave the following view:

I absolutely agree with where you are coming from on it, but there is also an important educative piece for our people at the lower levels about the consequences of their actions. If you put it in terms of overall reputation, that helps frame that for them. ... If you work it that way, you actually turn this into quite a positive thing. So there is more than one dimension to talking about reputation risk, in my view.²

5.5 On the issue of reputational risk and transparency, VCDF stated that '[i]f you can frame the understanding of the consequences, you can use it to drive transparency'.³

Outcomes based and performance based contracting

5.6 The Committee sought from Defence the lessons learnt from the contractual arrangement for the Armidale-class patrol boat.

5.7 Defence described the beginning of this contractual arrangement as a private-public partnership (PPP) through a private finance initiative (PFI). This turned into a 'combined acquisition sustainment contract for availability' during phase two of the project. In this contract Austal was the subcontractor for acquisition, while DMS was the contractor for sustainment. Austal continued to have a role in sustainment as a subcontractor because of its role as the Original Equipment Manufacturer (OEM).⁴

5.8 Defence characterised this as 'one of the very early versions of our performance-based contracting. It was a pure contract for availability'.⁵

5.9 Defence stated that there were significant problems with this arrangement as availability targets seemed to produce behaviour where minimal money was put into sustainment, to the detriment of good sustainment systems.⁶

5.10 Defence further stated:

2 Vice Admiral Ray Griggs, Vice Chief of the Defence Force, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 34.

3 Vice Admiral Griggs, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 34.

4 Mr Harry Dunstall, Acting Chief Executive Officer, Defence Materiel Organisation, *Committee Hansard*, Canberra, 5 June 2015, p. 39.

5 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 39.

6 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 39.

Because we started with a PPP style contract and we ended up with KPIs that were very simple and only outcome oriented, on the surface you would say that was a good thing, but what it did not do was provide any kind of lead indicators around failing systems or the lack of putting those systems in place.⁷

Defence observed that even though there was a risk transfer in the contract, the Commonwealth and the Navy ultimately carry the risk of the boats not being available.⁸

- 5.11 In answering a question from the Committee on the length of through-life support contracts, Defence stated that it has moved much of its sustainment to outcome or performance based contracts, with a five year length as 'the sweet spot'.⁹ This aims to give industry assurance of the work and Defence assurance of the capability. Defence manages complacency arising from long term contracts through annual or biannual performance reviews. If the company is not meeting KPIs and not rectifying this through performance and cost improvements, Defence can see that ahead of time and prepare its strategy to rebid the sustainment contract. Conversely, if a company is innovating in the way of productivity improvements and cost reductions, they would have their five year contract extended.¹⁰
- 5.12 When a platform is new, Defence does not have sufficient data to put out a Request for Tender (RFT) for a good performance-based contract. Instead, Defence typically does an interim support contract. This allows the Department to obtain sufficient data and operational use with which it can then design a good performance management framework.¹¹

Pacific Maritime Security Program

- 5.13 The Pacific Patrol Boat (PPB) Program began in the 1980s and is a key element of Australia's defence engagement in the Pacific region. It provides financial, technical, logistics, maintenance, training and other support to 22 patrol boats gifted to 12 Pacific island countries (including Fiji). The boats are the sovereign assets of the Pacific nations and are used principally for maritime surveillance and law enforcement tasks.

7 Mr Thorne, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 39.

8 Mr Thorne, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 39.

9 Mr Thorne, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 41.

10 Mr Thorne, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 41.

11 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 42.

Underpinning Defence's support is '26 Navy maritime surveillance and technical advisers located across the Pacific (two of whom are Royal New Zealand Navy personnel)'. A new training contract was established in June 2013 'for the provision of training services in support of the program'.¹²

- 5.14 On 17 June 2014, the Minister for Foreign Affairs and the Minister for Defence announced a new \$2 billion Pacific Patrol Boat Program. They announced replacement patrol boats would be offered to all current participating states with the addition of a new member, Timor-Leste.¹³
- 5.15 On 5 March 2015, the Government announced the Request for Tender (RFT) for the replacement Pacific Patrol Boats, under the new Pacific Maritime Security Program, Project SEA3036 Phase 1. Up to 21 steel-hulled, all-purpose patrol vessels will be built; worth \$594 million with through life sustainment and personnel costs estimated at \$1.38 billion over 30 years. The result of the tender and further decisions about the project are expected towards the end of 2015.¹⁴
- 5.16 Defence reported that there has been:
- Significant interest in this program. This is quite clearly a capability that could be delivered through a number of shipyards around Australia, and there has been interest, as far as we are aware, from almost every state and territory in Australia.¹⁵
- 5.17 The Committee asked how the new program plans to address the shortcomings in the detect-and-queue and the command-and-control parts of the original PPB Program.
- 5.18 In response, Defence described the new Pacific Maritime Security Program and how it addresses the shortcomings of the original PPB Program:
- It has three elements. One is the boats. The second element is a level of airborne surveillance and queuing. And the command and control is to initially bring it all back through the Forum Fisheries Agency in Honiara. That addresses the issues you have raised, which are a concern to us as well. You want to get maximum use

12 *Defence Annual Report 2012-13: Supplementary Online Content*, Ch 3.

13 Minister for Foreign Affairs and Minister for Defence, 'Maritime security strengthened through Pacific Patrol Boat Program', *Media Release*, 17 June 2014, <<http://www.minister.defence.gov.au/2014/06/17/minister-for-foreign-affairs-minister-for-defence-maritime-security-strengthened-through-pacific-patrol-boat-program/>> viewed 27 July 2015.

14 Minister for Defence, 'Tender announced for Pacific Patrol Boat Replacement Project', *Media Release*, 5 March 2015, <<http://www.minister.defence.gov.au/2015/03/05/tender-announced-for-pacific-patrol-boat-replacement-project/>> viewed 27 July 2015.

15 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 39.

out of the boats, maximum effectiveness, and that is what we see, in a program sense.¹⁶

- 5.19 Defence stated that although the Pacific Maritime Security Program is funded by Defence, it wants to work with other agencies on the program.¹⁷

Future Frigate program – SEA 5000

- 5.20 The 2009 White Paper identified the need to acquire a fleet of eight new Future Frigates to replace the current ANZAC Class. The 2012 Defence Capability Guide stated:

They will be larger than the ANZAC Class and be designed and equipped with a strong emphasis on submarine detection and response options and capable of independent and task group operations. They will be equipped with an integrated sonar suite that includes a long-range active towed-array sonar, a maritime-based land-attack cruise missile capability, and be able to embark a combination of naval combat helicopters and maritime Unmanned Aerial Vehicles (UAV).¹⁸

- 5.21 The Committee expressed concern that the operational requirements for the Future Frigates may have been reduced to the detriment of capability.

- 5.22 Defence responded by saying that the operational requirements have not necessarily been scaled back, rather they have evolved and changed as the project has progressed, stating the 'original set of requirements was established and considered early on in the piece out of the 2009 White Paper ... we are looking at it in a contemporary sense'.¹⁹

- 5.23 Defence stated that the development of the Future Frigate program was being influenced by a number of considerations:

... the future of SEA 5000 is in some ways influenced by where we are with the Air Warfare Destroyer project itself. There is an enterprise-level naval shipbuilding plan being developed by the White Paper and Force Structure Review team as well, and that will go back to government in the middle of this year. In addition to that, directly relevant to the SEA 5000 program, we have what we are referring to as an operational analysis and then an analysis

16 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 40.

17 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 40.

18 *Defence Capability Guide 2012*, p. 43.

19 Vice Admiral Barrett, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 37.

of alternatives, which is being done by DSTO and by the RAND Corporation.²⁰

Joint Strike Fighter program

5.24 Defence reported on the new air combat capability:

This project will deliver 72 conventional take-off and landing F-35 Joint Strike Fighter (JSF) aircraft and associated support and training systems. Three operational squadrons and one training squadron are planned to enter operational service between 2020 and 2023 to replace the ageing F/A-18A/B Hornet aircraft. In April 2014, in addition to the previously agreed 14 aircraft, the Government agreed to the acquisition of an additional 58 JSFs and associated support systems and infrastructure.²¹

5.25 Australia's first two JSFs were delivered to Luke Air Force Base, Arizona in December 2014.²² Australia's first JSF pilot took his first flight in an F-35A at Eglin Air Force Base, Florida in March 2015.²³

5.26 Defence estimated the average unit procurement cost for Australia's approved 72 F-35A aircraft to be US \$90 million.²⁴

5.27 The Committee enquired as to the progress of weapons integration, questioning which weapons had been cleared for use with the JSF and which still needed to be cleared.

5.28 Defence stated that:

The allocation of specific weapons to software blocks is classified and cannot be released. Block 2B Software has been released to the US Marine Corp to support their planned Initial Operational Capability (IOC) in late 2015. This provides a limited air to air and air to ground capability. Block 3I is planned for release next year to support the US Air Force's IOC in late 2016 and will include Block 2B air to air and air to ground capabilities. The full war fighting

20 Mr Thorne, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 37.

21 *Defence Annual Report 2013-14*, p. 95.

22 Department of Defence, 'Australian F-35A pilot and Australian Joint Strike Fighter paired of first time', 19 May 2015 < <http://www.defence.gov.au/dmo/NewsMedia/News/AustralianF-35A-pilot-and-Australian-Joint-Strike-Fighter-paired-for-first-time>> viewed 5 November 2015.

23 Department of Defence, 'Australia's First F-35A Pilot Takes Flight', *Media Release*, 20 March 2015 < <http://news.defence.gov.au/2015/03/20/australias-first-f-35a-pilot-takes-flight/>> viewed 5 November 2015.

24 Department of Defence, *Question on Notice No. 14*, 5 June 2015.

capability, known as Block 3F, is planned for release in December 2017 and will incorporate additional weapon capabilities, including the 25mm Gun.²⁵

- 5.29 The Committee asked whether Independent Verification and Validation (IV&V) has been used in Verification Simulation (VSim) for the aircraft.
- 5.30 Defence reported that 'VSim is currently undergoing qualification and is expected to be available to support final qualification of Block 3F software. Defence is unaware of any other validated simulators that will be utilised to support the test and evaluation of the Block 3F software.'²⁶
- 5.31 The Committee questioned the removal of the PAO²⁷ shuttle valve from the aircraft, noting that the 2014 Director Operational Testing & Evaluation (DOT&E) report stated that it caused a relatively significant increase in vulnerability.
- 5.32 Defence noted that the removal of the PAO valve has been raised in previous DOT&E reports. Defence provided the following from the US F-35 Program Office's response to the 2013 DOT&E report:
- An extensive cost/benefit analysis showed that the addition of a PAO shutoff valve increases F-35 survivability by less than 1% while adding additional development, production reliability and operating costs.²⁸
- Defence stated that it 'concur[s] with this analysis and the decision to remove the PAO shutoff valve.' Defence further noted that:
- The concerns raised in the 2014 DOT&E report are specific to the US Marine Corps' operational use of Mission Data Loads as a consequence of delays in delivery of laboratory equipment to the US Reprogramming Laboratory. Defence informed the Committee that it is closely monitoring the reprogramming issues but expects them to be resolved prior to the Initial Operating Capability declaration in 2020.²⁹
- 5.33 The Committee raised concerns about the protracted software development for the aircraft. Defence offered the following response:
- It is a very complex aircraft. It is the most complex aircraft that has ever been built. To specify something and design it and to think

25 Department of Defence, *Question on Notice No. 11*, 5 June 2015.

26 Department of Defence, *Question on Notice No. 12*, 5 June 2015.

27 Polyalphaolefin [JSF coolant and fuel/raulic systems]

28 Department of Defence, *Question on Notice No. 13*, 5 June 2015.

29 Department of Defence, *Question on Notice No. 13*, 5 June 2015.

that it is going to work exactly the way that you specified it, I think, is an unrealistic expectation. It will take some time ...³⁰

- 5.34 Defence compared the Joint Strike Fighter program to the development of the KC-30A tanker and E-7A Wedgetail. Defence stated:

We finally have the final software loaded on Wedgetail. It actually exceeds the original specifications that we had for the aeroplane. The KC30, which we had a lot of problems with - probe and drogue - is now recognised as the best probe and drogue tanker in theatre at the moment. ... In many respects in aeroplane development programs there will always be a series of issues. As they mature you end up with a fine product, and I do not believe that the JSF will be any different to Wedgetail or KC30.³¹

- 5.35 Defence stated that it is confident that Block 3F software, the full warfighting capability, will be ready in time for IOC in late 2020.³²
- 5.36 The Committee questioned the maintainability and reliability of the JSF, referring again to the DOT&E report which indicates these are below audit requirements.
- 5.37 Defence again gave the example of the development of the KC-30A tanker, stating:

... on the initial phases of the KC30 we did not have a good maintainability record. There were two parts - immaturity in some parts of the aeroplane ... and immaturity in the maintenance organisation ...

Defence contrasted this with the performance of KC30 in Operation Okra in which it flew for nine months or 2,200 flight hours before its first breakage. Defence agreed that 'like all these aircraft, as they mature, especially modern aircraft, they become far more reliable as the system works its way through'.³³

- 5.38 The Committee enquired about the removal of test points, expressing concern that this may create a risk to Australian certification.
- 5.39 Defence reported that:

The office of Director Operational Testing Evaluation recommended reductions in the Block 2B flight test program to enable resources to be applied to the Block 3F program. In line

30 Air Marshal Geoff Brown, Chief of Air Force, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 44.

31 Air Marshal Brown, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 44.

32 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 45.

33 Air Marshal Brown, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 45.

with standard test and evaluation practice, this has rationalised some test points where duplication was evident.

Defence further stated that testing and certification conducted by the United States Air Force are subject to review by Defence.³⁴

5.40 The Committee also questioned Defence's approach to due diligence on the JSF program; enquiring as to whether Defence has implemented a form of regular independent review of progress and risk to schedule and capability.

5.41 Defence gave the following response:

Through our Gate Review process we do this program every year. We do an annual update to government every year in relation to this program. Some of the other recommendations coming out of our Gate Review are the need to do things like another SCRAM review - that is, a schedule, cost, risk and assessment methodology review - to give ourselves confidence about the schedule and not just rely on information coming out from the US system. ... There are a number of mechanisms that we have underway to ensure that we keep a handle on where we are at with the program.³⁵

5.42 Acting Chief Executive Officer, DMO (now CASG) concluded the discussion of the JSF program with the following comment:

... at the CEO roundtable I was the most pessimistic of all the country CEOs. There was a healthy sense of optimism amongst the CEOs about the progress of the program. ... I think there are still software challenges in terms of heading the 3I and 3F blocks. I think we are on a much better path than we were, but I think there are still risks. In relation to the major developmental software intensive program I have concerns around our ability to hit full functionality by the schedule, but work is being done on that and we are getting some confidence around that. In relation to the engine reliability issue, they have done the root cause analysis, they have identified the problem, they are doing the retrofits now. I think the engine reliability will continue to improve and trend in the right direction. I had some cautious optimism about where we are with the program, and certainly challenges remain. We are using, I guess, all of the assessment tools and methodologies that we have to make sure that we are aware of where the program is at and that the right remediations are being applied.³⁶

34 Department of Defence, *Question on Notice No. 15*, 5 June 2015.

35 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 46.

36 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, p. 46.

Other issues

Armidale-class Patrol Boats

- 5.43 Defence stated that HMAS Bundaberg of the Armidale-class was lost due to a fire in August 2014, reducing the size of the patrol boat fleet from 14 to 13. The boat was undergoing maintenance with a contractor, DMS, at the time of the fire and was not under normal operating conditions.³⁷ Defence has made a formal claim under the indemnity in the contract with DMS for the loss of the ship.³⁸
- 5.44 Defence stated that it has supplemented the patrol boat fleet with the Minehunter Coastal vessel in order to meet the requirements of Operation Sovereign Borders. Defence further stated that with ongoing maintenance issues, the requirements of Operation Resolute, and international engagement commitments, the patrol boat fleet is averaging 6.1 boats available a day, meeting 80 to 85 per cent of the availability requirements for the Armidale-class.³⁹

C-RAM contract

- 5.45 The Committee questioned the contractual process for the sustainment and long term support for the C-RAM (Counter Rocket, Artillery, and Mortar) system. The Committee was concerned that there had been a cost to industry through the bidding process even though there was a limited capacity for Australian industry to provide the through-life support.
- 5.46 Defence stated that:
- The C-RAM system was supported on operations through a combination of the US Foreign Military Sales system and commercial contracts with SAAB AB (Sweden). An analysis was conducted on the optimum tendering approach for the long-term support of the C-RAM system and an Open Tender was selected, with industry able to tender for either the whole system or any combination of the five sub-systems. The primary basis of the Open Tender approach was to determine if the Commonwealth could contract with a single provider to support the entire system, which would reduce management overheads over the life of the capability and ensure technology upgrades would remain synchronised. This approach was also adopted to provide all potential providers with an opportunity to offer a solution and

37 Vice Admiral Barrett, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 38.

38 Mr Dunstall, DMO, *Committee Hansard*, Canberra, 5 June 2015, pp. 38 -39.

39 Vice Admiral Barrett, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 38.

introduce competitive tension in the tender process to maximise the outcomes for the Commonwealth. SAAB Australia was the only respondent and submitted a bid for the support of three of the five sub-systems. Contract negotiations with SAAB Australia are ongoing. The remaining sub-systems will be supported through the Foreign Military Sales system.⁴⁰

KC-30A hail damage

- 5.47 The annual report states that KC-30A only met 80.8 per cent of its targeted 2013-14 flying hours, in part due to hail damage sustained to two aircraft in December 2013.⁴¹
- 5.48 Defence reported that damage was sustained around the flaps and engine cowl to the carbon fibre, which required replacement and repair of the flaps and engine cowl. The aircraft were parked at RAAF Base Amberley at the time, which is their home base.⁴²
- 5.49 Defence stated that the total cost of repair to the two aircraft was approximately \$8.6 million while the estimated cost of a carport style shelter for the aircraft is at least \$3.3 million per shelter. Defence informed the Committee that due to the cost and frequency of hail storms at RAAF Base Amberley, it has opted to adopt civil airline practice to park aircraft with flaps extended.⁴³

F/A-18F Super Hornet spare parts

- 5.50 The Committee was interested in the availability of spare parts for F/A-18F Super Hornets and the effect it was having on aircraft availability.
- 5.51 Defence responded that 'the availability of the Super Hornets has been quite good. ... From an operational output, there has been no issue with sparing the Super Hornet, and the availability is quite good at the moment'.⁴⁴
- 5.52 Defence acknowledged that it had issues with the availability of spare parts early in the Super Hornet program, stating that there were a high number of unique parts at the beginning of the program and that this number has reduced as the Australian aircraft fleet has become more common with that of the US. This has enabled Defence to use wholesale and resale pools in the US for spares. Defence further stated that its issues

40 Department of Defence, *Question on Notice No. 7*, 5 June 2015.

41 *Defence Annual Report 2013-14*, pp. 39 and 100.

42 Air Marshal Brown, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 42.

43 Department of Defence, *Question on Notice No. 9*, 5 June 2015.

44 Air Marshal Brown, Defence, *Committee Hansard*, Canberra 5 June 2015, pp. 42-43.

with failure of undercarriage parts were unusual due to their unique nature which created a long lead time for spares.⁴⁵

5.53 Defence reported that:

The majority of spare parts associated with the Super Hornet acquisition have been received; however, there are a number of long lead time items forecast for delivery by late 2016. The lead time (3-4 years) reflects the need for the US Navy to contract with industry, manufacture, test and deliver the required orders on Australia's behalf. The items are across a range of systems, including repairable items and break down spares, and are being managed to minimise the impact on fleet availability.⁴⁶

Committee comment

5.54 The information on the Joint Strike Fighter program in the Defence Annual Report and ANAO Major Projects Report is superficial compared to what is reported publically and to the Congress in the United States. In particular, the US Government Accountability Office and DOT&E report to the US Armed Services Committees are far superior to what is reported to the Australian Parliament. Information regarding the Joint Strike Fighter program, such as the allocation of specific weapons to software blocks, is available on various US websites.⁴⁷ Defence must be more transparent in their reporting and not hide behind claims of national security classification when the information is readily provided by other countries, in particular the US. As Australia is one of the eight international partner countries in the Joint Strike Fighter program, the Committee emphatically believes that the reporting on the program available to Australian Parliament be on par with that available to the US Congress.

5.55 The Committee encourages outcome or performance based whole-of-life contracts with a five year review cycle. As an example of this approach, the Committee notes the UK Submarine Enterprise Performance Programme which has provided a through-life contracting model. Under the model, the Successor class submarine framework contracts cover the period from late-2011 until 2016 with 'rolling waves' of work packages⁴⁸,

45 Mr Thorne, DMO, *Committee Hansard*, Canberra 5 June 2015, p. 43.

46 Department of Defence, *Question on Notice No. 10*, 5 June 2015.

47 For example see <http://www.dtic.mil/ndia/2012annual_psr/WERTH.pdf>

48 National Audit Office (UK), 'Ministry of Defence: Major Projects Report 2014 and the Equipment Plan 2014 to 2024', 13 January 2015, p. 223 <<https://www.nao.org.uk/wp->

and the Astute class submarine foundation contract commits the contractor to a share of efficiency savings through performance improvement over an eight year period.⁴⁹ The Committee believes that a whole-of-life contracting model with a five year review cycle or opt-out point if the contractor is not performing has the potential to deliver long term value for money.

- 5.56 The Committee notes the tendering approach for the C-RAM system, demonstrating the process of driving cost to industry and costs of acquisition compared to making an informed decision to proceed down a path of a single provider. The Committee trusts that implementation of the First Principles Review recommendation of moving to a 'smart buyer' model will change this approach.⁵⁰
- 5.57 The Committee will monitor the new Pacific Maritime Security Program as it is implemented and progresses. In particular, the Committee will watch the result of the tender for the new patrol boats. This program is an important opportunity for Australian industry and the Committee expects Defence to maximise domestic industry involvement, whatever the result of the tender. However, the Committee notes that efficacy of the system must involve an integrated approach regarding detect-and-cue and the command-and-control parts.
- 5.58 The Committee notes the difference in cost between the damage sustained by the two KC-30A aircraft in a single hail storm at \$8.6 million and building permanent aircraft shelters at \$3.3 million each. If cost estimation and risk modelling demonstrates that the probability and cost of hail damage is high enough, then Defence should invest in mitigation measures such as building permanent aircraft shelters at RAAF Base Amberley.

content/uploads/2015/01/Major-projects-report-2014-appendices-and-project-summary-sheets.pdf> viewed 22 October 2015. See also
<<http://researchbriefings.files.parliament.uk/documents/SN06526/SN06526.pdf>>

49 National Audit Office (UK), 'Ministry of Defence: Major Projects Report 2014 and the Equipment Plan 2014 to 2024', 13 January 2015, p. 21 <<https://www.nao.org.uk/wp-content/uploads/2015/01/Major-projects-report-2014-appendices-and-project-summary-sheets.pdf>> viewed 22 October 2015.

50 David Peever, 'First Principles Review: Creating One Defence', April 2015, pp. 9, 33.

Recommendations

Recommendation 7

The Committee recommends the reporting to Parliament on the Joint Strike Fighter program be more comprehensive and equivalent to that made available to the US Congress.

Defence support

- 6.1 The Committee considered the following Defence support matters:
- Unfunded liability;
 - Fuel security, capacity and storage; and
 - Defence housing and accommodation.

Unfunded liability

- 6.2 The Committee was concerned about funding being diverted from Defence estate and infrastructure, thereby creating unfunded liabilities. The Committee raised concerns about the scope and reporting of these unfunded liabilities.
- 6.3 The Committee gave the example of a fuel farm which has had its funding deferred to provide funding to another part of Defence. This affected the state of the fuel farm which in turn created a liability that will have to be funded in the future.¹ Another example is given in the Defence Annual Report 2013-14 which states 'underinvestment in facilities and ICT is starting to catch up with us and, unless addressed, will have a negative impact on ADF capability'.²
- 6.4 The Committee urged that Defence's total unfunded liability and the areas in which this has occurred be reported publically. The Committee also sought reporting of the factors and decisions that led to funding being reallocated. This was framed in terms of visibility and transparency, so funding requirements and the potential impact on the budget is known.

1 Senator Fawcett, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

2 *Defence Annual Report 2013-14*, p. 3.

- 6.5 Defence noted that it constructs its financial statements with reference to Australian accounting standards and the requirements of the government's annual reporting guidelines. Defence highlighted that the total unfunded liability that the Committee sought is not a part of ordinary Australian accounting constructs.³
- 6.6 Defence further noted that accounting standards are underpinned by the concept of certain measurability, and that while some unfunded liabilities such as long service leave have a degree of certainty, many unfunded liabilities do not.⁴ Nevertheless, Defence undertook to examine how this may be achieved, stating that 'it is something we could look at; it is interesting and ... it is something that has not been done elsewhere, as far as I am aware'.⁵ The Committee responded by stating that to ease the 'technical difficulty' it did not need to form part of Defence's formal accounts but the Parliament and Executive needed transparency on the absorbed measures that create unfunded liabilities in respect to the upkeep of Defence Estate.⁶

Fuel security, capacity and storage

- 6.7 A 2014 report by Air Vice-Marshal John Blackburn (Ret'd) outlined Australia's current fuel security issues, with crude and fuel imports dependency rising from 60 per cent to over 90 per cent over the last 15 years. Due to political instability in some Middle Eastern countries and 40% of Australia's oil refining capacity ceasing to exist since 2012, Blackburn argued that 'our stocks have dwindled and our capacity to produce specialist fuels for our Defence Forces has been eroded'. Consequently, Blackburn expressed concern that 'a significant supply disruption to our shipping lanes or trade routes ... could quickly imperil Australia's capacity to provide for essential, everyday services and our military forces'.⁷
- 6.8 Similarly, the Senate Rural and Regional Affairs and Transport Reference Committee noted in their recent report into Australia's transport energy

3 Mr Phillip Prior, Chief Finance Office, Department of Defence, *Committee Hansard*, Canberra, 5 June 2015, pp. 11-12.

4 Mr Prior, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

5 Mr Prior, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

6 Senator Fawcett, *Committee Hansard*, Canberra, 5 June 2015, p. 12.

7 Air Vice-Marshal John Blackburn (Ret'd), 'Benchmarking Australia's Transport Energy Policies: A report for the National Roads & Motorists' Association', December 2014, p. 2 <http://www.mynrma.com.au/media/Benchmarking_Australias_Transport_Energy_Policies_Report_December_2014.pdf> viewed 22 October 2015.

resilience and sustainability that Australia is 'almost totally reliant' on fuel for transport and any significant disruption to fuel supplies would have a 'significant impact on safety, national security, national productivity and society'.⁸

6.9 The Committee raised concerns about Australia's fuel security as a strategic issue. The Chief of the Defence Force responded:

I think the national issue is far broader than a Defence issue. While that has security implications, that is not an area we are focused on. We manage around the policies that are in place. There is no doubt that we are reliant on overseas refined fuel. That is just one of the factors that we take into account.⁹

6.10 The Chief of the Defence Force stated, 'we manage the capacities that we have ... it is one of those key areas that we keep a focus on. We do have adequate reserves for what we need for operations'.¹⁰

6.11 Regarding the state of fuel farms CDF stated:

They have been a focus over the last couple of years, hence the secretary had the Wraith review. We are now enacting all the recommendations of the Wraith review, and professionalising the way we approach our fuel farms and fuel management ...¹¹

6.12 The Committee also enquired into Liquid Natural Gas (LNG) as an alternative fuel. The Vice Chief of the Defence Force responded by highlighting that LNG was not a safe enough cargo for military use, particularly in the maritime environment. He instead indicated that biofuels are a potential future alternative for fuel.¹²

Defence housing and accommodation

6.13 The Committee enquired into the preference of service families for living on or off base.

6.14 Defence reported that on-base living in accommodation (LIA) is used for three purposes:

- To permanently accommodate members posted to a base;

8 Senate Rural and Regional Affairs and Transport Reference Committee, *Australia's transport energy resilience and sustainability*, June 2015, p. 61.

9 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

10 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

11 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

12 Vice Admiral Griggs, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

- Accommodate students on courses conducted at Service schools or at bases; and
- Provide transit accommodation for groups and members moving with Australia for duty purposes.

Defence's requirements for permanent LIA have been generally addressed through the provision of high quality accommodation, primarily through Public Private Partnership (PPP) arrangements. Defence advised that there are currently no critical shortfalls against this requirement. Similarly, there are no critical shortfalls for course or transit accommodation.¹³

- 6.15 Defence stated that many families are located off base in housing as that was the preference of families a number of years ago. CDF noted '[t]imes change and I think in some cases people would prefer to be back on base, to have base accommodation, but we have gone too far down the other path to even do that now'.¹⁴
- 6.16 The Chief of the Defence Force noted that there are a range of reasons why people now prefer to live on base:
- ... security is one area that is a changing environment. There is traffic going to and from work and all those sorts of issues also lead to it. Sometimes the bases are at the centre of the community and it is convenient. Predominantly, though, more people prefer living off base at the community, if they end up in a location near schools, day care and all those conveniences that you need that traditionally are not right where the base is.
- Air Chief Marshal Binskin stated that the Defence Housing Authority (DHA) has been quite responsive in providing flexibility to various families in their living situation and location.¹⁵
- 6.17 The Chief of the Defence Force praised the quality of the housing available to service personnel, saying it had improved in recent years.
- ... it is one of those things that is not raised as much when I go out around the bases now as it was five or eight years ago. I think people have a good understanding that the housing that we have, which is subsidised by Defence, is a good standard of housing. ... overall the housing that we have, and continue to have as DHA reinvests in it, is world class. In fact, I can say it is world class.¹⁶

13 Department of Defence, *Question on Notice No. 4*, 5 June 2015.

14 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

15 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

16 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 24.

6.18 The Chief of Army stated:

My memory as an adolescent in Defence housing – and indeed some of my senior warrant officers’ memories – was of coming into a home that had been vacant over the summer during the posting cycle. My mother once mentioned to me seeing grass growing up through the floorboards.¹⁷

Lieutenant General Campbell went on to state:

They are the apocryphal stories of the past. They do not represent the modern housing estates available to Defence families. It is good and that is the way it should be. I think DHA have tried to work with communities of families wherever they are looking to develop the individual facilities for families.¹⁸

6.19 The Returned & Services League (RSL) submitted that housing for the ADF is a key factor in retaining personnel. The RSL agreed with Defence on the improvement of the housing situation for the ADF, stating ‘[t]he housing outlook for the ADF members has improved over the past couple of decades due in part to the establishment of the Defence Housing Authority’. To this end, the RSL recommended that DHA be retained as a government organisation as opposed to privatising it, so it can continue to meet the needs of the ADF and their families instead of ‘the demands of shareholders’.¹⁹

6.20 The Committee expressed concern about the housing situation with the redevelopment of Seaward Village in Western Australia.

6.21 Defence explained that Seaward Village is particularly connected to the Special Air Service Regiment (SASR). A majority of the families at Seaward Village are from the SASR; however families from other Defence units also resided at the village. Defence also noted that a majority of SASR families live in the broader community.²⁰

6.22 Defence advised that the concept for the redevelopment of Seaward Village is in its early stages and it is conducting engagement with families. One option being considered is redeveloping one half of the property at a time, allowing residence to live in one half as the other half is being built. This would be managed in line with the natural posting cycle as well as through offering rental assistance so people can live in the community

17 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

18 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

19 Returned Services League of Australia, *Submission No. 1*, p. 3.

20 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

- during the development. The cost of this development would be offset in part by selling some of the land.²¹
- 6.23 Defence stated that this type of redevelopment process had been done before at RAAF Base Tindal, 'where people have been moved between houses during posting cycles, or within a posting cycle, so they could do groups of houses'.²²
- 6.24 Through this development program at Seaward Village, DHA would go from having approximately 153 married quarters to a new suite of around 160 to 165 married quarters.²³

Committee comment

- 6.25 The Committee is concerned by the extent of unfunded liabilities in Defence estate and infrastructure. Unfunded liabilities arise when Defence is instructed to 'absorb' measures that Government intends to announce. This is of concern as it represents an unknown amount that the Commonwealth may have to fund in the future. It is important that there is visibility of the cumulative effects of unfunded liabilities for transparency and accountability, but also for fiscal responsibility. It is critical that Parliament and the wider public can see the true costs that Defence must bear, beyond costs of operations or platforms, to provide for the defence of the nation. Defence should in future report the amount of unfunded liability, where it is and how it has been created.
- 6.26 The Committee commends Defence for its recent focus on fuel farms, with the establishment of a Fuel Services Branch, and the continuing implementation of the Wraith Review recommendations. As fuel is such a critical enabler for our defence force, the Committee expects this focus on fuel management to continue into the future and recommends that Defence should explore options to engage and collaborate with industry on fuel management and security. However, the Committee considers current reporting on fuel farm remediation and fuel management in the Defence Annual Report to be insufficient. The progress of remediation and the remaining work to be done should be better reported by Defence.

21 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

22 Air Chief Marshal Binskin, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 26.

23 Lieutenant General Campbell, Defence, *Committee Hansard*, Canberra, 5 June 2015, p. 25.

- 6.27 The Committee is pleased with the long term improvements to the housing quality and options available to ADF personnel and their families. Providing quality housing that suits the lifestyle of ADF families is a significant part of attracting and retaining skilled people.
- 6.28 The Committee is concerned at the apparent lack of community consultation and communication regarding the redevelopment of Seaward Village, noting that this may have been recently addressed. Considering Defence has undertaken this type of redevelopment before and is likely do so again, developing a framework for consultation and communication with the community would be pertinent so as to prevent dissatisfaction and frustration with the process in the future.

Recommendations

Recommendation 8

The Committee recommends that, to aid transparency and accuracy, the Department of Defence record and periodically report the quantum of unfunded liabilities held by Defence, including:

- Where the unfunded liability occurred;
- How the unfunded liabilities were created; and, where relevant
- Factors and decisions that led to funding being reallocated.

The Committee does not expect this reporting to form part of Defence's annual financial statements.

Recommendation 9

The Committee recommends that the Defence Annual Reports include appropriately detailed information on the Fuel Services Branch, in particular the progress of fuel farm remediation and remaining work to be done. The Committee further recommends that the Department of Defence actively explore options to engage and collaborate with industry on fuel management and security.

Recommendation 10

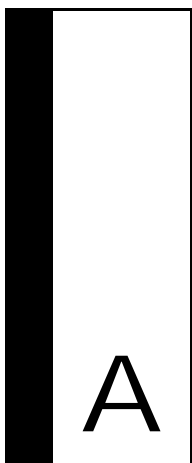
The Committee recommends that the Department of Defence, in partnership with Defence Housing Australia, prepare an effective consultation and communication framework with the community for use in ongoing and future redevelopments.

Senator David Fawcett
Chair
Defence Sub-Committee

25 November 2015

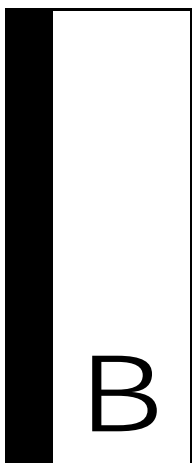
The Hon Teresa Gambaro MP
Chair
Joint Standing Committee on Foreign
Affairs, Defence and Trade

25 November 2015



Appendix A: List of Submissions

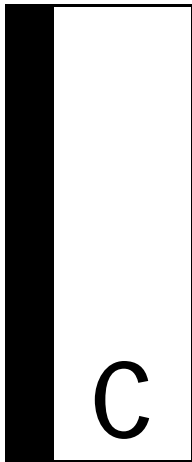
- 1 RSL National Office
- 2 Mr Michael Wunderlich



Appendix B: Answers to questions on notice

Answers to questions on notice

1. Department of Defence from public hearing 5 June 2015
2. Department of Defence from public hearing 16 June 2015
3. Department of Veterans' Affairs from public hearing 16 June 2015



Appendix C: Witnesses who appeared at public hearings

Canberra, Friday, 5 June 2015

RSL National Office

Rear Admiral Ken Doolan AO RAN (Retired), National President

Department of Defence

Air Chief Marshal Mark Binskin AC, Chief of the Defence Force

Vice Admiral Ray Griggs AO CSC, Vice Chief of the Defence Force

Vice Admiral Tim Barrett AO CSC, Chief of Navy

Air Marshal Geoff Brown AO, Chief of Air Force

Lieutenant General Angus Campbell DSC AM, Chief of Army

Air Vice-Marshal Anthony Needham AM, Head of People Capability

Mr Dennis Richardson Secretary, Department of Defence

Mr Brendan Sargeant Associate Secretary, Department of Defence

Mr Steve Grzeskowiak Deputy Secretary, Defence Support and Reform

Ms Rebecca Skinner Deputy Secretary, Defence People

Mr Phillip Prior Chief Finance Officer, Department of Defence

Mr Harry Dunstall Acting Chief Executive Officer, Defence Materiel Organisation

Mr David Gould General Manager Submarines, Defence Materiel Organisation

Mr Colin Thorne General Manager Land and Maritime, Defence Materiel Organisation

Canberra, Tuesday, 16 June 2015

Department of Defence and Department of Veterans' Affairs

Lieutenant General Angus Campbell DSC AM, Chief of Army

Rear Admiral Robyn Walker AM, Commander Joint Health Command
Department of Defence

Air Vice-Marshal Anthony Needham AM, Head of People Capability Department
of Defence

Mrs Veronica Hancock Assistant Secretary, Mental and Social Health Branch
Department of Veterans' Affairs

Dr Stephanie Hudson, Mental Health Adviser Mental and Social Health Branch,
Department of Veterans' Affairs

Mr Craig Orme Deputy President of the Repatriation Commission, Department of
Veterans' Affairs