
The Parliament of the Commonwealth of Australia

Review of the Defence Annual Report 2010-2011

Joint Standing Committee on Foreign Affairs, Defence and Trade

September 2012
Canberra

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Cover photograph captions – left top to right bottom

On Saturday 31 March 2011 the Royal Australian Air Force (RAAF) marked the 91st anniversary of its formation as an independent service. On Friday 30 March a service was held at the RAAF Memorial Grove near Canberra to commemorate and honour all those who served and are still serving in the RAAF.

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Members from the 7th Battalion, The Royal Australian Regiment exit an M113 armoured personnel carrier during Exercise STURT'S GAUNTLET.

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Australian Engineers from the 1st Mentoring and Reconstruction Task Force, use their armoured plant equipment to improve the Baluchi Crossing, the only southern entrance to the Baluchi Valley in Oruzgan Province.

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Members of HMAS Parramatta Ships Company depart the gangway to be greeted by their family and friends on the wharf at Sydney's Fleet Base East, after conducting a six month deployment to the Middle East during Op Slipper.

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Mr Michael Danby MP (from 1/07/11)

Deputy Chair Mrs Joanna Gash MP

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Terms of Reference

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

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

On 24 November 2011 the Joint Standing Committee on Foreign Affairs, Defence and Trade authorised the Defence Sub-Committee to review the Department of Defence Annual Report 2010-2011.

1 Australian Parliament House Website, Joint Standing Committee on Foreign Affairs, Defence and Trade Resolution of Appointment, http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jfad/resoltn.htm viewed on 12 June 2012.

2 Australian Parliament House Website, Speaker's Schedule: Allocation to Committees of Annual Reports of Departments, Agencies, Authorities and Companies, http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees#roles, viewed on 12 June 2012.



List of Abbreviations

ACCC	Australian Competition and Consumer Council
ADC	Australian Defence College
ADF	Australian Defence Force
ADFA	Australian Defence Force Academy
ADFRP	Australian Defence Force Rehabilitation Program
AEW&C	Airborne Early Warning and Control
ANA	Afghan National Army
ANSF	Afghan National Security Forces
AOSG	Aerospace Operational Support Group
APA	Air Power Australia
APS	Australian Public Service
ARH	Armed Reconnaissance Helicopter
ASC	Australian Submarine Corporation
ASIC	Australian Securities and Investments Commission
ASPI	Australian Strategic Policy Institute
C-17	C-17 Globemaster military transport aircraft

CAIV	Cost as an Independent Variable
CAPE	Centre for the Army Profession and Ethic
CCTV	Closed Circuit Television
CDF	Chief of the Defence Force
CDG	Capability Development Group
CTOL	Conventional take-off and landing
DOD	(United States) Department of Defense
DMO	Defence Materiel Organisation
F-111	F-111 Fighter Aircraft
F-22	F-22 Raptor Fighter Aircraft
F-35	F-35 Lightning II (also known as the Joint Strike Fighter)
F/A-18	F/A-18 Hornet Fighter Aircraft
FMS	Foreign Military Sales
FY	Financial Year
GAO	(United States) Government Accountability Office
GFC	Global Financial Crisis
HMSD	Helmet Mounted Sight and Display
HR	Human Resources
HMAS	Her Majesty's Australian Ship
ICT	Information and Communications Technology
IED	Improvised Explosive Device
IFF	Identification Friend or Foe
IOC	Initial Operating Capability
IP	Intellectual Property

IPP	Indigenous Participation Program
ISAF	International Security Assistance Force
J-20	Chengdu J-20 Fighter
JPO	Joint Project Office
JSF	Joint Strike Fighter (also known as the F-35 Lightning II)
KPI	Key Performance Indicator
LRIP	Low Rate Initial Production
MEAO	Middle East Area of Operations
MRH90	Multi Role Helicopter
NACC	New Air Combat Capability
NATO	North Atlantic Treaty Organization
NCO	Non-Commissioned Officer
NH90	Tactical Transport Helicopter (the MRH90 is the Australian version of this helicopter)
NORFORCE	North-West Mobile Force
OFFCDT	Officer Cadet
OEM	Original Equipment Manufacturer
PAK-FA	PAK-FA T-50 Sukhoi Fighter
PTSD	Post Traumatic Stress Disorder
PWC	Public Works Committee
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RAR	Royal Australian Regiment
SDD	System Development and Demonstration Phase

SNCO	Senior Non-Commissioned Officer
SOTG	Special Operations Task Group
SRP	Strategic Reform Program
STOVL	Short Take-off and Vertical Landing Variant
Su-34	Su-34 Sukhoi Fighter Bomber
Su-35	Su-35 Sukhoi Fighter Aircraft
SWIIP	Support to Wounded, Injured and Ill Program
UAV	Unmanned Aerial Vehicle
US	United States
USAF	United States Air Force
USS	United States Ship



List of Recommendations

Recommendation 1

A Strategic Reform Program (SRP) Summary Chapter be added to the Defence Annual Report to provide a consolidated overview of the SRP.

Introduction

- 1.1 The 2010-2011 period represents one of the most intense and sustained operational periods Defence has experienced. This occurred in parallel with work on one of the most ambitious reform programs the Department of Defence has ever undertaken.¹
- 1.2 Defence simultaneously supported whole-of-government humanitarian and disaster relief efforts at home and abroad while remaining committed to Afghanistan, East Timor, Solomon Islands, border protection and a variety of smaller operations.²
- 1.3 The Australian Defence Force assisted communities devastated by natural disasters in Queensland, New South Wales and Victoria. Additionally, the Australian Defence Force assisted Pakistan, New Zealand, and Japan, providing logistic support in wake of devastating floods, earthquakes and tsunamis.³
- 1.4 Over 2010-2011, Defence generated Strategic Reform Program savings in excess of one billion dollars and commissioned a review into shared services to create further opportunities for efficiency.⁴
- 1.5 A review into the Defence Force Posture was commenced to assess whether Defence is geographically positioned to support the current and future strategic environment.⁵

1 Department of Defence, *Defence Annual Report 2010-2011 Volume One*, p. 2.

2 Department of Defence, *Defence Annual Report 2010-2011 Volume One*, p. 2.

3 Department of Defence, *Defence Annual Report 2010-2011 Volume One*, p. 2.

4 Department of Defence, *Defence Annual Report 2010-2011 Volume One*, p. 3.

5 Department of Defence, *Defence Annual Report 2010-2011 Volume One*, p. 3.

- 1.6 Defence has also undertaken a large number of reviews into its business, finance, and processes to improve outcomes. The Black Review into accountability will challenge Defence to improve its planning, decision making, project management, personal and institutional performance, and accountability, as well as the management of skills and specialisation.⁶
- 1.7 Several reviews into the Defence culture were announced by the Minister for Defence in April 2011, and, where necessary, action plans to adjust aspects of the Defence culture will be developed as required.⁷

Annual Report Review Objectives and Scope

- 1.8 The review of the Defence Annual Report is an important task and 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. The Sub-Committee takes this responsibility very seriously.

Focus Areas

- 1.9 For the *Review of the Defence Annual Report 2010-2011* the Defence Sub-Committee decided to focus on five main issues. The issues and their chapters are:
- Strategic Reform program – covered in Chapter Two;
 - Personnel – covered in Chapter Three;
 - Operations – covered in Chapter Four;
 - Sustainment – covered in Chapter Five; and
 - Joint Strike Fighter – covered in Chapter Six.
- 1.10 In addition, a series of reviews into the Defence culture were released shortly before the Defence Hearing conducted on 16 March 2012. Consequently, an extra chapter has been added to this report, as Chapter Seven, to explicitly discuss the Defence culture reviews.

6 Department of Defence, *Defence Annual Report 2010-2011 Volume One*, p. 3.

7 Department of Defence, *Defence Annual Report 2010-2011 Volume One*, p. 3.

Conduct of the Review

- 1.11 The Review was advertised in the Australian and a media release was issued on 30 November 2011.
- 1.12 On 6 December 2011, the Secretary of the Committee wrote to the following organisations and invited them to make a submission to the inquiry:
- Australian Defence Association;
 - Australian Strategic Policy Institute;
 - Kokoda Foundation;
 - Lowy Institute for International Policy; and
 - National Security Institute.
- 1.13 The Sub-Committee received a number of submissions from individuals and organisations, including the Defence Welfare Association, Air Power Australia, REPSIM Pty Ltd, Mr Erik Peacock, Mr Andrew Mayfield, Mr Danny Nowlan, and Mr Jack Warner. These submissions are listed at Appendix A.

Public Hearings

- 1.14 The Sub-Committee took evidence from witnesses at four public hearings as follows:
- Airpower Australia and REPSIM Pty Ltd – 7 February 2012;
 - Defence Force Welfare Association – 28 February 2012;
 - Senior Department of Defence officials - 16 March 2012; and
 - Lockheed Martin Aeronautics Company – 20 March 2012.
- Transcripts of these hearings are available on the Committee's Website.⁸
- 1.15 The proceedings of the hearings were webcast over the internet through the Parliament's website, allowing interested parties to watch the proceedings as they occurred.

8 Australian Parliament House Website, House of Representatives Committees, http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jfadt/defenceannualreport_2010_2011/hearings.htm, viewed 12 Jun 2012.

Sources of Information

- 1.16 The Defence Sub-Committee notes that the Defence environment is a dynamic one. This report covers the financial year 2010-2011 and, unless absolutely necessary, does not refer to information after this period.
- 1.17 Wherever possible this report uses Defence publications as its primary source of material. However, in some cases the Defence Annual Report 2010-2011 and the Defence Department website provide limited information on the topics the Sub-Committee had resolved to look into. Consequently, publications and articles by the Australian Strategic Policy Institute (ASPI) have been used as an additional source.

Conclusions

- 1.18 Conclusions identified by the Committee are outlined at the end of each chapter.
- 1.19 The Government should note these conclusions.

Recommendations

- 1.20 The Committee recommended:

A Strategic Reform Program Summary Chapter be added to the Defence Annual Report to provide a consolidated overview of the SRP.

Strategic Reform Program

Background

2.1 The Strategic Reform Program (SRP) was initiated in the 2009 Defence White Paper *'Defending Australia in the Asia Pacific Century: Force 2030'*. The SRP comprises a:

. . . comprehensive set of reforms that will fundamentally overhaul the entire Defence enterprise, producing efficiencies and creating savings of about \$20 billion.¹

2.2 As outlined in Defence's *'The Strategic Defence Program – Delivering Force 2030'* document, the reform program has three key elements as follows:

- Improved Accountability in Defence. Providing much greater transparency – that is, visibility of how Defence manages the close to \$26 billion annual budget – will strengthen the accountability of Defence, and individuals within Defence, to the Government, to Parliament and the Australian taxpayer.
- Improved Defence Planning. Improving strategic and corporate level planning will strengthen the link between strategic planning and the definition and development of military capabilities; better control the cost of military preparedness; and tighten governance and systems to ensure that Defence accurately forecasts and manages major acquisitions.

1 Department of Defence *'Defending Australia in the Asia Pacific Century: Force 2030'*, p. 107.

- Enhance Productivity in Defence. Implementing smarter, tighter and more cost effective business processes and practices will make sustainment and support management more efficient and effective; improve cost effectiveness for military capability and procurement processes; and create the basis for a more efficient Defence Estate footprint.²

2.3 According to the 2010-2011 Annual Report, the:

. . . Strategic Reform Program (SRP) remained this year as Defence's highest priority after the conduct of operations.³

2010-11 Cost Reductions

2.4 Defence's cost reductions target for savings under the SRP in 2010-11 was \$1,016 million. This has been achieved and successfully re-invested to assist the delivery of *Force 2030*.⁴

2.5 Some of the key areas where cost reductions were achieved include:

- upgrading and consolidating Defence's ageing Information and Communications Technology (ICT) infrastructure;
- conversion of military and contract positions into Australian Public Service (APS) positions;
- improved demand management of travel, training, professional services and garrison support;
- streamlining the maintenance of military equipment;
- making contract improvements across a range of support and sustainment services; and
- changing the way that financial risk is managed.⁵

A Second Phase of SRP-related Savings

2.6 In May 2011, the Minister for Defence announced that, in addition to the SRP measures already in place, the Government would implement a

2 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', p. 5.

3 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

4 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

5 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

second phase of SRP-related savings to be realised primarily through further improvements to shared services design and implementation.⁶

- 2.7 These new reforms to shared services and other efficiency measures mean that Defence can reduce overall forecast APS workforce growth by 1000 positions over the next three years. Savings from these reductions will be returned to the Budget.⁷

Current Status

- 2.8 The Committee asked Defence to provide an update on the current status of the SRP.

- 2.9 Defence advised:

. . . in the first year of SRP the savings of about the order of \$790 million were achieved. In the second year of the SRP, where the target was just in excess of \$1 billion, we achieved \$1.016 billion or \$1.018 billion; so that target was achieved. This year we have a target of about \$1.2 billion, and there is nothing to suggest that the target will not be achieved in this current round. The targets then start to climb and it becomes very difficult.⁸

- 2.10 Defence outlined that the performance management system has a number of metrics for each stream within the SRP program. These metrics cover financial, capability, delivery, and schedule of reforms.⁹
- 2.11 Defence provided a progress update on each of the SRP streams.

Smart Sustainment

- 2.12 This stream pursues opportunities to significantly increase effectiveness and efficiency in the maintenance of military equipment and inventory.¹⁰
- 2.13 Defence advised the Smart Sustainment stream is reporting well against all metrics, and is on target for programmed cost reductions of \$370 million this year largely through the adjustment of contract prices, the

6 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

7 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 7.

8 Mr D. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 9.

9 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 9.

10 Department of Defence *'The Strategic Defence Program – Delivering Force 2030'*, p. 15.

removal of excess inventory purchases, and adjustment of maintenance levels.¹¹

Logistics

- 2.14 This stream aims to improve logistics planning, management and execution through better systems and practices. This will involve targeted investment in logistics technology, designed to give greater visibility to the whole supply chain, as well as return savings.¹²
- 2.15 Defence advised that the Logistics stream is tracking well and, to date, is meeting its project schedule. Its moderate cost reduction target for this year of \$8.3 million will be achieved, noting that the cost reduction profile of about \$360 million over the 10 years is heavily skewed towards the mid to late period. This skewing is a consequence of significant capital infrastructure being required to modernise the Logistics inventory management systems and infrastructure.¹³
- 2.16 The Committee requested advice on savings targets in the Logistics stream for next year.
- 2.17 Defence responded that savings targets will be \$18.6 million next year. Defence noted that the critical time will be 2014-2015 when the cost reductions for logistics jump to \$53.3 million, primarily driven by a move from the Defence National Storage Distribution Centre in Sydney into a purpose-built, modern, Defence-owned facility.¹⁴

Information and Communications Technology

- 2.18 This reform stream will deliver savings and increased effectiveness through a consolidated, standardised Defence Information and Communications Technology (ICT) environment, with a centralised strategy and governance framework.¹⁵
- 2.19 Defence informed the Committee that there are a major series of projects to deliver reform in this stream including refreshing the desktop computer environment and centralising processing facilities. Defence observed that

11 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, pp. 9-10.

12 Department of Defence *'The Strategic Defence Program – Delivering Force 2030'*, p. 17.

13 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 10.

14 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, pp. 10-11.

15 Department of Defence *'The Strategic Defence Program – Delivering Force 2030'*, p. 21.

many of these initiatives require major capital investment, however, ICT overall is going well.¹⁶

2.20 Defence advised that the ICT stream will meet its cost reduction target for this year of \$147 million, with the cost reduction target for next year being \$182 million and the year after \$206 million. Defence advised that ICT is nearing its mature point now, and has been assessed as having some risk:

. . . because of the relationship it has to providing systems to support the rest of the reform.¹⁷

2.21 Defence remarked that one unexpected byproduct of ICT reform has been that demand has grown in many areas for ICT to support reforms. Consequently, Defence is monitoring demand for ICT closely.¹⁸

Non-Equipment Procurement

2.22 The Non-Equipment Procurement Stream incorporates travel, building maintenance, professional services, clothing, training, research and development, advertising, freight and cartage, explosive ordnance, health services, removals, hospitality, catering and food, utilities, security services, other garrison support, cleaning, grounds maintenance, office supplies, waste management, stores management, office furniture and fuel.¹⁹

2.23 Defence advised that, at the moment, the program is meeting its cost reduction targets largely from process reforms, supplier reductions to contracts, and reduction of demand. The stream's cost reduction target for this year is \$206.6 million, for next year is \$260.1 million, and the year after is \$338.1 million. Defence noted that this stream is currently tracking as amber against SRP performance measures.²⁰

2.24 Defence further advised that a significant issue in this stream is the rescoping and preparations for tender for the next round of garrison support contracts and comprehensive maintenance contracts. These contracts have historically been:

. . . disaggregated across 12 contracting regions split between those two major categories [garrison support and comprehensive maintenance]. We are looking at a significant rebundling

16 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 10.

17 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

18 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 10.

19 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', p. 18.

20 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

arrangement. We are dealing with industry via several iterations of approaches to market and getting feedback from industry players. We are in the process of planning for an expressions-of interest round about the second or third quarter of this year. . . The next round is possibly for three-, four-, five-year or longer contracts and that creates for us the potential to embed significant efficiencies in the way in which we are delivering the services at bases and regions around the country.²¹

- 2.25 The Committee queried the savings made by Defence by using the whole of government travel contract, rather than the previous Defence travel system.
- 2.26 Defence responded that a like for like comparison between Defence's previous travel contract and the Australian Government contract cannot be conducted as they are constructed differently. Whereas the previous Defence contract was with Qantas Airways and provided percentage discounts on only one fare category (fully flexible, fully refundable) and limited domestic routes, the Whole of Australian Government contracts are with four domestic and 13 international airlines and provide percentage discounts across all fare categories and a range of routes.²²
- 2.27 However, Defence observed analysis has shown that, with the availability of discount and route deal offers under the Whole of Australian Government contracts, Defence travellers are adopting different travel practices and selecting suitably priced fares across all fare categories depending on business requirements. This is being assisted by the use of an online booking tool. Consequently, Defence has seen a reduction in the average cost per trip, consistent with Department of Finance and Deregulation published information on savings as a result of the Whole of Australian Government arrangements.²³
- 2.28 The Committee questioned why, of 378 472 air tickets booked by Defence during the period 1 July 2010 to 31 October 2010, 43 per cent advised an exception code for not taking the cheapest flight option. The Committee questioned whether this is a normal trend for Defence.
- 2.29 Defence informed the Committee that, due to the nature of Defence business, there will always be a proportion of personnel who will need to

21 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 11.

22 Department of Defence, *Submission 16*.

23 Department of Defence, *Submission 16*.

retain flexibility to change flights. Where that occurs, it is actually cheaper to take an option which will provide flexibility to change bookings.²⁴

2.30 Defence further noted that, prior to Whole of Australian Government arrangements, Defence personnel mostly purchased fully flexible, fully refundable fares, due to a combination of business requirements and because Defence's previous contract provided significant discounts on these types of fares. Under the Whole of Australian Government arrangements, the contracted airlines have offered discounts on multiple fare types and analysis shows that different travel practices are being adopted through the aid of applications such as the online booking tool, which provides visibility on the range of available ticket options and prices.²⁵

2.31 The Committee queried if Defence negotiates flight schedules with airlines to places where Defence has a significant presence.

2.32 Defence advised:

. . . under the Whole-of-Australian Government travel arrangements, the Department of Finance and Deregulation manages the head contracts with four domestic airlines and thirteen international airlines, including Qantas Airways and Virgin Australia. While Defence maintains productive relationships with these airlines to enable product updates and to manage day-to-day issues, Defence refrains from discussing flight scheduling to avoid possible expectations of Defence business on particular routes on particular airlines.²⁶

Workforce Productivity and Shared Services

2.33 The Workforce Productivity and Shared Services stream involves managing the mix of military, civilian and contractors to deliver savings and provide a more flexible and adaptive workforce. The three components of workforce reform include civilianising military support positions, converting contractor positions to APS positions, and redesigning business processes.²⁷

2.34 Defence informed the Committee that this stream now consists of an original shared services program, as announced in the Strategic Reform

24 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 18.

25 Department of Defence, *Submission 16*.

26 Department of Defence, *Submission 18*.

27 Department of Defence 'The Strategic Defence Program – Delivering Force 2030', pp. 19-20.

Program in 2009, plus the extension of the shared services, as announced by the Minister for Defence in 2011. This extension of the shared services program advised that Defence would forego 1000 positions of APS future growth, and find, through the greater application of shared services, the ability to absorb that growth through efficiencies in, largely, administrative functions in HR, finance, ICT and central non-DMO procurement.²⁸

2.35 Defence noted there is an overlap between the two shared service elements, and attempts are being made to bring them into the same management area to ensure that achievement can be monitored effectively.²⁹

2.36 The Committee expressed concern about the real cost of civilianising Australian Defence Force (ADF) positions into APS positions. The Committee queried whether such a transition actually achieves savings, or whether it impacts on ADF capability.

2.37 Defence responded that, in the shared services stream of the SRP, 535 non-combat or non-combat related positions have been identified for civilianisation from ADF to APS positions. Defence advised:

. . . they are administrative positions where the service chief has had an assessment saying that that position's functions can be discharged by an APS officer with no detriment to the military capability outcome and, indeed, that it is probably better in the longer run that a more stable APS officer is there to perform those functions and get more professionalisation. So that target was set right at the beginning. You can combine contractor conversions, which is a similar attempt to try to convert high-cost contractors that have been used to provide specialist skills, and build core competencies in APS officers to perform those specialist functions at a cheaper rate because the day labour rate is much less for an APS than for a contractor.³⁰

2.38 Defence advised that the target for contractor conversions is 881 positions over the whole program.³¹

2.39 Defence further noted, excluding senior officers, the differential between a uniformed member and an APS individual is about one-third.³²

28 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

29 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

30 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 8.

31 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 8.

- 2.40 The Committee questioned whether factors which had previously led to a backwash, with administrative functions which had been civilianised or centralised being returned to Defence either formally or informally, had been considered as part of this process.
- 2.41 Defence responded that the practice of creating centralised shopfronts where military capability was reinvested into combat, rather than providing administrative support, continued. Defence noted the shared services component of the SRP will see more areas administered by centralised services, however, there will still be a requirement for some uniformed personnel to maintain skills in a number of areas and, consequently, some specialists will be embedded in uniform to ensure military personnel continue to retain skills as required.³³
- 2.42 The Committee asked whether, as these further elements of shared services are implemented, a recording mechanism will be implemented so that the cost of delivering a shared service can be measured against efficiency. The Committee observed that some areas of state level government had deconstructed shared services arrangements after it was proven they were not delivering efficiencies. The Committee noted the importance of ensuring that any shared services arrangements are effectively measured.
- 2.43 Defence advised that, during the planning phase of shared services implementation, baselining has, and continues to be, undertaken for areas of extant business such as processes and costs, current contracts, productivity levels, and service delivery. Additionally, to support the functional delivery of shared services, performance/partnership agreements are being developed. Establishing a current state baseline and a performance/partnership agreement for future service delivery will ensure transparency, and enable measurement of service delivery efficiency and effectiveness improvements.³⁴
- 2.44 Defence briefed the Committee on the transitioning of payroll and administrative functions into a single area under the original shared services program, advising it is tracking well. The career management component of the original shared services stream will be facilitated by the delivery of Joint Project 2080 Phase 2B1, a new ICT system for personnel, programmed within the next few years.³⁵

32 Mr D Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 8.

33 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 30.

34 Department of Defence, *Submission 16*.

35 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

- 2.45 The Committee questioned the new ICT system and whether it would be a new ICT system for all three ADF services to use on an individual basis, or whether the shared service will result in a triService, Defence wide career management body.
- 2.46 Defence outlined that the three career management agencies will retain separate career managers dealing with their people on career management issues, however, there will be a back of the house shared services function. For example, all three services would use the same administrative support to run common processes such as promotion and performance boards. Defence advised the ICT system would provide the career management module in support of these activities and it will be one module which all three services utilise.³⁶
- 2.47 The Committee raised concerns that a previous attempt had been made to centralise individual service career management, and that, when it was found that this centralisation was not effective, many of those centralised functions returned to the services, however, the staffing resources did not return to the Services with the function. The Committee questioned whether the centralised organisation was going to reabsorb more people from the three services as part of the current reform process, even though it was previously supplemented to provide such services and was not reduced in size when those functions transferred back to the services.
- 2.48 Defence responded that there have been a number of reviews of the personnel management elements of the Defence Force over the past fifteen years. The 1997 Defence Efficiency Review Report resulted in activities such as workforce planning, career management and service conditions being collocated with the Defence Personnel Executive, created in 1998. During Financial Year 2000-2001, the centralised approach to career management was ended and the career management function and the associated workforce was returned to the Services. Defence noted a contributing factor to the function returning to the services was the introduction of a new Defence business model at that time.³⁷
- 2.49 Defence also observed that the shared service model reflects Defence's experience over the past eight or nine years. The three service career management authorities will also be physically relocated to the one area which will enable them to be exposed to each other's processes which should, in turn, lead to further process improvement.³⁸
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36 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 12.

37 Department of Defence, *Submission 20*.

38 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 12-13.

- 2.50 Defence noted the target for cost reductions in workforce and shared services for this year is \$237.6 million, for the next financial year it is \$292.5 million, and for 2013-14 it is \$363.2 million.³⁹
- 2.51 In terms of the overall stream, Defence advised that:
- . . . the current schedule for workforce and shared services is on track, it is making its cost reductions and it is also rated green [against performance measures].⁴⁰
- 2.52 Defence advised that the extension of the shared services program is an extension into other business areas to ensure a greater take up of shared services. It will remove positions from the funded APS base and is being led by accountable senior officers.⁴¹

Non-Cost Reduction Streams

- 2.53 Defence advised that there are also eight non-cost reduction streams within SRP. Rather than being about direct cost savings, they are aimed at transforming business processes to bring medium to long term sustainable efficiency improvements and ease future cost pressures.⁴²

Measurement and Reporting of the Strategic Reform Program

- 2.54 The Committee requested a list of the key performance areas, key result areas, and key performance indicators for the SRP.
- 2.55 Defence informed the Committee that key performance areas and key result areas for the program are:
- Reforms are being implemented on schedule;
 - Cost reductions are being achieved from the areas intended by reforms; and
 - Business and capability are continuing to be delivered as required by Government.⁴³

39 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 13.

40 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 11.

41 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 13.

42 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 13.

43 Department of Defence, *Submission 21*.

- 2.56 Defence further advised that, at the portfolio level, the SRP is measured through quantitative and qualitative information. Key Performance Indicators are measurements of both quantitative and qualitative achievements across the key performance areas of the program.⁴⁴
- 2.57 Defence further noted that cost reductions under the SRP are based on annual budgets. In 2011-2012, the cost reduction targets for the SRP is \$1283.9 million which will be delivered through initiatives under the seven SRP streams as follows:⁴⁵
- Information and Communication Technologies - \$147.5 million;
 - Smart Sustainment (including Inventory) - \$370.2 million;
 - Logistics - \$8.3 million;
 - Non-equipment Procurement - \$206.6 million;
 - Reserves - \$28.1 million;
 - Workforce and Shared Services - \$237.6 million; and
 - Other Cost Reductions - \$285.5 million.⁴⁶
- 2.58 Finally, Defence advised it will publish a full year SRP performance overview in the 2011-2012 Defence Annual report, scheduled to be released in late 2012.⁴⁷
- 2.59 The Committee asked Defence to provide an overview of the challenges it will face in achieving efficiencies under the SRP.
- 2.60 Defence outlined that the portfolio level challenges it faces in making the savings required under the Strategic Reform Program include:
- Resolving sustainment and capability issues which have been exposed through review and analysis both during SRP and through major external reviews such as the Rizzo review;
 - managing changing budgetary circumstances such as the efficiency dividend, the implementation of shared services across Defence, and reprogramming the Defence Capability Investment Program; and

44 Department of Defence, *Submission 21*.

45 Summation variances are due to rounding.

46 Department of Defence, *Submission 21*.

47 Department of Defence, *Submission 21*.

- implementing cultural change to sustain reforms and integrate them into the Defence culture, particularly aligning SRP changes with the *Pathways to Change* initiative and the Black Accountability Review.⁴⁸

Format of Defence Annual Report

- 2.61 The Committee observed that the current Defence Annual Report format makes it difficult to gain an effective overview of the SRP. The Committee believes the inclusion of a chapter in the Defence Annual Report which provides a summary of the SRP would be most useful, noting that Defence would still need to comply with Annual Report format guidelines.
- 2.62 The Committee further observed that the Australian Strategic Policy Institute (ASPI) have questioned why there is not a publicly available benchmark for the SRP to provide an easier reference for progress on the SRP. In fact, ASPI has gone so far as to state:
- . . . although the defence budget papers refer to the Strategic Reform Program (SRP) in a number of places, very little useful detail was provided. But, because the SRP and its \$20.6 billion worth of savings are an integral part of delivering the capability goals of the 2009 Defence White Paper, it deserves close examination nonetheless. Unfortunately, the information that has been made available about the SRP since its announcement twelve months ago is both fragmentary and continues to change as plans evolve.⁴⁹
- 2.63 Defence concurred that this recommendation to include a chapter in the Defence Annual Report on SRP was logical, and advised it would review the Defence Annual Report format to see if it could be achieved either as a separate chapter or as a summary section.⁵⁰
- 2.64 Defence noted that it was currently finalising a document to provide an update on the SRP. This document will assist to provide an overview of progress on the SRP to date.⁵¹

48 Department of Defence, *Submission 19*.

49 Australian Strategic Policy Institute, *The Cost of Defence: ASPI Defence Budget Brief 2010-11*, May 2010, p. viii.

50 Mr D. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 9.

51 Air Vice Marshal Smith, Department of Defence, *Transcript*, 16 March 2012, p. 14.

- 2.65 The Committee commented that this issue of readability also extends to the Defence budget itself, especially when trying to identify specific costs, such as those of operations, in a given financial year.
- 2.66 Defence responded that the budget format in the Defence Annual Report complies with Department of Finance formatting requirements. As questions about operational costs are common, tables have been included in the budget papers about the net costs and additional cost of operations. Defence informed the Committee that it will engage with the Department of Finance to discuss ways of presenting data on specific issues for improved readability, noting that specific areas of interest in the Annual Report sometimes change in any given year.⁵²

Recommendation

Recommendation 1

The Committee recommends a Strategic Reform Program (SRP) Summary Chapter be added to the Defence Annual Report to provide a consolidated overview of the SRP.

Delivery of Defence Capability

- 2.67 The Committee questioned how Defence was evaluating whether Defence capability is, in fact, being delivered after the implementation of SRP reforms.
- 2.68 Defence confirmed that the current Defence Preparedness Assessment system provides a summary of the capacity of the ADF to respond to required tasks. That report is reviewed monthly and includes inputs from the respective capability managers about their current status. Any identified issues are then addressed as required. This system enables Defence to monitor whether capability is available to support tasks as required by Government.⁵³
- 2.69 The Committee questioned how feedback from individuals at the working level of capability was being monitored. For example, how is Defence

52 Mr Prior, Department of Defence, *Transcript*, 16 March 2012, p. 17.

53 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 14.

ensuring that local level feedback about issues with garrison support can still be raised and resolved within a framework of nationwide contracts.

- 2.70 Defence advised that there are a number of reporting mechanisms which enable feedback to be provided and tracked. There are senior ADF officers in each location who monitor these issues. There are Key Performance Indicators (KPIs) in place for all contractors, and performance discussions are held with contractors on a regular basis. Defence assured the Committee that it is focused on delivering the best service possible through the contracts it has in place, and this can only be achieved through maintaining appropriate and responsive feedback loops.⁵⁴
- 2.71 Defence also noted the complexity associated with cultural change, as some complaints may actually be about the substance of the change rather than the delivery of service itself. For example, the SRP has seen significant changes to Defence messing arrangements and this change has been confronting to some members of the organisation. Defence affirmed it is continuing to manage cultural change closely as part of the reform process.⁵⁵

Risk

- 2.72 The Committee asked about the assessment of financial risk within the framework of the SRP.
- 2.73 Defence advised that risk was being reviewed as part of the SRP, and that it was continuing to eliminate duplication where possible. However, Defence noted there is a balance to be struck between ensuring risk is minimised while not conducting unnecessary checks of processes:

You would reduce the number of processes in play to whatever was effective, having made a judgment on the risk that you are therefore exposing yourself to. We could be farcical and eliminate risk, but the department would grind to a halt and produce nothing. That would be true of any large enterprise . . . You can eliminate risk, but the cost of eliminating it to zero, in most cases, causes seizure within the organisation.⁵⁶

54 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 14.

55 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 15.

56 Mr D Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 5.

Governance

2.74 The Committee asked how Defence would ensure there were no unintended outcomes from the SRP, as, for example, the United Kingdom experienced when undertaking major reforms.

2.75 Defence responded:

. . . if you look at the governance arrangements we put in place for each of the reform streams, which are all considered and led at the highest level in the department - it is all at three-star or SES band 3 level - with a range of health checks that look at each of those reform streams, a significant part of that process is each of the capability managers, particularly the service chiefs, being able to report back to give an assessment of the effect of reform on capability in terms of output and safety. One of the top lines in the reform streams is that we will not compromise the safety of our people and our capability through the reform process. So that is built into the governance and reporting systems.⁵⁷

Conclusions

2.76 The Committee notes that Defence reports it is tracking well against SRP planned milestones. The program will need continued monitoring to ensure it remains on target to achieve required savings.

57 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 6.

Personnel

Indigenous Participation and Development

Background

- 3.1 Defence delivers a range of programs for Indigenous people, individuals and communities including: implementation of initiatives and strategies arising from the *Defence Reconciliation Action Plan 2010-14*, and the whole-of-Government targets set under the Closing the Gap on Indigenous Disadvantage agenda. Funding for these strategies is provided under the Defence White Paper 2009.¹
- 3.2 The White Paper funded two lines of activity aimed at increasing Indigenous participation in the workforce: assisting Defence to build a diversified workforce and *Force 2030*; and meeting Government commitments to a range of whole-of-Government Closing the Gap economic participation outcomes. The *Defence Reconciliation Action Plan 2010-14* outlines most of the activities being undertaken by Defence to meet these outcomes. Overlaying this is the newer Council of Australian Governments agreed target for all Commonwealth and State entities to achieve a minimum Indigenous representation of 2.7 per cent of the total workforce numbers by 2015.²

1 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 256.

2 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 256.

- 3.3 The 2010-11 year saw a modest increase in the number of Indigenous Defence employees. The ADF and APS Defence Indigenous Employment Strategies encompass initiatives to attract and recruit more Indigenous people from remote, regional and urban communities throughout Australia. Both strategies are being reviewed. Significant work has been done to develop a Defence Indigenous Recruitment strategy. The strategy is currently being considered by Defence.³
- 3.4 The Defence Indigenous Development Program is now in its third year, with courses again underway in Katherine and Cairns. This program provides the opportunity for Indigenous Australians from remote communities to acquire skills which are transferable back into their communities and enhances the participants' ADF enlistment opportunities. Of the two Programs completed in December 2010, 16 graduates commenced ADF recruitment processes and eight enlisted in the ADF. All graduates completed a range of vocational training and skills development, and most gained full time employment post the program. Programs for 2011 commenced in March with 72 individuals screened and 52 participants selected. As the Defence Indigenous Development Programs are now in the third year, a review of the direction and outcomes of the program will be undertaken and the results used for planning future courses.⁴

Current Status

- 3.5 Defence advised that there is some concern about achieving the target Indigenous participation rates. Defence advised:
- We allocated in this financial year \$11.8 million to the Indigenous program. The Defence records currently indicate that Indigenous people represent about 0.89 per cent of the total Defence workforce. It is a little higher in the ADF – 0.96 per cent. So it is just under one per cent in the ADF. It is 0.53 per cent in the APS. Despite being committed to Indigenous programs, Defence is not making any long-term progress in that area.⁵
- 3.6 Defence discussed that one issue is the recording of Indigenous numbers within the Department. Where individuals self-report, the numbers are less than when other reporting, such as a non-attributable census, is

3 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 256.

4 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 256.

5 Mr D Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 20.

undertaken. Therefore, Defence is also focusing on emphasising reporting so that the Indigenous participation numbers are accurately recorded.⁶

- 3.7 Defence continues to conduct programs to increase Indigenous involvement. This includes the Defence Indigenous Development program, run out of Katherine and Cairns in partnership with other Government agencies. Each program has about 30 participants and, while not all graduates of those programs join the ADF, many are successful at gaining employment either in the ADF or other areas. Consequently, such programs assist young Indigenous Australians to gain employment.⁷
- 3.8 Additionally, Defence runs a number of Indigenous pre-recruit courses throughout the country, aimed at improving performance in the recruiting success of Indigenous personnel. There are also a number of familiarisation courses run across the country, targeted at Indigenous personnel who express an interest in joining the ADF. There are Indigenous student study tours, and 49 Indigenous graduates will be engaged in the Defence APS through various graduate programs, cadetships and traineeships in the next year.⁸
- 3.9 The Committee asked how much involvement current members of the North-West Mobile Force (NORFORCE) have in the recruitment of Indigenous personnel into the ADF.
- 3.10 Defence advised that the NORFORCE system works very well. Individuals come from a community, participate in a military environment, then go back to their community as trained individuals. Defence observed such individuals:
- . . . become role models and then they attract other members of their community to want to come and enjoy the same experience. So we have found that to be a self-sustaining way of improving our recruiting performance in the regional force surveillance units. We have used these members to go back to their community to help us pull people into those programs . . . the Defence Indigenous Development Program and the pre-recruitment courses for full-time service in the ADF.⁹
- 3.11 Defence noted that the NORFORCE program has been developed over a number of years through engagement at a personal level with tribal elders

6 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 21.

7 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 21.

8 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 21.

9 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 22.

and Indigenous communities. Consequently, it is also fragile as it is based around personal relationships. The positive aspect of the Regional Force Surveillance Units, based partly in home locations, has been that they enable individuals to remain involved with their community. However, attracting individuals to service in the Regular Army, where they have to travel to Kapooka or Duntroon for military training, has been more challenging. While the Indigenous Pre-Recruitment Course has assuaged some concerns for those individuals who undertake them, the take up rate of these programs has been less than hoped.¹⁰

- 3.12 The Committee queried whether Defence liaises with local Indigenous leaders or directly with young individuals to discuss joining the ADF.
- 3.13 Defence responded that the initiatives within the Indigenous recruitment strategy have been developed by a reference group that includes Indigenous elders from across the country.¹¹
- 3.14 The Committee sought an update on the Indigenous cadet program, particularly the success of using Indigenous liaison officers to support the program.
- 3.15 Defence advised the Indigenous Participation Program (IPP) was overseen by the Directorate of Defence Force Cadets, then Cadet Policy Branch, until 2008 when it was transferred to Defence's Fairness and Resolution Branch.¹²
- 3.16 The IPP consisted of cadet units established and maintained in remote Indigenous communities in the Northern Territory and North Queensland. This was mainly carried out by Army, who established cadet units in Daly River (Northern Territory), Tiwi Islands (Northern Territory), Wadeye (Northern Territory) and Bamaga (Queensland). Army also established a cadet unit at Marrara Christian College in suburban Darwin, a school with a large number of Indigenous Boarders. Additionally, two full-time APS Level 5 Indigenous Liaison Officer positions were established to support the Service cadet programs, one position in Darwin and one in Townsville.¹³
- 3.17 Defence informed the Committee that community interest and support in these cadet units has been inconsistent and Indigenous participation has declined. The unit at Bamaga has been suspended and is likely to be

10 Lt Gen. Morrison, Department of Defence, *Transcript*, 16 March 2012, p. 23.

11 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 23.

12 Department of Defence, *Submission 20*.

13 Department of Defence, *Submission 20*.

closed in 2012 mainly due to the lack of local adults volunteering to be cadet staff.¹⁴

- 3.18 Defence further noted that, across the five Remote and Indigenous Army Cadet units, strength has fallen from 122 in 2006 to 72 in 2011. The lack of dedicated Indigenous Liaison Officer support has contributed to this decline.¹⁵
- 3.19 A 2008 Cadet Review undertaken by Lieutenant General F.J. Hickling AO, CSC, concluded that smaller communities had limited capacity to support a number of youth organisations. Consequently, Defence is focussing its efforts on youth engagement with Indigenous personnel through the Indigenous Youth Connections Program. This program aims to engage school aged Indigenous youth early enough to positively influence their view of Defence as a career path.¹⁶
- 3.20 Defence noted that this program has been successful to date and the Defence Reconciliation Action Plan 2010-2014 reaffirms Defence's commitment to engage with young Indigenous personnel.¹⁷
- 3.21 The Committee enquired as to whether the plan, under the Reconciliation Action Plan and Indigenous Program, to incorporate 'Welcome to Country' in all speeches had been implemented.
- 3.22 Defence stated that this had not yet been officially implemented, but this issue would be reviewed as soon as possible.¹⁸

Multicultural Diversity

- 3.23 The Committee asked for an update on the progress of increasing multicultural diversity in the ADF.¹⁹
- 3.24 Defence advised that there is a recruiting strategy in place to attempt to increase diversity in the ADF so that it is representative of the community it serves. Numbers are increasing, but not at the preferred rate. Consequently, the Director General of Defence Force Recruiting is reinvigorating this strategy, including engaging with community leaders to improve access to less traditional recruiting areas.²⁰

14 Department of Defence, *Submission 20*.

15 Department of Defence, *Submission 20*.

16 Department of Defence, *Submission 20*.

17 Department of Defence, *Submission 20*.

18 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 37.

19 Department of Defence, *Submission 20*.

20 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 26.

- 3.25 Defence reiterated the difficulties of accurately gauging diversity in the ADF where individuals self-report their backgrounds, as, when a non-attributable census is run, diversity within Defence is higher than when self-reporting is conducted.²¹

People with a disability

Background

- 3.26 The *Defence Disability Action Plan 2008* is structured around the recommendations of the Management Advisory Committee's 2006 report *Employment of People with Disability in the APS*. Deputy Secretary People Strategies and Policy is the Defence Diversity champion and, as part of Defence's ongoing commitment to whole-of-government initiatives, is participating in a Defence wide Committee that will drive the employment of people with a disability more broadly across the APS.²²
- 3.27 The implementation of the action plan has focused on removing barriers to employment and supporting existing employees with a disability. To support retention of people with a disability in the workplace, Defence maintains an online network to review and improve the reasonable adjustment policy. The process for the delivery of assistive technology has been revised and delivery times improved. Additionally, training and resources have been provided to supervisors of employees with disability.²³

Current Status

- 3.28 Defence confirmed that the Department compares favourably in terms of the employment of People with a Disability across the APS. In a recent survey, 14.4 per cent of the Defence Organisation APS workforce identified themselves as having a disability. Therefore, Defence is very close to the APS wide number of 14.8 per cent of personnel having a disability.²⁴

21 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 26.

22 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 256.

23 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 256.

24 Mr D Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 22.

- 3.29 The Committee queried whether these statistics include ADF personnel who have been injured.
- 3.30 Defence advised that ADF personnel are managed under a separate program – the Support to Wounded, Injured and Ill Program:
- The ADF in particular has done significant work in the last three years to revisit its policies to provide much better focus on rehabilitation for members who acquire injuries or illness or a disability and seek to retrain them and keep them in the ADF as opposed to what we would have done five years ago, which was give them a year’s notice to try to rehabilitate to a particular standard and, if they did not reach that standard, to separate them from the ADF. Now we would have a period of up to five years and progressive reviews and focused rehabilitation throughout that period. If, at the two year mark, it looked like the individual would not be able to rehabilitate to a standard where they could be retained in the Australian Defence Force, we would focus, with the Department of Veterans’ Affairs, on vocational training so that they could be positioned for success outside the ADF.²⁵
- 3.31 The Committee asked about the Support to Wounded, Injured and Ill (SWIIP) program.
- 3.32 Defence detailed that the program incorporated advice from consultants who conducted a review of the process for managing ADF personnel who are injured or become ill. While the consultants found there was already a successful return to work program, they did note there were individuals who were ‘falling through the gaps’, particularly in terms of engagement with the Department of Veterans’ Affairs. Consequently, Defence has developed a closer relationship with the Department of Veterans’ Affairs and is working to engage earlier in the process to ensure all individuals who are injured are managed effectively.²⁶
- 3.33 Defence further advised that it has been very successful at retaining as many people as possible in uniform. Part of this success has been due to a change in philosophy where more discretion is able to be applied to the issue of deployability. More discretion is now able to be applied to individuals, and consideration is able to be given to their rank and skill sets when reviewing their deployability and employability within Defence.²⁷

25 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 21.

26 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 21.

27 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, pp. 21-22.

- 3.34 The Committee asked for information on the number of ADF personnel injured who are able to be retained in Service, for both injuries on operations and injuries on non-operational Service.
- 3.35 Defence provided a series of tables for Financial Years 2008-2009, 2009-2010, and 2010-2011 outlining data sourced from the Australian Defence Force Rehabilitation Program (ADFRP) database. Defence advised that this data relates to those ADF members who were referred to the ADFRP for an occupational rehabilitation assessment and had their case closed in the past three financial years. Defence noted this data does not include all ADF personnel who were injured on Service and retained in Service during each time period.

Table 3.1 ADF Personnel referred to ADFRP in Financial Year 2008-2009

Outcome for Injured Individual?	Injury Service Related?		TOTAL
	Yes	No	
<i>Retained in Service</i>	1480	793	2273
<i>Medically Discharged</i>	129	34	163
<i>Discharged at Own Request</i>	41	9	50
TOTAL	1650	836	2486

Source Department of Defence, Submission 24, 30 May 12.

- 3.36 Defence noted that a breakdown of injuries related to operational Service was not available for Financial Year 2008-2009.

Table 3.2 ADF Personnel referred to ADFRP in Financial Year 2009-2010

Outcome for Injured Individual?	Injury Service Related?		TOTAL
	Yes	No	
<i>Retained in Service</i>	2231	1140	3371
<i>Medically Discharged</i>	384	110	494
<i>Discharged at Own Request</i>	66	28	94
TOTAL	2681	1278	3959

Source Department of Defence, Submission 24, 30 May 12.

- 3.37 Defence stated that, of the 2681 injury cases identified as being Service related in Financial Year 2009-2010, 310 were reported as being associated with operational Service.

Table 3.3 ADF Personnel referred to ADFRP in Financial Year 2010-2011

Outcome for Injured Individual?	Injury Service Related?		TOTAL
	Yes	No	
<i>Retained in Service</i>	2397	1186	3583
<i>Medically Discharged</i>	389	101	490
<i>Discharged at Own Request</i>	86	39	125
TOTAL	2872	1326	4198

Source Department of Defence, Submission 24, 30 May 12.

- 3.38 Defence stated that, of the 2872 injury cases identified as being Service related in Financial Year 2010-2011, 335 were reported as being associated with operational Service.

Gender

Background

- 3.39 The Chief of Defence Force Reference Group on Women facilitated the development of an action plan aimed at increasing the number of women enlisting in the ADF while focusing on retention and the creation of a workplace culture that offers flexibility and innovation.²⁸
- 3.40 Endorsed by the Chiefs of Service Committee in 2009, *The Chief of the Defence Force Action Plan for the Recruitment and Retention of Women* targets six priority action areas to improve the participation of women in the ADF.²⁹
- 3.41 The Action Plan builds on achievements and initiatives already in place and introduces new measures to increase the options and appeal of an ADF career. Through career flexibility and improved support, this program of cultural change makes careers in the ADF more attractive to women.³⁰
- 3.42 The Action Plan allocates the highest priority to increasing the number of women enlisting into the ADF. The remaining five action areas, Flexibility, Career Management, Accountability, Mentoring and Communication are

28 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 255.

29 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 255.

30 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 255.

focused on retention of women in the ADF and the creation of a workplace culture that offers choice and innovation.³¹

Current Status

- 3.43 Defence advised that the female participation rates within the ADF had remained around 13.6 to 13.8 per cent for some time.³²
- 3.44 In September 2011, the Government announced that the remaining seven per cent of trades which remained closed to women in the ADF would now be opened to women. However, it is not anticipated that this will directly cause a significant increase in women joining the ADF as the experience of many allies has been that there is only a 3 to 4 per cent female participation rate in those combat trades.³³
- 3.45 The Committee questioned when the physical employment standards study into the biometrics, fitness levels and standards for all ADF personnel would be provided to the military and the Government.
- 3.46 Defence responded that there had been a change in focus from the original planned study to enable the review into the combat related trades to be completed. Now that this has been completed, other trades will be reviewed over the course of the next three years. Defence noted that there are still some outstanding matters in the review of the combat trades, related to testing, which will be trialled over the next 12 months.³⁴
- 3.47 The Committee asked what impact this work will have on Projects SUAKIN and Beersheba.
- 3.48 Defence advised that this work will be beneficial to both these projects, which are about:

. . . trying to be a more efficient and more effective workforce. The message that I have spoken continually about in Army is that a diverse and culturally rich workforce is, in fact, a capability enhancer. I have to say that my interaction with the soldiers of the Army over the last two months has seen very positive feedback in that regard. I do not sense at all any resistance to the types of changes that are actually caught up in the *Pathway to Change*. It has

31 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 255.

32 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 27.

33 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 27.

34 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 37.

great support at the grassroots level, and that is a terrific thing for all of us.³⁵

3.49 The Committee requested for an update on the Defence Women's Action Plan.

3.50 Defence informed the Committee that the Action Plan had a number of different objectives, including recruiting more women. In terms of this, Defence has found that the gap year has been a very successful program for attracting females. In fact, the gap year had a 50 per cent participation rate of females. Anecdotal evidence is that this occurred because females only have to commit for one 12 month period up front. Consequently, Defence is reviewing initial engagement periods to see if these can be reduced to attract more women.³⁶

3.51 Another area of the Action Plan is to retain women once they join. Defence advised:

. . . the retention rate for women in our organisation is actually now as good or better than that for men – which it was not before the action plan started.³⁷

3.52 Defence advised that the current Action Plan for Women was groundbreaking and has driven Defence a long way. However, the current program has run its course, a point which has been confirmed by recent reviews by Ms Broderick and Ms McGregor as part of the suite of Defence cultural reviews. Consequently, the Action Plan will be reframed. The current women's reference group will be closed and a new Secretary/CDF gender equality board will be established. This board will have significant external representation to take the organisation to the next step.³⁸

3.53 Defence further observed that this issue is not just gender specific:

. . . when we talk to our women we do get pushback to say, 'If it's good enough for me it's good enough for all of us.' Certainly within the ADF there are three generations of women serving, and each of those generations have different needs and different views of career progression. So we are sensitive to the need for change . . . we are certainly engaged with the people who will help us drive this forward.³⁹

35 Lt Gen. Morrison, Department of Defence, *Transcript*, 16 March 2012, pp. 37-38.

36 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 27.

37 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 27.

38 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 27.

39 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 27.

- 3.54 The Committee sought an update on the element of the Women's Action Plan relating to part-time work, particularly for women who had just had children.
- 3.55 Defence confirmed it is continuing to work on utilising its workforce in a better way, including considering the full-time, part-time, and casual elements of the workforce and the ability to move between these elements. As part of this work, Defence has conducted a broad review of how it employs APS and ADF personnel across several streams through Plan SUAKIN. This plan will be considered at senior levels in Defence and is a different way of looking at how people are employed in the organisation. This relates to both genders in the Defence Force.⁴⁰
- 3.56 The Committee queried the attrition rate for women in the ADF after they have their first child.
- 3.57 Defence commented that the majority of women are returning to work after the birth of their first child, and Defence attributes this to the Women's Action Plan and associated policy adjustments.⁴¹
- 3.58 In Financial Year 2009-2010, 75 per cent of ADF women who took maternity leave returned to service. In terms of the individual Services, this was further broken down as 70 per cent of Navy women, 78 per cent of Army women, and 78 per cent of Air Force women returning to service after Maternity Leave. Defence noted that Financial Year 2009-2010 data was used for these figures to ensure women who took extended periods of leave associated with their maternity leave were included.⁴²

Recruitment and Retention

Background

- 3.59 In the context of high operational tempo and skills shortages, and against a backdrop of an uncertain economic outlook, the attraction, recruitment and retention of staff continued to be a high priority for Defence in 2010-2011. For the ADF, this has been achieved through recruitment and the effect of lower than expected separation rates compared to long term averages. Similarly, Defence's APS workforce targets have largely been

40 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 28.

41 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 28.

42 Department of Defence, *Submission 20*.

achieved. However, an increasing external labour market demand will likely lead to a rise in military separation rates, presenting recruiting and retention challenges in the near future.⁴³

- 3.60 Despite a healthy overall situation for personnel numbers in the ADF, Defence still faces challenges in retaining skilled and experienced personnel in the senior Non-Commissioned Officer/middle officer ranks. The ADF Reserve has demonstrated its capacity over the year to absorb some of the impact of specialist vacancies in the ADF workforce and will remain central to meeting these requirements. The SRP Reserves Reform Stream will continue investigating ways to enhance the use of Reserves.⁴⁴
- 3.61 The Average Funded Strength achievement is above the budgeted figure due to historically low levels of separation resulting from the combination of the success of Retention and Recruitment initiatives and the impacts of the Global Financial Crisis (GFC).⁴⁵

Current Status

- 3.62 The Committee queried current retention in the ADF and whether ADF personnel are being lost to mining and resources sectors. The Committee further questioned whether any of those personnel lost to mining and resources areas had then returned to Defence.
- 3.63 Defence advised that the ADF went into 2010-2011 with the highest retention rates it had experienced. In May 2010, the separation rate for the ADF was 7.1 per cent. This was very low, particularly as the 10 year rolling average separation rate is around 10 per cent. At the end of Financial Year 2010-2011, the separation rate had started to increase and was 7.9 per cent. As of March 2012, the separation rate has increased to about 9.3 per cent and is expected to rise to 9.4 per cent by April 2012.⁴⁶
- 3.64 Defence remarked that ADF separation rates are cyclical and tend to rise over a seven year period. For example, in 2005-2006, Defence was discussing a recruiting and retention crisis, now separation rates again appear to be increasing.⁴⁷
- 3.65 Defence stated that there is no one reason why individuals depart the ADF. They are not all being drawn into the resources sector and those

43 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 42.

44 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 42.

45 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 42.

46 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 22.

47 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 22.

who are leaving include a mix of technical and non-technical personnel. A number appear to be going into the construction industry, which is growing as a result of the resources boom. However, Defence advised that the current separation rates do not appear to be affecting Defence's ability to continue to operate.⁴⁸

- 3.66 Notwithstanding, Defence advised it continues to monitor and implement strategies to address specific pressure areas such as medical specialists, dentists, and engineers, where, just as in the wider community, there are difficulties attracting and retaining individuals.⁴⁹
- 3.67 The Committee enquired how specific specialist skill sets required to support Submarines, the Joint Strike Fighter, and other new procurement, such as the Armed Reconnaissance Helicopter (ARH), were being managed, particularly once the GFC ends.
- 3.68 Defence replied it is addressing and remediating critical categories, and the numbers of critical categories have been steadily reducing. This reduction has occurred as a result of remediation activities such as targeted recruiting teams, engagement with industry bodies, investing in scholarships at year 11 and 12 level, removing wastage in training by introducing mentoring programs or redesigning that training, and, finally, restructuring the work where possible. Additionally, a range of financial incentives have been used to anchor current personnel.⁵⁰
- 3.69 Defence affirmed that it expects to move into a more difficult period over the next three to four years. Consequently, a broad suite of initiatives will be required to motivate ADF personnel to stay. Defence is reviewing how the tangible and intangible elements of employment can be managed:

We are increasingly looking at how we can differentiate the offer, to use that language. So we have a range of tangible and intangible components of our value proposition to our membership – everything from remuneration right through to the quality of the leadership they will be subjected to. We think the way to target these particular skill sets into the future, for which we know we are going to struggle, is to try to differentiate that offer – to be able to ramp components of it up and down to motivate individuals to stay with us or to attract people to those particular trades.⁵¹

48 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 22.

49 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 22.

50 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 29.

51 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 29.

- 3.70 Defence advised it is continuing to review its policies, and will attempt to identify exactly what encourages particular segments of the workforce to remain in the organisation.⁵²
- 3.71 The Committee asked whether Defence is reviewing strategic engagement with industry to facilitate movement between industry and Defence in a programmed, planned manner. The intent of such engagement would be to benefit Defence, the industry, and the individual. The Committee noted that this may increase understanding by Defence personnel in procurement areas of the commercial drivers and pressures experienced by industry. The Committee observed that Qantas exemplifies such an activity, where ex-ADF personnel have, on a regular basis, been allowed to take a period of time to return to Defence.
- 3.72 Defence responded that this had previously been considered, but had not been implemented in a systemic way. One of the many issues challenging implementation is controlling poaching of personnel into that industry after their secondment period. Defence advised they are continuing to review a range of options, and will examine this issue further.⁵³

Defence Housing and Infrastructure

- 3.73 The Committee asked about the provision of Defence Housing in the Northern Territory.
- 3.74 Defence informed the Committee that the majority of Defence housing is procured through the Defence Housing Authority, a separate agency within the overall Department of Defence.⁵⁴
- 3.75 Defence observed that many Defence Houses on Defence establishments in the Northern Territory are quite old and it would not be economical to bring them up to modern Defence housing standards. However, where such houses could be made suitable for resale and relocation, this is being done. For example, some of the Defence houses at Larrakeyah Barracks were relocated offsite, and some have been offered for sale to the Northern Territory Government. The Defence Housing Authority will then construct new housing which meets the new Defence Housing Standards for 2017 onwards.⁵⁵

52 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 29.

53 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 30.

54 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 19.

55 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 26.

- 3.76 The Committee queried the age of housing stock demolished by the Defence Housing Authority in Eaton, where RAAF Base Darwin is located.
- 3.77 Defence stated that no housing stock had been demolished at RAAF Base Darwin at this time. However, Defence Housing Australia will shortly commence demolition of nine vacant properties located on RAAF Base Darwin. These houses were built in the 1960s.⁵⁶
- 3.78 The Committee inquired whether the plans of the layout of Australian military bases had been available to the general public via the internet.
- 3.79 Defence replied that this is not the case, however, Defence noted that when capital development projects are above the Public Works Committee (PWC) threshold, evidence is supplied to the PWC and much of that evidence is made public. Defence noted that it carefully screens such information to ensure security is maintained, however, this means there is some material in relation to some bases available on public websites, particularly where there are major capital projects occurring in those locations.⁵⁷

Financial Counselling Support for Deployed Personnel

- 3.80 The Committee inquired whether financial counselling is provided for ADF personnel who are deploying to ensure that they appropriately spend the allowances earned on deployment.
- 3.81 Defence advised that all personnel involved in deployment receive mandatory financial counselling. This counselling is provided by personnel accredited and operated through the ADF Financial Services Consumer Council.⁵⁸
- 3.82 The ADF Financial Services Consumer Council is chaired by an Air Force Reserve Officer, who is an eminent accountant. It includes an independent financial expert and representatives from the three services. The council draws on material from ASIC and ACCC and provides objective advice. It has won national awards for its programs. Through the ADF Financial Services Consumer Council, all ADF personnel are provided with a range

56 Department of Defence, *Submission 16*.

57 Mr S. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 42.

58 Lt Gen. Morrison, Department of Defence, *Transcript*, 16 March 2012, p. 24.

of programs over their career with the specific objective of increasing the financial literacy of all ADF members.⁵⁹

- 3.83 Defence noted the senior leadership of the ADF has observed increasing financial literacy amongst junior ADF personnel over time. However, Defence also observed that, while financial counselling may be mandatory, individuals still make their own financial decisions.⁶⁰

Transition Support

- 3.84 The Committee questioned the transition support provided for ADF personnel who only serve in the ADF for a short period of time.
- 3.85 Defence responded that there are a range of programs and activities that ADF personnel can access to assist them to prepare for transition out of the ADF. It was noted that access to such programs increases with the length of service, however, individuals who leave at the end of their initial minimum period of service have access to transition seminars aimed at assisting individuals to think about their transition and position themselves for success.⁶¹
- 3.86 Additionally, Army, which transitions more people due to its overall size, has developed Army personnel coordination detachments. These detachments provide direct guidance to Army personnel who are transitioning.⁶²

Conclusions

- 3.87 The Committee notes the following in respect of Defence personnel:
- Defence is continuing to work on a range of programs aimed at increasing the number of indigenous personnel in the ADF and the wider Defence department.
 - Defence is continuing to work on a range of strategies aimed at increasing multicultural representation in the ADF.

59 Lt Gen. Morrison, Department of Defence, *Transcript*, 16 March 2012, p. 24.

60 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 24.

61 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 25.

62 Major Gen. Fogarty, Department of Defence, *Transcript*, 16 March 2012, p. 25.

- Defence is providing support to ADF personnel who are injured through the SWIIP Program.
- Defence will reframe the current CDF's Women's Action Plan and institute a Secretary/CDF Gender Equality Board.
- ADF separation rates are increasing, but this is not having an impact on the ability for the ADF to continue to operate effectively.
- Defence is continuing to monitor and attempt to remediate critical employment categories within the organisation.

Operations

Background

4.1 Over the Financial Year 2010-2011, Defence conducted 17 Operations. These were:

- Pakistan Assist II (Pakistan);
- Christchurch Assist (New Zealand);
- Hedgerow (Darfur);
- Kruger (Iraq);
- Astute (East Timor);
- Palate II (Afghanistan);
- Yasi Assist (Queensland);
- Pacific Assist (Japan);
- Anode (Solomon Islands);
- Riverbank (Iraq);
- Tower (East Timor);
- Slipper (Afghanistan);
- Queensland Flood Assist (Queensland);

- Azure (Sudan);
- Paladin (Israel/Lebanon);
- Mazurka (Sinai); and
- Resolute (Australian Border Protection).¹

Current Status

Afghanistan

- 4.2 Defence stated that Afghanistan remains a highly complex and dangerous environment and, while every attempt is made to minimise risk as much as possible, an element of risk will always exist. Defence noted that the tragic shooting of Afghan civilians in Kandahar was not indicative of the tenor of the relationship that Australia and coalition forces have with the people of Afghanistan.²
- 4.3 Defence commented that operations in Afghanistan have been constrained over the past few months due to a particularly difficult winter. Snow and weather has limited operations and, in some cases, aerial resupply. Similarly, the winter has impacted on insurgent operations, resulting in a lower combat tempo during the winter period.³
- 4.4 Defence advised that Mentoring Task Force 4:
- . . . has used the reduced combat tempo as an opportunity to conduct training with the Afghan National Army with a focus on core skills such as their planning capability and weapons training. We continue to see encouraging progress with our partners in the Afghan Army 4th Brigade. Over the past few weeks independent ANA [Afghan National Army] patrols have uncovered a number of significant weapons caches. The Special Operations Task Group [SOTG] has continued operations throughout the winter, but the harsh weather has also caused some disruptions. In the past two months partnered SOTG and Afghan security force operations have resulted in the death or detention of a number of insurgent commanders who were believed to be responsible for supplying

1 Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 4.

2 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 3.

3 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 3.

materials to build IEDs [Improvised Explosive Devices] as well as marketing or trafficking illegal drugs.⁴

- 4.5 Defence observed the Operation is at an important transition point from the International Security Assistance Force (ISAF) led to Afghan led security operations. This model of operation will be shaped at a Northern Atlantic Treaty Organisation (NATO) summit in May 2012 where the long-term strategic plan for Afghanistan, including the size and composition of the Afghan National Security Forces (ANSF), and the international community's enduring assistance will be developed.⁵
- 4.6 On 16 May 12, the Prime Minister and the Minister for Defence issued a joint press release about their intentions for continuing support to Afghanistan. They advised these intentions would be taken to the NATO summit in May 2012. These include reaffirming Australia's commitment to supporting Afghanistan after transition, through helping to train and mentor the ANA and police. They also advised an ongoing Special Forces presence would be considered.⁶
- 4.7 The Committee questioned whether progress is being maintained in Afghanistan, specifically, how ANA and Afghan National Police (ANP) units are progressing towards functioning without continued mentoring.
- 4.8 Defence outlined that, under the ISAF performance management framework within the Uruzgan province, the 4th brigade of the ANA is classified as a whole as 'effective with advisers'. This means that:
- . . . they are capable of undertaking operations - conceiving operations, planning operations and executing them - by themselves, but we will plug into certain parts of that process, help lead them through the planning process, but not necessarily do it for them. The key to that is that they are now, under the better utilisation of the intelligence and so forth, initiating plans to go into particular areas and determining what needs to be done in each of those areas by themselves. We then support them and make sure that the enablers are available to support them in the operation.⁷
- 4.9 Defence noted that three of the infantry battalions, or Kandaks, are capable of varying degrees of autonomy. In fact, one of them is virtually

4 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 3.

5 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

6 Prime Minister of Australia Website, Press Office, <http://www.pm.gov.au/press-office/australia-commits-ongoing-stability-afghanistan>, viewed on 12 Jun 2012.

7 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 38.

capable of conducting independent operations in its own space, certainly within the Uruzgan province, and the Brigade Commander has a very clear idea about distribution of his forces and frequency of operations.⁸

4.10 Additionally, the Combat Support Kandak encompasses the engineer capability and the artillery capability. The artillery capability has been declared able to operate by itself, while the engineers are still under mentoring and advice as they develop route clearance abilities. The combat service support is still being developed, and there is still one Kandak, formed later than the others, that is being progressed.⁹

4.11 Overall, there has been progress. While the Taliban declared a number of objectives they planned to achieve in this year, they have not achieved any of their operational objectives.¹⁰

4.12 Defence advised:

At the operational and tactical level there has been a good two years of hard work put in by ISAF and the Afghan forces. You see the strategic implications of all this, though, playing out now. The reconciliation processes, the thinking through about transition, and what the state of the ANSF and the coalition force will be in 2014 are all playing themselves out as a consequence of that work.¹¹

4.13 The Committee queried how the Afghan people viewed the insurgency, noting that, during their delegation visit to the Middle East Area of Operations (MEAO) in 2011, they had been briefed on Afghan people reporting insurgents, reporting arms caches, and IED caches. The Committee questioned whether this level of support was continuing.

4.14 Defence responded that, as competent ANSF forces were developed, they were able to interact with their own people. There had been some potential setbacks as a result of the Koran burning incident, and there is a proportion of the population that will never be won over, however, in Uruzgan there is a good working relationship with the majority of the population. On the whole, Defence assessed that working relationships with the Afghan people are positive.¹²

8 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 38.

9 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 39.

10 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 39.

11 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 39.

12 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 39.

- 4.15 The Committee asked about the retention rates of personnel in ANA Kandaks after completion of their initial period of engagement.
- 4.16 Defence advised that monthly progress reports sourced from NATO indicated the retention rate of ANA soldiers on completion of their initial engagement period had been 73 per cent in August 2011, 33 per cent in September 2011, 75 per cent in October 2011, 64 per cent in November 2011, 62 per cent in December 2011, and 59 per cent in January 2012. These retention percentages include both recontracting of those eligible for separation and reenlistment of previous soldiers returning to the ANA.¹³
- 4.17 Defence further noted that the ANA is a young organisation, only four years old, so it lacks the depth of leadership at the Senior Non-Commissioned Officer (SNCO), Warrant Officer, and junior officer levels. This, combined with many other factors, means that the retention rates post initial period of engagement are still not as high as hoped. Positive steps are being taken, with updated equipment, infrastructure, and confidence in their own abilities all improving attitudes. However, it will take time for change to occur.¹⁴
- 4.18 The Committee queried the effects of community engagement activities, such as sealing the road to the Chora valley, on the relationship with the Afghan people.
- 4.19 Defence noted that there has been positive feedback on such activities from local villagers. The sealing of the road to the Chora valley has also reduced the risk of IEDs in this location.¹⁵
- 4.20 The Committee queried the success of the interrogation capability situated in Tarin Kowt.
- 4.21 Defence responded that this capability has been very carefully constructed and supported throughout implementation. Interviews are recorded using Closed Circuit Television (CCTV) and other technology, and interrogations are observed minute by minute. Defence noted that this capability has already produced good results by identifying personnel who are of interest but may not have been picked up under previous arrangements.¹⁶
- 4.22 The Committee inquired about the ongoing viability of AusAID programs once Australia draws down its military capabilities in Afghanistan.
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13 Department of Defence, *Submission 16*.

14 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 39.

15 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 40.

16 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 40.

- 4.23 Defence observed that the aid program assists with three dimensions: security, governance and development. However, in terms of continued government effort in Afghanistan post drawdown, AusAID would work directly with the Australian Government to develop an ongoing plan for the delivery of aid.¹⁷
- 4.24 The Committee asked about the report into the CH-47D Chinook Helicopter that was lost in Afghanistan.
- 4.25 Defence advised that the accident investigation had been conducted.¹⁸
- 4.26 Defence subsequently informed the Committee that a Commission of Inquiry has now been appointed, and the Aviation Accident Investigation Report will not be released prior to the conclusion of the Committee of Inquiry.¹⁹
- 4.27 The Committee inquired as to the current maintenance situation with CH-47s Chinooks deployed to Afghanistan, given the operational tempo and ongoing deployments.
- 4.28 Defence responded that a changed maintenance approach to these helicopters was introduced over the winter period in Afghanistan. Whereas helicopters had previously been returned to Australia for maintenance over the January/February period, on this occasion the helicopters were left in Afghanistan and deep-level maintenance was conducted onsite. This not only reduced the cost of maintaining the capability, but also enabled the Chinook workforce to be managed more effectively. Defence noted that this deep-level maintenance is primarily conducted by contractors.²⁰
- 4.29 The Committee questioned whether, as a consequence of the CH-47 Chinook commitment in Afghanistan, the raise, train, and sustain function for these helicopters in Australia was under stress.
- 4.30 Defence responded that having a small fleet of only six helicopters has always been an issue. This number will now grow to seven, but the issues of managing a small fleet cannot be easily alleviated. Defence noted the ongoing challenge of maintaining two helicopters in Afghanistan, out of a fleet of six to seven helicopters, while still keeping crews adequately prepared.²¹
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17 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 40.

18 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 40.

19 Gen. Hurley, *Letter to Committee*, dated 2 April 2012.

20 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 40.

21 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 40.

- 4.31 The Committee observed that, in the past 18 months, there has been a significant change with regards to embedding of media, with the military opening up its forces to allow journalists and cameramen in to observe activities firsthand. The Committee questioned whether this change was beneficial from Defence's point of view.
- 4.32 Defence responded that this has been a positive change as it enables clearer messages and informed debate about Defence activities in Afghanistan. This program will continue for at least the next 12 months.²²
- 4.33 The Committee noted that concerns had been raised with Committee members about the night vision goggles currently provided to the Australia Special Forces, specifically, that they are not state-of-the-art technology.
- 4.34 Defence advised that different night fighting equipment is provided to Special Forces personnel in Afghanistan compared to those undertaking domestic operations, including domestic counter-terrorism elements. The night fighting goggles issued in Afghanistan are smaller in size and weight, significantly reduce 'blooming' and flaring when exposed to bright light sources, and provide increased resolution and depth perception.²³
- 4.35 Defence stated:
- Noting the continual improvement in technology of this type, a proposal is being prepared for consideration by the Defence leadership that seeks to refresh the Special Operations' night fighting capability. This will ensure Special Operations forces are provided with the most suitable equipment.²⁴

East Timor

- 4.36 Defence noted that it continues to maintain a force of about 390 personnel in East Timor, and has been consolidating its bases in that country. Consequently, the bare base at Gleno and the forward operating base, Chauvel, were handed back in 2012. Defence noted that it does not expect any significant change to the level and force structure of the ADF currently in East Timor until after the elections.²⁵

22 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 39.

23 Department of Defence, *Submission 24*.

24 Department of Defence, *Submission 24*.

25 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

- 4.37 The Committee queried how the security role of the ADF in East Timor will be transitioned to the Timorese and whether this will occur in 2012.
- 4.38 Defence replied that the armed forces of East Timor are not currently dependent on Australia for their capability, rather, they are capable of conducting independent operations. Defence noted that Australia's ADF presence will remain at current strength and force structure until after the elections. After that time, discussions will be held with the government of East Timor about Australia's continuing security and defence engagement in this country.²⁶

Solomon Islands

- 4.39 Defence noted it had agreed to maintain its existing commitment to RAMSI in the Solomon Islands until at least mid 2013.²⁷

Papua New Guinea

- 4.40 Defence noted it is continuing to assist with the preparation for national elections in Papua New Guinea this year.²⁸

Pakistan Assist II

- 4.41 Defence observed that involvement in operations such as Pakistan Assist, and even Pacific Assist in Japan, strengthens relationships between Australia and those countries.²⁹
- 4.42 The Committee noted that many commentators have linked success in Afghanistan with the actions of authorities in Pakistan. The Committee questioned whether, in Defence's opinion, it would be of value for the Australian government to seek further engagement with the Pakistan military.
- 4.43 Defence responded that it already has a robust relationship with the Pakistan armed forces. Australia is the second largest provider of individual training to the Pakistan military, offering about 140 positions a year across all ranks and course types. Pakistan accepts about half of these opportunities each year, with language being the main barrier to

26 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 41.

27 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

28 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

29 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 41.

increasing that number. There are a range of senior officer visits and a willingness for interaction at all levels, including through sport.³⁰

Flood Assistance

4.44 The Committee noted the ongoing flood assistance provided by the ADF across Australia and expressed its appreciation of this continued support. The Committee asked Defence to outline the number of personnel, the capabilities provided, and the issues that confronted the ADF when providing assistance during the Queensland floods.

4.45 Defence advised that Queensland flood assistance commenced early in January 2011 and, overall, about 1,976 Defence personnel assisted in some way. As the situation developed, support requests were submitted to Emergency Management Australia to the Government and back through to Defence. Defence then delivered immediate aid where necessary, and responded to requests through Government channels. There were a number of permanent and reserve Defence personnel providing a range of support. This included helicopter support in the form of Kiowa and Black Hawks which enabled assessment of the situation first through the Kiowa, then action via the Black Hawk or other suitable response.³¹

4.46 Defence noted:

We were involved in a number of emergency issues where the helicopter crews should be commended for the bravery they showed winching people down into really difficult situations - housetops, people in trees, floodwaters and so forth.³²

4.47 Defence detailed that, once the immediate crisis passed, a significant force was committed to the cleanup operation. Additionally, Defence contributed to the planning effort and, ultimately, the leadership effort in Queensland both for the immediate aftermath and the ongoing reconstruction process. Initially, General Slater was in charge before being relieved by General Wilson. General Wilson has now retired from the Army but retained his position with the Queensland Government. Defence continues to support the reconstruction authority with a small number of key planners.³³

30 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 41.

31 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

32 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

33 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

4.48 Defence further noted it was currently providing assistance to flood affected communities in New South Wales and Victoria in the form of personnel, transport, and equipment.³⁴

Post-Deployment Reintegration

4.49 The Committee requested an update on the post-deployment reintegration program for ADF personnel returning from deployment to Afghanistan.

4.50 Defence provided an example of a post deployment reintegration program for Mentoring Task Force 3 personnel who began returning from deployment in late 2011. The program schedule is as follows:

- Up to 14 days prior to returning to Australia, returning members undertake a 3 day program in Tarin Kowt. This program includes a group psycho-education presentation on the 'Realities of Reintegration', completion of a Return to Australian Psychology Screen, completion of Return to Australia Medical Screen paperwork, a one-on-one screening interview with a psychologist or psychological examiner, and various administrative checks. These administrative checks include pay and allowance, honours and awards, security, and, where required, equipment handover and returns.
- Immediately prior to returning to Australia, personnel usually spend two days at Al Minhad Air Base. This provides an opportunity for cleaning and hand back of equipment, and a half day rest and recreation activity in Dubai.
- In the week after returning to Australia, dependant on the member's posting or family location, members undertake a three day reintegration program. This program includes briefs, family activities, physical training and unit administration. The activities are scheduled as part-days to enable individuals to integrate back into home life at the same time. Briefs are conducted on reintegration, alcohol, tobacco and other drugs, rehabilitation process, Department of Veterans' Affairs processes and entitlements, Veterans and Veterans family counselling service, finance, and Returned Services League benefits.
- Members usually then undertake a period of leave, the length of which varies depending on the individual.

34 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 4.

- 90 to 180 days after returning from deployment, members undertake a structured Post Operational Psychology Screen in their home location. Townsville based Mentoring Task Force – 3 personnel are currently part of a trial program which includes the opportunity for a family member to participate in the Post Operational Psychology Screen interview.
- As required, a four hour Coming home Readjustment Program is conducted. This program focuses on assisting personnel with sub-clinical difficulties with alcohol, anger, sleep, stress, relationships or communication. Members can either self refer to this program, or be referred by mental health providers, medical officers, or the chain of command.
- Defence has developed a new, voluntary, group-based program for individuals with emerging Post Traumatic Stress Disorder. Individuals suitable for this program will be identified through the Post Operational Psychology Screen. The program consists of psycho-education and self management/therapy skills for managing symptoms of PTSD, general psychological distress, and socialisation to treatment for PTSD if required. This program will be conducted for the first time in July 2012.³⁵

Conclusions

4.51 The Committee notes the following in respect of Defence operations during Financial Year 2010-2011:

- The ADF continued to conduct a large numbers of operations within Australia and across the world.
- The ADF continues to conduct professional operations that support Australia's interests and reputation across the world.

35 Department of Defence, *Submission 20*, 8 May 2012.

Sustainment

Background

- 5.1 The role of the Defence Materiel Organisation (DMO) in directly supporting ADF operations includes contributions to whole-of-Defence efforts such as the Force Protection Review, rapid acquisition of equipment, meeting ongoing operational supply demands, and sustainment of materiel already procured and deployed.¹
- 5.2 In some areas, notably in working with the Royal Australian Navy (RAN) and industry to provide and sustain amphibious supply capabilities, 2010-2011 has been a particularly difficult year. The DMO, in conjunction with the RAN, has committed to decisive action, including both immediate remediation work and ensuring that the systems are in place, to prevent recurrence of similar problems in naval fleets.²
- 5.3 The Smart Sustainment Stream of the Strategic Reform Program (SRP), incorporating inventory, maintenance and non-equipment procurement of explosive ordnance clothing and fuel, is intended to increase effectiveness and efficiency in the maintenance of military equipment, inventory and supply chain management.³

1 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 4.

2 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 4.

3 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 22.

- 5.4 In 2010-2011, the Smart Sustainment stream achieved its savings target of \$288 million.⁴
- 5.5 Savings were achieved through working cooperatively with capability managers (Navy, Army and Air Force) on more cost-effective arrangements.⁵
- 5.6 Other savings were achieved through working with industry. Examples include cooperative work to revise the maintenance strategy and overhaul program for the Hawk Lead-In Fighter, tendering for group maintenance and release of batching for ship repair, and reform of the P-3 Orion mission system support contract.⁶
- 5.7 Another significant contribution was made through inventory reform, where a standardised system for optimising inventory holdings is being progressively rolled out to Systems Programs Offices.⁷
- 5.8 Additionally, a series of Smart Sustainment pilot projects are being developed with a number of companies to seed new ideas as part of developing the reform agenda. All companies represented on the regular CEO Roundtables hosted by CEO DMO have been invited to contribute ideas to further develop the reform agenda for sustainment. Pilots have been grouped against a number of themes that include:
- overseas lessons learnt;
 - internal lessons learnt;
 - overheads;
 - contracts; and
 - engaging with small to medium enterprises.⁸
- 5.9 DMO is also leading the Procurement and Sustainment Reform Stream. This relates to the outcomes of the Defence Procurement and Sustainment Review, which was chaired by David Mortimer.⁹
- 5.10 DMO established and matured arrangements that underpin these reforms in 2010-2011. Additionally, the Gate Review System was expanded to a larger number of projects.¹⁰
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4 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 19.

5 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 19.

6 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, pp. 19-20.

7 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 20.

8 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 23.

9 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 20.

Smart Sustainment

- 5.11 The Committee sought an update on delivering savings in the smart sustainment program.
- 5.12 Defence advised that there is an active program in this area, which is resulting in savings each year. DMO works with the capability managers, who are ultimately responsible for delivering the capability, to identify potential savings. Currently, smart sustainment is on track to achieve its goals.¹¹
- 5.13 The Committee questioned the sustainment model for new and upcoming procurement purchases, such as Air 98, C-17, and the Joint Strike Fighter (JSF). The Committee observed that feedback had been received about the difficulty of relying on a single sustainment line to a country that is itself at war and, therefore, diverting spares for that platform type into theatre. The Committee queried how smart sustainment in future projects will ensure Australia is not locked into a sustainment model that results in single supply channels and dysfunction.
- 5.14 Defence concurred that this is an issue, particularly with the European supply chain for helicopters. Defence noted that the tiered work and consortium operating model in the European defence industry results in an overhead in terms of decision making and the supply chain when increase in demand is experienced. Defence advised:
- It has . . . raised serious issues about how we deal with the European industry going forward, and securing a focus on our needs in Australia. As I say, we have raised this at the highest levels in Europe, and I will be continuing to do that, because, if this were to become an established norm, it would really seriously challenge Australia's ability to source future capabilities if the European suppliers could not address that fundamental issue.¹²
- 5.15 The Committee questioned whether these concerns applied only to European suppliers, or if it was a more widespread issue.
- 5.16 Defence advised that this issue also applies to the United States supply chains. However, the United States often has larger quantities of parts and, at this stage, Defence is not experiencing an impact in respect of United States supply chains. Defence reinforced that it is continuing to

10 Department of Defence, *Defence Annual Report 2010-2011 Volume Two*, p. 20.

11 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

12 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 45.

- work to ensure that supply chains and sustainment models are right for Australia.¹³
- 5.17 Despite these ongoing issues, Defence noted that participation in global supply chains has had significant benefits, particularly for some elements of the Australian Defence Industry.¹⁴
- 5.18 The Committee questioned whether, as an example of the potential impact of such issues, supply chains of American parts had decreased during the Gulf War.
- 5.19 Defence took this as a question on notice, but noted that the experience in Iraq, for example, has actually been that the US and other partners have worked to ensure everyone keeps operational capability to support activities there.¹⁵
- 5.20 Defence subsequently advised that a review of DMO records did not indicate that supply chains supporting ADF aircraft involved in the Gulf War suffered due to high rates of effort.¹⁶
- 5.21 Defence further assured the Committee that it attempts to maintain diversity of supply where possible. Consequently, in the acquisition phase of any new platform, Defence attempts not to be locked into a specific supplier through restrictions such as intellectual property (IP) rights.¹⁷
- 5.22 Defence did note that, in the case of the Armed Reconnaissance Helicopter (ARH) and the Multi-Role Helicopter (MRH), not as much intellectual property was secured in the acquisition phase as should have been. Defence is currently trying to fix these issues in the existing contract through negotiations with Australian Aerospace, but noted that it is difficult to assess these requirements during the developmental stages of purchasing complex Defence equipment.¹⁸
- 5.23 The Committee questioned whether the issues with the European supply chain had been known prior to the purchases in question, and what would stop such situations reoccurring in the future.
- 5.24 Defence stated European supply chains have not produced the results desired by Defence for the past few years, particularly in the aerospace,

13 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 45.

14 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 45.

15 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 46.

16 Department of Defence, *Submission 18*.

17 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 46.

18 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 46.

specifically, helicopter, area. Defence advised this has occurred as a result of a combination of factors including:

- The high volume of NH90 [Australia's variant of this helicopter is the MRH90] sales and the resultant, unanticipated, high usage of spare parts;
- The 'nested' sub contractor supply network which leads to delays as a result of specific contractual exclusivity provisions; and
- High customer demand.¹⁹

5.25 Defence advised that, while the Government considered a wide range of risks prior to approving the purchase of the Armed Reconnaissance Helicopter and the Multi-Role Helicopter, there is now greater awareness of European supply chain issues as a consequence of issues with both projects.²⁰

5.26 Defence noted that the Kinnaird and Mortimer reviews have both made improvements to project risk assessment processes. Further, the Chief Defence Scientist now provides an independent technical risk assessment for all projects prior to Government consideration and the CEO DMO provides an independent assessment of overall risk. Additionally, DMO has updated its contracting templates, particularly those related to in-Service support.²¹

5.27 The Committee was concerned whether upcoming contracts for equipment, such as the Romeo, C-17, Super Hornet, and the JSF, provide capability to deal with anyone other than the original equipment manufacturer (OEM) around the maintenance of the aircraft. Specifically, with the current tranche of contracts, whether options for maximising IP had increased.

5.28 Defence advised that this is very much in DMO's current thinking about how programs can be structured, particularly for the JSF.²²

5.29 Defence provided specific feedback on upcoming projects as follows:

- Romeo. The Romeo was purchased through a foreign military sales (FMS) case with the US Government. In the letter of request, Defence requested the necessary IP to support the platform and the ability to sub-licence that IP to allow competition. Defence has received written

19 Department of Defence, *Submission 21*.

20 Department of Defence, *Submission 21*.

21 Department of Defence, *Submission 21*.

22 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 47.

advice that the US will permit transfer of IP rights in respect of data, and this will form an IP schedule to be provided as soon as possible after signing of the letter of acceptance. Defence notes that, while it cannot be certain at this time of the extent of the IP rights granted under the FMS case, it has a high degree of confidence that sustainment will be able to be competed. Defence further advised it has entered into direct IP Deeds with the original equipment manufacturers of the Romeo to obtain rights to compete for sustainment activities in return for a royalty fee in the event rights are not available through the US Government.

- C-17. Defence advised that, like the Romeo, the C-17 is purchased through a foreign military sales case. The acceptance of standard FMS terms and conditions, including IP, was a conscious decision made by Defence at the time of acquisition. Defence notes that this decision was based on the preferred sustainment methodology, leveraged off existing US sustainment arrangements for the global fleet, and provided cost benefits that made the acquisition and sustainment of a small C-17 fleet viable. Defence advised it is currently considering whether to contract out of a range of maintenance tasks currently being conducted in Australia.
- Super Hornet. Defence advised that the Super Hornet was also acquired through an FMS case. This case places limitations on Australia's ability to have the full scope of sustainment for the Super Hornet fleet contracted commercially, mainly as a result of the IP rights provided to the US Government by US Industry. Defence advised that these restrictions led to the current sustainment arrangements which have involved a combination of FMS cases and direct commercial contracting with Boeing. Defence further advised that the US Department of the Navy has indicated that, provided the US Department of State approves the request, there should be no impediments to providing technical data to industry, including related IP.
- JSF. Defence advised that Australia, as part of a nine nation partnership, is a signatory of the JSF Production, Sustainment, and Follow on Development Memorandum of Understanding. The philosophy in the Memorandum of Understanding is that the configuration of the air systems will be standardised as far as possible, and a common sustainment solution will be established. Defence notes that the US is the primary contracting agency on behalf of the partnership and Lockheed Martin is the prime contractor for the design and production of the air system. Defence stated that the partnership does not intend to acquire the IP rights to independently redesign or manufacture the air

system. Rather, it is intended that Lockheed Martin will continue to provide sustainment and follow on development of the air system. Defence further noted that an IP needs analysis is currently being conducted to identify what information will be required for sustainment.²³

5.30 The Committee noted that comments received suggested that longer term relationships with industry result in lower risk and lower costs to the Commonwealth, and more investment by industry. The Committee questioned what measures, development, and innovation DMO is seeking to implement in contracting models to provide partnership, while still retaining a competitive element to ensure value for money and redundancy in case of performance issues.

5.31 Defence responded that the in-service support contract for the Collins submarine exemplifies DMO's actions in this area:

The number of companies that could viably compete to maintain Collins effectively is very small. But we had a non-performance based contract with ASC, which was cost-plus. We felt it was not delivering value for money for the Commonwealth. ASC's management got together with us and we mapped out exactly that question: how do we give you a reasonable surety of work so you can invest in people and equipment while we also keep the competitive tension at least available if we go to an in-extremis case? There are two elements that we have put into the contract. The first is that we have committed to ASC that, provided they do a good job in accordance with the KPIs we establish – which deal with costs and performance and so on – they will be the maintainer of Collins to the end of Collins. But with regard to that other element, we have basically introduced a five-year window of work, for which we look to get efficiency dividends and so on established in that period. At the three-year mark of the five, we provide formally to ASC a rating about how they have performed relative to objective KPIs, and three conditions can emerge. The first is green: they are doing very well and we are very happy. We will then extend the window. So, at that point, they really only have two years of work left ahead of them. We will reset. . . Then there is another five years of work so that, once again, they can invest and there is a certainty of workforce and so on. The second is amber. In other words it is very marginal, in which case we would put them on notice that, unless within one year we got a

23 Department of Defence, *Submission 21*, 10 May 2012.

really serious performance improvement, we would go back to market. . . The third case would be red, in which case we would put them immediately on notice that we intend to test the market. . . . That is how we are keeping the competitive tension: the need for the company - not just ASC - any company - to perform.²⁴

5.32 Defence further stated:

The second element within the structure is a make or buy decision. So what we want ASC to do in a large number of areas is to be contestable internally about whether they should do it internally with a vertically integrated capability or bring in other elements of Australian or international business that are much more effective at getting answers.²⁵

5.33 The Committee noted that such a system is likely to be effective where there is leverage for both sides to come to an agreement, but queried how, when dealing with a large overseas based prime contractor where Australian Defence represents only a fraction of their customer base, this level of contracting and performance risk management can be implemented.

5.34 Defence observed:

The same basis was put in place, broadly, for the Wedgetail support contract. For the performance based contract, the first couple of years was giving the company the opportunity to learn and for us all to benchmark what it was going to cost. It also has a program of contestability, review, and improved performance, and Boeing have joined in on that program.²⁶

5.35 The Committee asked how this kind of thinking could be applied in a situation where Australia does not have that same contracting leverage, such as an FMS arrangement.

5.36 Defence concurred that this will sometimes be difficult, particularly where, for example, Australia only buys a small number of items out of a very large US fleet. However, Defence noted it has been working with the US Head of Acquisitions on such issues and current indications are that Australia will be able to be involved in discussions about how the FMS arrangement will be set up. Defence noted that this is a significant step

24 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 47.

25 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 47.

26 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 48.

forward which has only occurred in the past eighteen months and will take time to become established practice.²⁷

5.37 The Committee observed that the DMO Annual Report refers to a focus on improved maintenance processes to reduce waste and overservicing. The Committee asked for examples of this.

5.38 Defence replied:

In the case of the vehicles that we support for the Army, through conducting a reliability, availability and maintainability analysis, we were able to identify that we were overservicing. From that analysis we have changed the maintenance regime and that has resulted in savings. It has also resulted in increasing availability because we actually have the vehicles offline for less time and, so, they are available more often. Also, we have changed the servicing regime for F/A-18s and, through that, we have been able to deliver higher levels of availability for the Air Force. Those are just some examples of what we have done.²⁸

5.39 The Committee asked what triggers had led to identification of areas of overservicing. Defence responded:

It was through the reliability, availability and maintainability analysis. In the DMO we are increasing our capability in that area. We are moving to ensure that our maintenance regimes are based on careful analysis of the data of how these systems have been performing rather than historical maintenance plans. Through this process we found that we are able to reduce the cost of maintenance.²⁹

5.40 The Committee noted that it had recently been briefed on a range of issues with the ARH, including sustainment support, and that, while this briefing indicated there were a number of concerns, the DMO Annual Report gave a rating of 'substantially achieved' for this program.

5.41 Defence informed the Committee that the Portfolio Budget Statements 2010-2011 stated that DMO and the prime contractor for the ARH, Australian Aerospace, would focus on maturing the ARH logistics support system so that flying hour rates would increase and sufficient aircraft training and development could occur to achieve higher combat readiness.

27 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 48.

28 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 48.

29 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 49.

- 5.42 Defence advised that sustainment for the ARH was scored as substantially achieved as the logistic support system was matured during 2010-2011 and the flying rate increased to 2,359 hours, up from 1,798 hours in 2009-2010. Although this was less than the Army requirement of 4,150 hours, and, as a result, some Army aircrew training targets were not met, a rating of 'substantially achieved' was given when assessed against the stated 2010-2011 Portfolio Budget Statements objective.³⁰

Sustainment versus Procurement

- 5.43 The Committee asked about the agility of the sustainment system and, specifically, whether, when a model of ammunition or equipment is superseded, replacement ammunition or equipment is progressed through the procurement process or if it is able to be purchased as a sustainment item with a short lead time.
- 5.44 Defence outlined that there are provisions for obsolescence within sustainment budgets, so there are a range of options. For example, life-of-type buys can be made, and explosive ordinance can be stockpiled. It is when potential major upgrades are required that a decision would be made about implementing a major new project or undertaking minor upgrades through sustainment. This decision is dependent on the assessed extent of the upgrade.³¹
- 5.45 Defence explained that one example is the Joint Project 90, which replaces the mode 4 Identification Friend or Foe system (IFF) with mode 5. In this project there is a high level of integration work for multiple platforms. Consequently, it did make sense to conduct a new project. However, with other projects, it may be better to conduct the replacement through a sustainment program.³²
- 5.46 The Committee noted that this decision has sometimes not been made effectively in the past, and queried how DMO is identifying 'lessons learned' to ensure it does not make the same mistakes in the future.
- 5.47 Defence advised that it is resolving this issue through a number of mechanisms. It has been recognised that not all sustainment organisations have an appropriate level of training, experience, skills and qualifications. Consequently, Defence is working on a professional development
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30 Department of Defence, *Submission 16*.

31 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 49.

32 Vice Adm. Jones, Department of Defence, *Transcript*, 16 March 2012, pp. 49-50.

program which will identify the skills required in sustainment and work to improve those skills. Further, all aerospace projects now work on identifying a mature project first, fitting it to one aircraft, proving that it works, and then rolling out the program, rather than upgrading the entire fleet before confirming the upgrade works effectively. To assist this situation, master schedules are established for all major platforms to provide a clear understanding of when ships or aircraft will be made available for updates, and managing that scheduling closely. Finally, Capability Development Group (CDG) has implemented a project initiation board process, which involves DMO and the Capability Managers for the respective platform. This board process ensures that issues such as the coordination of assets through an upgrade program will be managed.³³

- 5.48 Defence further remarked that, where projects have issues, the majority of issues start early in the project. For this reason, the project initiation board process is being strongly emphasised.³⁴
- 5.49 The Committee noted its approval of such a process, and also the use of Gate Reviews in Defence. However, the Committee expressed the view that involving people who are knowledgeable, but independent of the system, would add further value to DMO project boards and the project initiation board.
- 5.50 Defence confirmed that Gate reviews are being used in the pre-First pass and pre-Second Pass work within Defence. A recent Gate review which identified concerns with a project in its early stages has resulted in that project being referred to a project initiation board for review.³⁵

Delays in the Acquisition Process

- 5.51 The Committee noted some of its members had received feedback about the delay between an acquisition itself and negotiations for sustainment arrangements and IP. One suggestion has been to either mandate a timeframe in which DMO has to conclude contract negotiation, or force a referral up to a ministerial level for decision with a view to ensuring that there is not a significant delay in the process.

33 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 50.

34 Vice Adm. Jones, Department of Defence, *Transcript*, 16 March 2012, p. 51.

35 Vice Adm. Jones, Department of Defence, *Transcript*, 16 March 2012, p. 51.

5.52 Defence responded that, while the first and second pass processes are robust, the unintended consequence of this system is that there is a pause while the final decision is made. Defence noted that this is a whole of Government issue as these decisions have to be made through Cabinet. Consequently, Defence has been attempting to identify ways to reduce the impact of this delay. One proposal has been to move further down the negotiating path with companies before proceeding to second pass, thereby resulting in less issues to resolve in the negotiating phase. However, such an approach will also result in an unsuccessful company spending more time in the process, which, ultimately, wastes their resources. Defence advised it is very mindful of this issue and is working to resolve it, noting that the major issue here is not just loss of time, it is also a loss of momentum within the company. As there is often a team within the company that has been involved in this process, if there is a delay, either the team has to be restarted, or some of the key players may have moved to a new activity.³⁶

5.53 Defence further stated:

As part of our plan to reduce the cost of tendering we have introduced offer definition activities as a standard part of the tendering process, and that is our preferred option. Under the offer definition activities we seek enough information from industry to allow us to shortlist. We then run with the shortlisted companies through an offer definition activity that allows us to look at key risks that might have come in the tenders. It allows us to go through particular terms and conditions that may be problematic – to do some risk reduction work and the like – with the view then that at second pass approval we have done a fair amount of work with the companies to identify some of these issues with the view that when we do get approval we can sign the contract and that a lot of the issues will have already been thrashed out. Those offer definition activities can be either unfunded or funded. More and more we are seeking funding to allow us to do more work in the offer definition.³⁷

5.54 The Committee observed that feedback from industry has been that there are five clauses which are the prime reasons that DMO contract negotiations take so long. Industry feedback indicates that these clauses are unreasonable from Industry's perspective.

36 Mr King, Department of Defence, *Transcript*, 16 March 2012, pp. 51-52.

37 Ms McKinnie, Department of Defence, *Transcript*, 16 March 2012, p. 49.

- 5.55 Defence observed that issues which industry find unreasonable include the IP issue which has been extensively discussed by the Committee. Defence affirmed it will not resile from insistence on certain clauses such as liquidated damages and IP clauses. These issues are complex and need to be resolved to ensure that future problems do not occur with a project.³⁸

Collins Class Submarines

- 5.56 The Committee asked for an update on the number of Collins submarines which are currently operational.
- 5.57 Defence advised that, currently, two submarines are running with the expectation of there being three later in 2012, and up to four by the end of 2012. Defence noted that there are reliability issues in some key systems which are impeding availability, however, these are being addressed, and Defence is currently meeting Government preparedness and readiness requirements.³⁹
- 5.58 The Committee notes that having two, with the expectation of three, submarines available from a fleet of six, meets or exceeds international practice. The Committee noted this level of availability is comparable to the UK, US and French Navies.
- 5.59 The Committee asked for an update on the Collins Reform Program.
- 5.60 Defence explained that the first part of the Coles and team report had been released just before Christmas 2011. The second part of the report, the detailed phase, is expected by April 2012. Some international navies had now advised their preparedness to share some of their information and experience of submarine availability investment costs, and that information would be incorporated into the final Coles report. This will enable the Collins submarines not only to be reviewed in terms of availability, but also compared to other submarines. However, Defence noted that this is always a difficult process because each submarine type comes with its own design limitations and is also affected by the way the parent Navy operates it.⁴⁰
- 5.61 The Committee questioned the quantum of savings to be delivered by Collins through the Smart Sustainment Program. Defence replied that the

38 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 51.

39 Vice Adm. Griggs, Department of Defence, *Transcript*, 16 March 2012, p. 43.

40 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

Collins will not deliver savings, rather, both Collins and amphibious capability will require investment.⁴¹

- 5.62 Defence also noted that, while Collins is not anticipated to deliver direct cost savings, there has been, and will continue to be, considerable reform. Such reform is exemplified by the implementation a new contract and the greater use of fleet support units through the Navy Submarine Continuous Improvement Program. These reforms will assist to ensure that the costs of maintenance do not increase.⁴²
- 5.63 Defence also noted the maintenance contract for Collins is currently being redeveloped and will change from a cost-plus contract to a performance based contract.⁴³

Civilianisation of Maintenance Personnel

- 5.64 The Committee questioned whether civilianisation of military positions involved in the maintenance and support of assets was eroding the military's capability to undertake required work. The Committee queried whether this action was actually resulting in cost savings, or if it actually costs more to have civilian or contracted workers in these roles, as, for example, overtime is not required to be paid to ADF personnel,
- 5.65 Defence responded that civilianisation of such functions was not a recent activity, rather, contractor support to military maintenance and sustainment has been occurring for many years.⁴⁴
- 5.66 Defence clarified that the Committee was specifically concerned about the potential erosion of the skill sets of the technical workforce in uniform. Defence agreed that it believed this had occurred to some extent, but it is currently being rebalanced. For example, Navy has recently completed a continuous improvement program into Submarines as part of the SRP:

One of the key planks of that program is to make more use of the fleet support units, intermediate maintenance units ashore, not just in submarines but across the whole Navy. We will see them doing more work, which in many ways is to the contractor's benefit because we start to get back some of the skills that may have been

41 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

42 Vice Adm. Griggs, Department of Defence, *Transcript*, 16 March 2012, p. 44.

43 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 44.

44 Mr King, Department of Defence, *Transcript*, 16 March 2012, p. 43.

eroded slightly over the last decade or 15 years. It is still fundamentally critical for me for our technical people to be able to fix things in the middle of the ocean and keep things running. I do not want to see an erosion of those skills. I think greater use of our fleet support units, not just in submarines but across the board, is going to be an important part of that. We are moving forward with that as we speak.⁴⁵

Conclusions

5.67 The Committee notes the following in respect of Sustainment:

- Defence has identified issues with sustaining platforms that have single international supply chains, and is working to resolve any issues which may affect Australian's sustainment of these platforms.
- Defence is working to ensure that all future acquisitions have appropriate IP requirements identified and resolved, noting that it can be difficult to assess these requirements during the developmental stages of purchasing complex Defence equipment.
- Defence is seeking to implement contracting models that partner with industry, while still retaining a competitive element to ensure value for money and redundancy in the case of performance issues.
- Defence is working with industry to mitigate the impact of any delays which occur during decision making in the acquisition process.
- However, Defence has stated it will not resile from including complex elements such as IP in procurement and sustainment contracts to ensure that future problems do not occur with a project.
- Defence has implemented a project initiation board process, in addition to Gate Reviews, to identify issues with an acquisition or sustainment process early.
- Defence has stated it is currently achieving targeted sustainment savings through a range of initiatives.

45 Vice Adm. Griggs, Department of Defence, *Transcript*, 16 March 2012, p. 43.

Committee Comments

5.68 The Committee makes the following comments in respect of Sustainment:

- The Committee welcomes indications that Australia will have a greater say in the future structure of FMS arrangements between Australia and the US, and encourages continued progress in this area.
- While Defence clearly intends to defend its approach to how elements such as IP are included in procurement and sustainment contracts, the Committee also notes Industries' consistent advice that these elements cause significant complexities and challenges. Accordingly, the Committee believes that Defence should work collaboratively with Industry to develop a compromise position on this issue and will look for feedback on progress in this regard during the current year.

Joint Strike Fighter

Background

6.1 Australia signed on to the Joint Strike Fighter (JSF) project in 2002 to replace the ageing fleet of F-111 fighter jets and the F/A-18s.

6.2 The *Defence White Paper 2009* discussed the rationale behind the purchase of the JSFs:

The [Air Combat Capability] Review concluded that a fleet of around 100 fifth generation multirole combat aircraft would provide Australia with an effective and flexible air combat capability to 2030. A further judgement of the review was that the F-35 Joint Strike Fighter (JSF) is the preferred solution for that requirement. Other fourth and fifth generation combat aircraft considered by the Review were judged to be less capable of fulfilling Australia's multirole air combat capability requirements.¹

6.3 The Department of Defence *Annual Report 2010-11* states:

[Phases 2A and 2B of the Joint Strike Fighter project] will deliver a new air combat capability comprising around 100 Conventional Take Off & Landing (CTOL) F-35 JSF and all necessary support, infrastructure and integration to form four operational squadrons and a training squadron.

1 Department of Defence, *White Paper 2009*, Commonwealth of Australia, p. 78.

The Government has adopted a phased approval approach to the acquisition of the JSF. Australia joined the System Development and Demonstration [SDD] phase in October 2002 and through project AIR 6000 Phase 1B (approved), undertook a program of detailed definition and analysis activities leading up to Government second pass (Acquisition) approval for Phase 2A/2B Stage 1 in November 2009.²

6.4 In its report *Review of the Defence Annual Report 2009-2010* tabled on 27 February 2012, the Committee reviewed the JSF and identified three main areas of concern:

- cost;
- schedule; and
- capability.³

6.5 Therefore, in this report, the Committee undertook to look more closely at these three areas.

6.6 In addition the Committee sought evidence from those outside Defence with an interest in, and contribution to make to, the debate surrounding Australia's purchase of the JSF. Air Power Australia (APA), RepSim Pty Ltd, and several individuals provided evidence to the Committee.

6.7 The Committee held three public hearings where the JSF was discussed at length. At these hearings, the Committee received evidence from APA, RepSim, Defence, and Lockheed Martin.

6.8 Committee members also visited the Lockheed Martin Production Facility at Fort Worth, Texas in April 2012.

6.9 The Committee also received a classified briefing on the JSF by Defence in June 2012.

Cost

6.10 During the course of this review, the Committee was presented with a number of different perspectives and numbers relating to the cost of the JSF.

2 Department of Defence, *Annual Report 2010-11, Volume 2*, p. 41.

3 In this Chapter, it is also referred to as the F-35.

6.11 In 2011, the Australian Strategic Policy Institute (ASPI) noted that ‘the data from the last few years shows that the F-35 program costs have escalated dramatically.’⁴ ASPI noted that at the end of the tenth year of the program:

. . . the projected average unit program cost has grown by 78% above the original estimate. Some care is needed here: the rapid increase in JSF cost at the nine and ten year marks is partly due to new US legislation (the Weapon System Acquisition Reform Act of 2009) that required an independent (and more conservative) cost estimate to be used rather than the previous project office estimates.⁵

6.12 According to ASPI, the ‘more relevant’ measure of cost for Australia is the procurement cost. They note that the latest cost data shows:

. . . a 58% increase in unit procurement cost. . . Manufacturer Lockheed Martin has signed a fixed price contract for the fourth LRIP [Low rate initial production] batch at around \$130 million per aircraft. While a long way from the initial promised sticker price of \$55 million—those days are a distant memory now—it’s well under the recent headline figures.⁶

6.13 APA told the Committee that affordability was a central concern from the beginning of the project, and that this would have an effect on the capability offered by the JSF.

A third early intention in the Joint Strike Fighter was that affordability was to be the cornerstone of the JSF program. The aircraft was to be both cheaper to procure and cheaper to operate than any of its contemporaries, including the aircraft it was intended to replace. To accommodate this intention, the whole specification and design process was defined and constrained by an unrealistic and quite flawed idea known as CAIV [Cost as an independent variable].⁷

4 Davies, *What’s Plan B? Australia’s air combat capability in the balance*, Policy Analysis: May 2011, Australian Strategic Policy Institute, p. 4.

5 Andrew Davies, *What’s Plan B? Australia’s air combat capability in the balance*, Policy Analysis: May 2011, Australian Strategic Policy Institute, p. 4.

6 Andrew Davies, *What’s Plan B? Australia’s air combat capability in the balance*, Policy Analysis: May 2011, Australian Strategic Policy Institute, p. 4.

7 Mr Goon, *Airpower Australia, Transcript*, 7 February 2010, p. 2 claims CAIV refers to the treatment of cost as a principle input variable in program structure, development, design and support of a weapons system, and involves the setting of aggressive yet realistic cost objectives when defining operational requirements and the capabilities required to satisfy them.

- 6.14 APA noted a similar increase in cost as that outlined by ASPI, stating that Defence has always offered advice on cost that was 'much less' than US Air Force price estimates.⁸
- 6.15 APA also stated that, between 2001 and 2003, Lockheed Martin estimated the unit price for JSFs to be US\$37 million. APA noted that the US Government's unit price estimate in December 2010 was US\$140 million, saying that this figure accords with their own 2006-2007 estimate, but that advice to that effect was ignored by Defence.⁹
- 6.16 The Committee also received data from APA relating to the overall costs of the JSF project. This data shows that the budget was originally US\$199.7 billion in 2001-2, but had since increased to US\$379.2 billion by June 2010. Again, this accords with APA's estimates, despite the overall planned number of JSFs to be purchased by the US having been reduced.¹⁰
- 6.17 Similarly, APA notes that there has been an increase in the cost of maintaining the JSF relative to legacy aircraft. According to the data presented by APA, the original 2002 estimate was that the cost of maintaining the JSF will be 50 percent less than legacy airplanes. However, by 2010, this estimate had changed to 150 percent of the costs of legacy aircraft such as the F-16.¹¹
- 6.18 APA told the Committee that there 'is no historical precedent for such a growth on this scale'.¹²
- 6.19 Defence responded to these comments on cost, acknowledging that the restructure that has occurred in the program over 2010-2011, known as the Technical Baseline Review, has resulted in some delay of milestones and in increased cost estimates. However, it noted:
- . . . in particular, the system development and demonstration phase of the program remains fully funded. It was funded to \$43 billion and the US has since added a further \$7.4 billion from their own funds, so it is fully funded.¹³
- 6.20 Lockheed Martin also advised the Committee that Australia's development costs had not changed:

8 Airpower Australia, *Submission No. 2*, p. 4.

9 Airpower Australia, *Submission No. 2*, p. 8.

10 Airpower Australia, *Submission No. 2*, p. 8.

11 Airpower Australia, *Submission No. 2*, p. 8.

12 Mr Goon, Airpower Australia, *Transcript*, 7 February 2010, p. 2.

13 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 52.

For Australia, the government partnership and development of this next generation weapons system has required a fixed contribution of US\$150 million spread over the 14 years of our development program. That contribution has not changed despite two major restructurings of the program and significant additional development funds from the United States.¹⁴

6.21 Furthermore, Defence maintained that at this stage ‘the project is working within the cost... parameters that were set’.¹⁵

6.22 In relation to the unit price for JSFs as they enter production, Lockheed Martin stated that JSFs would be delivered at a fixed price:

For all of our contracts from here forward—and the first Australian aeroplanes are part of the sixth production line—all of those production lines will be a fixed price. We are in a fixed-price contract today on the fourth production line. The international buy will be added to the US buy and will come to us in terms of a contract, and everybody in that annual buy pays exactly the same thing. So there is not a penny more or a penny less between Australia and the US government—the US Air Force—for that configuration of the aeroplane.¹⁶

6.23 At the public hearings, Lockheed Martin and Defence discussed how they were monitoring cost closely to ensure prices remained as low as possible. Lockheed Martin argued that keeping production numbers up was an important part of delivering cost reductions.¹⁷ Defence noted that Australia and the other international partners in the JSF project were regularly raising cost issues with Lockheed Martin, and that many discussions were about cost and about what Australia and the other partners ‘expect from Lockheed Martin and industry partners in driving out cost’.¹⁸

14 Mr Burbage, Lockheed Martin, *Transcript*, 20 March 2012, pp. 1-2.

15 Mr King, Defence Materiel Organisation, *Transcript*, 16 March 2012, p. 63.

16 Mr Burbage, Lockheed Martin, *Transcript*, 20 March 2012, p. 10.

17 Mr Burbage, Lockheed Martin, *Transcript*, 20 March 2012, p. 10.

18 Mr King, Defence Materiel Organisation, *Transcript*, 16 March 2012, p. 64.

Schedule

6.24 In one of its submissions, APA contended that the JSF project is currently a decade behind schedule.¹⁹

6.25 At a public hearing, Defence agreed that there had been 'some delay of milestones' in the 'past 18 months in particular'.²⁰

6.26 However, Defence told the Committee that there had been 'good progress' in testing to date and that this had implications for the delivery schedule:

There was pleasing progress on the mission system testing, arguably the most challenging part of the F-35 program, and they currently expect to have Block 3 software through development testing by mid-2017. That potentially would support an Australian IOC [initial operating capability] by as early as late 2018, should the government agree to that IOC.²¹

6.27 Defence elaborated on the expected timeframe for delivery of Australian JSF aircraft:

At the end of 2009, the government said that the indicative initial operating capability would be the end of 2018. We are not funded to go to initial operating capability. . . . When we go back to government—I do not think that will be before the end of the year; perhaps at a time when the government would like to see that proposal—we will put forward options for initial operating capability. It could still be as early as the end of 2018 or it could be a little bit beyond that, depending on the amount of risk we see in the program.²²

6.28 When asked about the potential for further delays in schedule, Defence advised the Committee that this was unlikely, saying that the project has:

. . . a realistic schedule at this point in time and they have full and, I would say, very adequate funding for the development and any issues that might pop up. They have factored in contingency in the schedule for software development for any problems that come up in flight test. For example, on flight test, there is about 30 per cent

19 Airpower Australia, *Submission No. 9*, p. 1.

20 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 52.

21 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 53.

22 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 58.

extra contingency for any issues that arise that cause them to be delayed.²³

6.29 Defence further advised that the first production JSFs had been delivered to Eglin Air Base in the US, however:

. . . there was a slight delay in getting them a military flight release. That was more due to debate within the US Department of Defense between the Director of operational test and evaluation and the United States Air Force. They came to an agreement and they have issued a military flight release, and they are flying at this time down at Eglin Air Force Base.²⁴

6.30 Lockheed Martin also elaborated on the testing schedule:

. . . the United States Air Force variant, which is Australia's configuration, is more than halfway through its first lifetime of durability structural testing. [...] More than 80 percent of all our airborne software is flying today and all of our sensors are demonstrating the required performance.²⁵

6.31 Additionally, Lockheed Martin told the Committee that production of the international jets had commenced:

The factory is manufacturing F-35s at a rate of four per month and this year will deliver our first three international jets to the UK and the Netherlands.²⁶

6.32 In 2010, the US Government Accountability Office (GAO) reported to Congress on the F-35 project's program cost, schedule and performance, manufacturing results, test plans and progress. The report concluded that:

. . . JSF cost increases, schedule delays, and continuing technical problems . . . increase the risk that the program will not be able to deliver the aircraft quantities and capabilities in the time required by the warfighter.²⁷

6.33 The GAO recommended:

23 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 57.

24 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 57.

25 Mr Burbage, Lockheed Martin, *Transcript*, 20 February 2012, pp. 2-3.

26 Mr Burbage, Lockheed Martin, *Transcript*, 20 February 2012, p. 3.

27 GAO, *JOINT STRIKE FIGHTER, March 2010: Additional Costs and Delays Risk Not Meeting Warfighter Requirements on Time*, <http://www.gao.gov/new.items/d10382.pdf>, viewed on 20 June 2012.

- a new, comprehensive, and independent assessment of the costs and schedule to complete the program, including military construction, JSF-related expenses in other budgets, and life-cycle costs;
 - warfighter requirements be reassessed and, if necessary, some capabilities be deferred to future increments; and
 - Congress consider requiring the US Department of Defense (DOD) to establish a management tool to help Congress better measure the program's progress in maturing the weapon system in a variety of areas to include cost estimating, testing, and manufacturing.²⁸
- 6.34 The US Department of Defense's (DOD) response to this report concurred with the majority of the recommendations, while noting that the DOD had already undertaken a range of corrective actions on this project.²⁹
- 6.35 In May 2012, the Defence Minister Hon Stephen Smith announced that the first two JSFs will be delivered for training purposes some time in 2014-2015. The Minister also announced that the government had decided to 'delay the delivery of our first 12 Joint Strike Fighters two years after the previous estimates at a net benefit to the budget of \$1.6 billion, putting us on the same timetable, effectively, as the United States.'³⁰

Capability

- 6.36 The website of the Royal Australian Air Force (RAAF) states that the JSF will give Australia access to 'capability and technology a generation ahead of other contemporary aircraft'.³¹
- 6.37 When this Committee reviewed the *Defence Annual Report 2002-2003*, Defence elaborated on these capabilities, stating that the JSF will be 'superior to its competitors' due to:

28 GAO, *JOINT STRIKE FIGHTER, March 2010: Additional Costs and Delays Risk Not Meeting Warfighter Requirements on Time*, <http://www.gao.gov/new.items/d10382.pdf>, viewed on 20 June 2012.

29 GAO, *JOINT STRIKE FIGHTER, March 2010: Additional Costs and Delays Risk Not Meeting Warfighter Requirements on Time*, <http://www.gao.gov/new.items/d10382.pdf>, viewed on 20 June 2012.

30 Department of Defence website, *Prime Minister, Minister for Defence, Minister for Defence Materiel – Joint Press Conference*, <http://www.minister.defence.gov.au/2012/05/03/prime-minister-minister-for-defence-minister-for-defence-materiel-joint-press-conference-canberra/>, viewed on 1 June 2012.

31 Royal Australian Air Force website, *Joint Strike Fighter F-35 Lightning II*, <http://www.airforce.gov.au/Aircraft/jsf.aspx>, viewed on 23 May 2012.

. . . its stealth technology; its sensor suite; its capacity to carry a wide range of ordnance; its ability to network with other aircraft, particularly our AWACS [Airborne Early Warning and Control] Wedgetail aircraft; its ability to virtually be a broadcaster of sensor information to many other platforms; and its aerodynamic characteristics.³²

6.38 Lockheed Martin characterised the capability offered by the JSF as ‘transformational and essential to the future combat capability of the allied Air Forces’.³³

6.39 Lockheed Martin noted that the JSF has been adopted by ‘all three US services’ as well as 12 other nations’ services due the ‘inherent technology and capability of the F-35 air system’, noting that:

. . . the F-35 weapons system is intended to provide unprecedented situational awareness to the fighter pilot and the flight and command and control infrastructure, while denying the same to the adversary.³⁴

6.40 APA and RepSim both made submissions to this inquiry which questioned this view of the capability offered by the JSF.

6.41 APA provided their analysis of the air combat capabilities offered by current and emerging Russian and Chinese fighter jet technology.³⁵ They contended that, in light of this analysis:

. . . the F-35 Joint Strike Fighter will be ineffective against the current generation of advanced Russian and Chinese systems. . . . In any combat engagements between the F-35 and such threat systems, most or all F-35 aircraft will be rapidly lost to enemy fire.³⁶

6.42 APA elaborated further on their concerns at a public hearing, advising:

. . . Russia and China are now well advanced in their production of advanced stealth fighters specifically intended to be competitive with the superior United States F-22A Raptor. The inferior Joint Strike Fighter, defined in aerodynamic performance and stealth only to attack lightly defended battlefield ground targets, has no

32 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Review of the Defence Annual Report 2002-03*, August 2004, Commonwealth of Australia, p. 56.

33 Mr Burbage, Lockheed Martin, *Transcript*, 20 March 2012, p. 2.

34 Mr Burbage, Lockheed Martin, *Transcript*, 20 March 2012, p. 2.

35 Airpower Australia, *Submission No. 3*, pp. 3-7.

36 Airpower Australia, *Submission No. 3*, p. 2.

prospect of ever successfully competing against these larger, more agile, higher flying and much faster foreign stealth fighters, which also happen to be better armed. Of no less if not greater concern is the proliferation of advanced long range surface-to-air missiles and modern counter-stealth sensors and detection systems.³⁷

- 6.43 Mr Danny Nowlan, submitting in a private capacity, agreed with APA and RepSim's analysis of the capabilities offered by the JSF, noting that it will be 'incapable' of providing Australia with regional air superiority, due to the fact that:

. . . its current performance renders it fundamentally uncompetitive with aircraft such as the Russian Su-35S, the T-50 PAK-FA, Chinese J-20 and modern Surface to Air Missile threats, all of which will proliferate globally.³⁸

- 6.44 APA and RepSim were of the opinion that these perceived deficiencies in performance could not be fixed:

The limitations in the F-35 design cannot be fixed by upgrades or modifications as they are inherent in the basic F-35 design. Even if the F-35 were to meet its mediocre performance specifications or *as-marketed* expectations, it would not be viable in combat against modern Russian and Chinese built threat systems.³⁹

- 6.45 Defence countered this view at a public hearing, disputing APA's criticisms of the JSF's aerodynamic performance and stealth capabilities relative to its future potential adversaries, stating:

. . . these are inconsistent with years of detailed analysis that has been undertaken by Defence, the JSF program office, Lockheed Martin, the US services and the eight other partner nations. While aircraft developments such as the Russian PAK-FA or the Chinese J-20, as argued by Airpower Australia, show that threats we could potentially face are becoming increasingly sophisticated, there is nothing new regarding development of these aircraft to change Defence's assessment.⁴⁰

- 6.46 Specifically, Defence told the Committee that the JSF is performing well in a number of important areas:

37 Mr Goon, Airpower Australia, *Transcript*, 7 February 2012, p. 2.

38 Mr Danny Nowlan, *Submission No. 22*, pp. 1-2.

39 Airpower Australia, *Submission No. 3*, p. 2, emphasis in original.

40 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 53.

The range of the F-35A is about 30 percent greater than the F-18 legacy aircraft. The stealth is meeting planned requirements. The F-35 coating technology is being retrofitted to the F-22 because the coating is more effective and easier to maintain. The F-35 has reached its maximum design speed of Mach 1.6 during testing in 2011 and it has been tested to 9G. . . On radars and sensors, the APG81 radar exceeded expectations in real-world exercises in Northern Edge in 2009 and 2011 where it was presented with a modern, hostile electronic environment. The F-35 has very good electronic attack and electronic defence capabilities. Weight is not an issue in the program since 2005; for the F-35A it is well within specification. Eighty percent of full software capability is flying today.⁴¹

6.47 Defence also disputed the contention that issues with the JSF design and capability cannot be fixed. At the public hearing, Defence informed the Committee of an internal US Department of Defense report from November 2011 that made an overall assessment of the suitability of the F - 35 to continue in low-rate initial production.⁴²

6.48 According to Defence, this report:

. . . identified 13 key risk areas, but it concluded that there was no fundamental design risk sufficient to preclude further production. The report listed the risks, but it did not outline the steps that the JSF program office is going through to mitigate those risks. All of those risks are known by the program and are being worked on.⁴³

6.49 As evidence for their contentions regarding capability, RepSim provided the Committee with an overview of a simulation that was conducted in 2008 for the RAND Corporation. This simulation was conducted using open sources and did not incorporate classified material.⁴⁴ The results of this simulation indicated that, when conducting mass attacks against a large number of Chinese fighter jets, only a small number of JSFs would survive.⁴⁵

6.50 Mr Jack Warner, submitting in a private capacity, drew the Committee's attention to a statement made by RAND Corporation in response to the public reaction to the simulation:

41 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 53.

42 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 53.

43 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 53.

44 Mr Mills, REPSIM, *Transcript*, 7 February 2012, p. 6.

45 Mr Mills, REPSIM, *Transcript*, 7 February 2012, pp. 6-7.

RAND did not present any analysis at the war game relating to the performance of the F-35 Joint Strike Fighter, nor did the game attempt detailed adjudication of air-to-air combat. Neither the game nor the assessments by RAND in support of the game undertook any comparison of the fighting qualities of particular fighter aircraft.⁴⁶

6.51 Defence advised the Committee of its view that APA and RepSim's analysis and simulations are 'basically flawed' due to the use of incorrect assumptions and a lack of knowledge of the classified F-35 performance information.⁴⁷

6.52 Lockheed Martin agreed with this view, indicating that simulations of what a JSF or other fourth or fifth generation fighter are capable of can only be conducted if the simulator has access to all of the classified information about the aircraft. They stated:

. . . trying to simulate something that you do not fully understand is based on false assumptions and false ground rules. If you go in with false assumptions and false ground rules, you will get false answers.⁴⁸

6.53 The Committee notes that RESPIM Pty Ltd has vehemently disputed this contention.⁴⁹

6.54 Defence noted that in its own simulations, which incorporate the classified material, the JSF was performing to an acceptable standard:

When the classified capabilities are taken into account, we have had Australian pilots flying high-fidelity simulators and they have been very impressed with the combat capabilities of the aircraft. These pilots include fighter combat instructors from RAAF Base Williamtown and ex-commanding officers of fighter squadrons within Australia.⁵⁰

6.55 Lockheed Martin provided details of the simulations that have been conducted, advising:

. . . pilots from the Royal Australian Air Force, all of the participating nations' Air Forces and all three US Services have come into the manned tactical simulator, the pilot-in-the-loop

46 Cited by Mr Jack Warner, *Submission No. 23*, p. 2.

47 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 53.

48 Air Cdre (Retd) Bentley, Lockheed Martin, *Transcript*, 20 March 2012, p. 4.

49 RepSim, *Submission No. 12*.

50 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 53.

high-fidelity simulation of an advanced high-threat environment. They have actually flown the airplane in that environment, and the results of those simulations show that the airplane is effectively meeting its operational requirements.⁵¹

6.56 Overall, Defence considered that when it comes to the outcomes of simulations:

. . . if the F-35s are allowed to play to their strengths and use their better situational awareness and sensors . . . they can prevail in that situation and they do defeat that higher-end threat in those simulations.⁵²

6.57 Lockheed Martin further noted that it was not attempting to excuse itself from detailed discussions by using security classifications, noting that these detailed discussions were happening, and were also the reason the JSF had been chosen by so many countries:

All the Defence officials who are appropriately cleared in all of the nations that are participating in this know exactly what we have briefed, what those briefings entail and what the analysis entails, and they have chosen the [JSF]. . . Believe the nine best Air Forces in the world as far as their operators and analysts are concerned and . . . you will come to realise that it is not us telling the story; it is them telling the story to their governments and their governments making a decision to go forward with this aeroplane.⁵³

6.58 RepSim disputed the views put forward by Defence and Lockheed Martin on the need to include classified material in simulations. They contended that it is a logical fallacy that if a simulation does not include classified material, it is *ipso facto* wrong.⁵⁴

6.59 Furthermore, they stated:

RepSim's unclassified simulations do include capabilities of the JSF that may be classified - Directed Energy Weapons for example.⁵⁵

6.60 At this juncture, the Committee notes the following view on the difficulties of comparing the capabilities of modern fighter aircraft:

51 Mr Burbage, Lockheed Martin, *Transcript*, 20 March 2012, p. 4.

52 Air Vice Marshal Osley, Department of Defence, *Transcript*, 16 March 2012, p. 55.

53 Mr Burbage, Lockheed Martin, *Transcript*, 20 March 2012, p. 6.

54 RepSim, *Submission No. 11*, p. 1.

55 RepSim, *Submission No. 11*, p. 1.

In general, because of the lack of reliable information about the fighters themselves, and the lack of actual combat between them, it is extremely hard to judge how they will perform in combat. The bodies in the best position to know – aircraft manufacturers and air forces – keep secret much of the real capabilities of their aircraft, but simultaneously often try to present them in the best possible light by claiming superiority over other comparable vehicles.⁵⁶

Alternatives to the JSF

- 6.61 Mr Erik Peacock, submitting in a private capacity, was supportive of RepSim and APA's position on the capabilities offered by the JSF, noting that, in his opinion, there were two other viable options to maintain Australia's regional air superiority.⁵⁷
- 6.62 Mr Peacock considered the retention of the F-111 to be a better option than purchasing the JSFs, observing:
- . . . independent testimony stated that with a virtually infinite supply of spare parts in the USA, the F-111 could be maintained almost indefinitely and evolved into a modern interceptor. This would leverage the significant investment already made in the aircraft and pay significant dividends to Australian industry. The F-111 represented a third of the strike capability provided by the RAAF. There is no other aircraft that currently has the same capabilities apart from the Russian SU-34.⁵⁸
- 6.63 However, the F-111 was retired from the ADF inventory on 3 December 2010.⁵⁹
- 6.64 Additionally, Mr Peacock considered the F-22 to be a better and cheaper option than the JSF. Mr Peacock claimed that, in 2001, Australia was offered the 'export variant' of the F-22 – the F-22A – but that the US

56 'Comparison of modern fighter aircraft', *DefenseTalk*, <http://www.defencetalk.com/comparison-of-modern-fighter-aircraft-17086/> viewed on 2 February 2012.

57 Mr Erik Peacock, *Submission No. 6*, pp. 1-2.

58 Mr Erik Peacock, *Submission No. 6*, p. 2.

59 'Farewell F-111', *Defence News*, <http://www.defence.gov.au/defencenews/stories/2010/Dec/1206.htm> viewed on 5 June 2012.

delegation making this offer was 'turned back at the airport on arrival in Australia because Defence had already decided on the JSF.'⁶⁰

- 6.65 Furthermore, despite the fact that production of the F-22 has ceased, Mr Peacock argued that it would cost US\$300 million to restart production. As such, Mr Peacock considered it 'a matter of urgency' that Australia request US Congressional approval to export F-22s to Australia.⁶¹
- 6.66 APA also stated their opinion that they considered the F-22 to be a better option than the JSF.⁶²
- 6.67 However, the Committee understands that export of the F-22 is banned under US law,⁶³ noting that the Committee has not been able to confirm whether such an offer was ever made by the US or a similar request was ever made by Australia. Further, production of the F-22 has ceased at this time.⁶⁴

Conclusions

Cost

- 6.68 The Committee notes the following in respect of the cost of the JSF:
- There are a number of different cost definitions associated with the JSF.
 - APA's longstanding concerns that the cost of the aircraft would be higher than originally estimated have been accurate.
 - ASPI advises that the latest data shows a 58 per cent increase in unit price cost from original projections.
 - Defence agrees that cost estimates have increased since 2010-2011 from original projections, but notes the SDD Phase is fully funded, and costs for the production phase are continuing to be monitored closely to ensure prices remain as low as possible.

60 Mr Erik Peacock, *Submission No. 6*, pp. 2-3.

61 Mr Erik Peacock, *Submission No. 6*, p. 2-3.

62 Airpower Australia, *Submission No. 13*, pp. 1-2.

63 United States Library of Congress website, *Bill Summary and Status: 105th Congress (1997-1998), H AMDT.295*, <<http://thomas.loc.gov/cgi-bin/bdquery/z?d105:HZ00295:>> , viewed on 1 June 2012.

64 Fox News, <http://www.foxnews.com/us/2011/12/13/last-f-22-raptor-rolls-off-assembly-line/>, viewed on 1 June 2012.

- Lockheed Martin observes that aircraft will be a fixed price in each aircraft 'buy' for all countries, and that keeping production numbers up is an important part of achieving cost reductions.

Schedule

6.69 The Committee notes the following in respect of the schedule of the JSF:

- All submitters agree that the schedule for the JSF has slipped from original dates.
- Defence and Lockheed Martin remain positive about future achievement of milestones.
- The Australian Government has now delayed the delivery of the first 12 JSFs for two years.

Capability

6.70 The Committee notes the following in respect of the capability of the JSF:

- There are significant differences of opinion among submitters to this Review about the capability of the JSF, with REPSIM advising their simulations indicated deficiencies in performance against other similar aircraft, APA advising their concerns, and Defence and Lockheed Martin advising they are very positive about the aircraft, particularly after current testing.
- There are significant difficulties with making judgements about the capabilities of modern fighter aircraft, particularly given some of these aircraft are still under development.

Alternatives to the JSF

6.71 The Committee notes the following in relation to alternatives to the JSF:

- While some submitters contend the F-111 or the F-22 would be suitable alternatives to the JSF, the F-111 has been retired from service, and the F-22 appears currently unavailable both in terms of production and in terms of Australia's ability to purchase the aircraft.

Committee Comments

6.72 The Committee makes the following comments about the review of the JSF as part of its Inquiry into the Defence Annual Report 2010-2011:

- The US GAO has found that cost increases, schedule delays and continuing technical problems increase the risk the program will not be able to deliver the aircraft quantities and capabilities in the time required by the warfighter.
- Given the GAO conclusion and the evidence provided during the Review, the Committee is concerned at the increased cost and the schedule delays associated with the JSF.
- The Committee is not in a position to make judgements on the technical aspects of the performance of the JSF relative to other aircraft. Rather, the Committee's objective is to ensure that Defence is taking all possible steps to ensure Australia's regional air superiority, and that this is secured at a reasonable price and within agreed timeframes.
- The evidence received on the capabilities of the JSF has been conflicting in nature. Airpower Australia and RepSim's contentions are fundamentally opposed to those of Defence and Lockheed Martin, and the Committee has no way to effectively test these contentions on the public record.
- Furthermore, Airpower Australia and RepSim have advised that their comments are based on an in-depth understanding of the capabilities offered by both the JSF and the emerging stealth fighter technology of Russia and China. Given that these emerging stealth fighters are still under development, and are not expected to achieve initial operating capability for some time, the Committee is uncertain as to whether judgements can be made with certainty that the JSF will be the inferior fighter, noting the difficulties of comparing modern fighter aircraft.
- In light of the conflicting perspectives presented and the uncertainties they raise, the Committee resolves to maintain a focus on the JSF project in order to ensure that it does, indeed, provide Australia with ongoing regional air superiority. In this regard, the Committee notes the recent decisions by the Australian Government to postpone acquisition of the first 12 JSFs by two years and to bring forward the next Defence White Paper to 2013. These two decisions will provide considerable scope for ongoing scrutiny and review both within and outside the context of this Committee.

Reviews of Defence Culture

Background

- 7.1 In April 2011, following an incident at the Australian Defence Force Academy (ADFA), the Minister for Defence announced that a series of urgent reviews would be conducted into aspects of Defence culture.
- 7.2 The reviews announced by the Minister were:
- Review into the Treatment of Women at ADFA and in the wider ADF;
 - Review of the use of Alcohol in the ADF;
 - Review of the use of Social Media in Defence;
 - Review of Personal Conduct of ADF Personnel;
 - Review of the Management of Incidents and Complaints in Defence; and
 - Review of Defence APS Women's Leadership Pathways.
- 7.3 The reviews were overseen and coordinated by a Steering Committee chaired by the Vice Chief of the Defence Force.¹
- 7.4 It was originally intended that, for the review of the Defence Annual Report 2010-2011, Defence would simply update the Committee on the progress of these reviews. However, on 7 March 2012, the Defence

¹ Department of Defence, *Defence Annual Report 2009-2010 Volume One*, p. 9.

Minister announced the outcomes of all the reviews into the Defence culture with the exception of the second part of the Review into the Treatment of Women in the wider ADF by Elizabeth Broderick, the Sex Discrimination Commissioner (expected to be released later in 2012).

- 7.5 At the same time as releasing the individual reviews, the Minister advised that Defence's response to the reviews would be encapsulated in a document titled *'Pathway to Change: Evolving Defence Culture'*. The Minister advised this document outlines how the recommendations of the reviews will be implemented consistent with the wider Defence Reform Program. He further advised *'Pathway to Change'* builds on the institutional and personal accountability reforms in Defence to implement the Review of the Defence Accountability Framework (the Black Review).
- 7.6 As a result of these announcements, the Committee received a full update on the proposed outcomes of these completed reviews at the hearing with Defence into the Defence Annual Report 2010-2011.
- 7.7 A summary of each of the reviews into Defence culture and key outcomes announced by the Minister for Defence follows.

The Review of the use of Alcohol in the ADF

- 7.8 Professor Margaret Hamilton, an executive member of the Australian National Council on Drugs, led an independent panel to review the overall strategy for managing the use of alcohol in the ADF. Her recommendations include:
- The preparation of an evidence-based alcohol management strategy for implementation within Defence;
 - Defence to ensure that the pricing of alcohol available at Defence establishments is consistent with the alcohol management strategy;
 - Developing an approach to collecting and responding to alcohol related data to enhance its value in terms of managing individuals and strategic planning; this will include alcohol screening of individuals at recruitment and across important career transition points, particularly post-deployment, and a whole of ADF Alcohol Incident Reporting System;
 - Commanders to assess situations in which alcohol is proposed to be used informally or formally and where specific approval would then be required for the use and access to alcohol within ADF work location; and

- Defence to form alliances and partnerships with other organisations and individual experts on alcohol outside Defence to provide their input into alcohol policy and program development and implementation.²

The Review of Personal Conduct of ADF Personnel

7.9 Major General Craig Orme, Commander Australian Defence College, led this review with a focus on assessing the effectiveness and current policies governing ADF conduct, and identifying areas of strength and weakness. He recommends a culture that is just and inclusive. His recommendations include:

- The ADF more explicitly state values and behaviours on enlistment, and reinforce them through education and practice; and
- The Navy, Army and Air Force continue to improve avenues of communication for members to report concerns about personal conduct through the formal chain of command and through confidential methods of reporting.³

The Review of the use of Social Media in Defence

7.10 Mr Rob Hudson, from the consulting company George Patterson Y&R, led a team to examine the impact of the use of social media in Defence, with the aim of developing measures to ensure that the use of new technologies is consistent with ADF and Defence values. His recommendations include:

- All policies relating to the use of social media, the internet or cyber activities be reviewed, including guidelines to ensure they are consistent with the overall social media policy and engagement principles;
- Defence should consider reviewing social media training and the way it is prioritised and delivered in order to ensure consistency, including relevant resources, guidelines, and support mechanisms; and

2 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-reviews-into-defence-and-australian-defence-force-culture/>, viewed on 7 March 2012.

3 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-reviews-into-defence-and-australian-defence-force-culture/>, viewed on 7 March 2012.

- Resources be provided to support the understanding and management of social media in Defence.⁴

The Review of Defence Australian Public Service Women's Leadership Pathways.

7.11 Ms Carmel McGregor, the former Deputy Public Service Commissioner, examined the effectiveness of current strategies and proposed recommendations across a range of issues regarding employment pathways for Defence APS women. (Ms McGregor has subsequently been appointed to the position of Deputy Secretary People Strategies and Policy in Defence). Her recommendations include:

- The Secretary issue an explicit statement to senior leaders and staff to reinforce the importance of gender diversity to build a sustainable workforce;
- The establishment of a rotation program for senior women at Senior Executive Service Band 2/3 within the broader APS;
- Ensure female membership in senior decision-making bodies;
- Implement a development program for Executive Level women that includes job rotation, as well as over-representing women in existing development programs;
- Embed a focus on identifying and developing women for leadership roles, including a facilitated shadowing and coaching component, in the new talent management system; and
- Establish a central maternity leave pool for central management of the full-time equivalent liability associated with maternity leave.⁵

The Review of the Management of Incidents and Complaints

7.12 The Inspector General ADF, Mr Geoff Earley, conducted a review of the management of incidents and complaints in Defence, with specific reference to the treatment of victims, transparency of processes, and the

4 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-reviews-into-defence-and-australian-defence-force-culture/>, viewed on 7 March 2012.

5 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-reviews-into-defence-and-australian-defence-force-culture/>, viewed on 7 March 2012.

jurisdictional interface between military and civil law. His recommendations include:

- Funding to be provided as a matter of priority to contract out the task of reducing the current grievance backlog of cases to suitably qualified legal firms;
- Training and information provided to ADF members in relation to the management of incidents and complaints be simplified and improved;
- Defence's administrative policies be amended to provide for administrative suspension from duty, including the circumstances in which a Commander may suspend an ADF members, and the conditions which may be imposed on the suspended member; and
- An improved process to manage grievances in Defence also be developed.⁶

7.13 The recommendations of this review would be further considered in the context of other reforms to aspects of the military justice system and Part Three of the HMAS Success Commission of Inquiry Report.⁷

The Kirkham Inquiry

7.14 The Minister for Defence announced that the Kirkham Inquiry report is a detailed review of the management of the 'Skype Incident' and its aftermath and that, after careful consideration of policy and legal advice, the Inquiry report will not be published, even in redacted form. He advised that, in relation to specific allegations made in the media, the Inquiry found:

- The Commandant did not order or advise the female officer cadet (OFFCDT) to apologise to cadets in her Division for having gone to the media;
- The female OFFCDT was offered counselling in her meeting with the Commandant;

6 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-reviews-into-defence-and-australian-defence-force-culture/>, viewed on 7 March 2012.

7 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-reviews-into-defence-and-australian-defence-force-culture/>, viewed on 7 March 2012.

- No Sergeant had spoken offensively to the female OFFCDT on leaving the Commandant's office;
- The female OFFCDT was not abused by cadets in morning assembly on 6 April 2011;
- No speech of apology was cancelled because of the volatile mood of cadets and fears it would fuel anger directed at the female OFFCDT by fellow cadets; and
- The female OFFCDT's room was not plastered with shaving foam.⁸

7.15 The Inquiry found that, in the circumstances, it was reasonable for ADFA staff, including Commodore Kafer and the Deputy Commandant, to reach the conclusion that it was appropriate to proceed with and conclude the two disciplinary charges against the female Officer Cadet. The Inquiry also found that, overall, neither the Commandant nor the Deputy Commandant made an error of judgement in their decisions to commence and conclude the disciplinary proceedings against the female OFFCDT. The Inquiry also found that it would have been a reasonable course of action to not commence and conclude the disciplinary proceedings.⁹

7.16 The Minister further advised that the Kirkham Inquiry found no legal basis for action against Commodore Kafer and that any resumption of his duties would be a matter for Commodore Kafer's chain of command. Based on the findings in the Kirkham Inquiry Report and the Broderick Report, the Vice Chief of the Defence Force determined that Commodore Kafer would resume his duties as Commandant of ADFA.¹⁰

DLA Piper Review

7.17 This review involved the engagement of the law firm DLA Piper by the then Secretary of Defence to review allegations of abuse received in the aftermath of the ADFA Skype incident methodically and at arm's length

8 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-outcomes-of-the-kirkham-inquiry/>, viewed on 7 March 2012.

9 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-outcomes-of-the-kirkham-inquiry/>, viewed on 7 March 2012.

10 Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-outcomes-of-the-kirkham-inquiry/>, viewed on 7 March 2012.

from Defence. The Minister for Defence announced that Volume 1: 'General Findings and Recommendations' of the Review had been received as well as the first tranche of Volume 2: 'Individual Allegations'. The second tranche of Volume 2 is expected to be submitted to the Minister for Defence in March 2012.¹¹

- 7.18 The Executive Summary of Volume 1 of the DLA Piper Review advises that the review has received specific allegations within scope from 847 different sources and that many of these sources made more than one allegation. It advises that there are allegations across every decade from the 1950s to date. It further advises that the allegations are incredibly diverse and it is not possible to summarise the nature of the allegations as a group.¹²
- 7.19 The Committee notes that, on 10 July 2012, the Minister for Defence released the initial report of the DLA Piper Review into allegations of sexual and other forms of abuse in Defence, and advised that the Review's findings and recommendations are being carefully and methodically considered.¹³

Current Status

- 7.20 Defence advised that, in conjunction with the Minister for Defence's announcement on the outcome of the reviews, Defence released its response to those reviews: *Pathway to Change: Evolving Defence Culture* on 7 March 2012. Defence observed that these reviews have drawn attention to Defence's many strengths, however, they have also identified serious issues which must be addressed. The *Pathway to Change* document:

. . . integrates the recommendations of six reviews into a coherent, cohesive plan of action with responsibility for implementation allocated to specific senior Defence leaders. Importantly, the

¹¹ Defence advised Senate estimates on 28 May 12 that they understood Volume 2 was now with the Minister for Defence for his review.

¹² Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/03/07/minister-for-defence-release-of-redacted-extracts-from-executive-summary-and-findings-of-volume-1-of-the-dla-piper-report-allegations-of-sexual-and-other-abuse-in-defence/>, viewed on 7 March 2012.

¹³ Minister for Defence Homepage, Media Releases, <http://www.minister.defence.gov.au/2012/07/10/minister-for-defence-release-of-volume-1-of-the-dla-piper-report-allegations-of-sexual-and-other-abuse-in-defence/>, viewed on 13 August 2012.

authors of each of the reviews have been part and parcel of the development of the *Pathway to Change* and are supportive of the approach being taken. At its heart, *Pathway to Change* is about behaviours – towards Defence and its institutions and, critically, to each other. It is not acceptable for actions that affect the safety and well being of our people, and compromise our capability, to be regarded in any way as normal. We should be surprised, angered, embarrassed and saddened any time there is a revelation about poor behaviour by a member of the Defence community.¹⁴

- 7.21 The Committee concurred with Defence's evidence that, in general, Defence personnel exemplify good behaviour. However, the Committee observed that often, in the media, a link is drawn between the Defence environment and incidents of bad behaviour by Defence personnel. The Committee expressed a view that, while any poor behaviour is unacceptable, there are fewer instances in Defence than in many other organisations. The Committee questioned how Defence was addressing the issue of the media inferring a causal link between Defence and the poor behaviour of some of its personnel, rather than recognising societal trends.
- 7.22 Defence responded that it cannot account for how the media reports on such issues. However, Defence is held to a high standard and will continue to uphold those standards.¹⁵
- 7.23 Defence further noted that:
- . . . these incidents do not define Defence, but that is what people are using them to do. A lot of external commentary defines Defence by these incidents. I utterly reject that . . . we are about growing people, not damaging them. We are about taking young kids off the street and giving them a great opportunity to develop life skills and career skills and be part of a great institution.¹⁶
- 7.24 Defence confirmed that the Secretary and CDF will be accountable for the overall success of this cultural reform program, but both recognise that this will take a sustained effort from all Defence staff over a number of years to achieve. Defence reinforced its commitment to tackling cultural challenges at source. For example, Defence is already implementing some

14 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 3.

15 Mr D. Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 16.

16 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 16.

of the recommendations from the Broderick Review into the Treatment of Women at the Australian Defence Force Academy.¹⁷

7.25 Defence stated:

. . . some of the initiatives you will see in the *Pathway to Change* document are revolutionary, others are more subtle, but all will impact Defence daily life in some way. It is important to note that the *Pathway to Change* is not all about introducing a series of new policies. Most of our policies are sound but can be, at times, inconsistently applied. So, part of our role is to consolidate, modify and clarify existing policies so they are consistent with our cultural intent. As Defence members we understand that we are quite rightly held to higher standards and greater scrutiny than the majority of Australian society and, while we strive for a clean record, if things do go wrong, we must be able to demonstrate that we have the moral courage to act and the ability to respond in an appropriate and timely manner. The Australian Defence Force and the Defence organisation of the future will embody our cultural intent, and we will be trusted to defend, proven to deliver, and respectful always.¹⁸

7.26 The Committee asked how statements made in the *Pathway to Change* document will be measured, and how individuals within Defence will be held accountable.

7.27 Defence responded that there will be difficulties with measuring specific statements in the *Pathway to Change* document itself. The overall intention is to inspire Defence people and outline the aspirations for their behaviour. The *Pathway to Change* document outlines the type of organisation Defence wishes to be and wishes to be recognised as. Underneath that statement there are the reports with recommendations, which can be measured.¹⁹

7.28 Defence reiterated that the senior leadership within Defence are accountable for implementing the *Pathway to Change*.²⁰

7.29 The Committee commended Defence for the *Pathway to Change* document and discussed the issue of how long it would take to tackle challenges. The Committee asked at what stages progress would be reviewed.

17 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 3.

18 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 3.

19 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 32.

20 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 32.

7.30 Defence responded that it would be able to provide a progress update in twelve months' time at a future Committee hearing.²¹

7.31 The Committee asked for an update on the RAR Buddies Facebook website.

7.32 Defence noted that this was a website:

... that is populated largely by men who have served in the Royal Australian Regiment or who are currently serving in the Royal Australian Regiment, an infantry organisation within the Army. The purpose of the website was both social and charitable. It had about 1300 members. It was set up as a place to exchange information and raise money, and, indeed, they have raised \$20,000 for Legacy. A very small group, during the course of last year, began to make use of the website in an inappropriate way, but because the website was closed, that is, you had to have a password to get into it - the Defence Force and, certainly, Army, remained completely oblivious to the details that were being posted and the corruption of the site.²²

7.33 Defence stated that it became aware of the type of material being posted on the site at the beginning of 2012 and then gained access to the site. Defence advised that it appeared that there were about 30 personnel in the total website population that appeared to be using this site inappropriately. This appeared to include only one serving Army member. This issue is currently being investigated and action will be taken if involvement is proven.²³ Defence also advised that:

Not only have I written to all the members of the RAR Buddies website, whether they were serving or not, to express my concern about what occurred, but I have also sent out to all members of the Army the need to stress again the fact that we are all individually accountable for our actions.²⁴

Treatment of Women at the Australian Defence Force Academy

7.34 The Committee requested an update on the actions being taken at ADFA in response to the Broderick Review into the Treatment of Women at ADFA.

21 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 37.

22 Lt Gen. Morrison, Department of Defence, *Transcript*, 16 March 2012, p. 36.

23 Lt Gen. Morrison, Department of Defence, *Transcript*, 16 March 2012, p. 36.

24 Lt Gen. Morrison, Department of Defence, *Transcript*, 16 March 2012, p. 36.

- 7.35 Defence advised that, immediately following the release of the Report by Ms Broderick, the Commander Australian Defence College (ADC) established an ADC Reviews Implementation Team to manage implementation of the report's 31 recommendations. This team will also consider the recommendations of other Defence culture reports relating to the Australian Defence Force Academy.²⁵
- 7.36 Defence confirmed work is underway or complete on the majority of recommendations from Ms Broderick's review, and that key actions have included:
- Implementation of a Residential Support Officer scheme where junior military officers who possess required attributes reside in the junior cadets' accommodation.
 - Provision of a range of support options for cadets, including posters and a wallet-size 'ready reckoner' which incorporate support and emergency contact phone numbers for key internal and external support services including the Australian Defence Force Hotline, Rape Crisis Centre, Lifeline, Mensline, Beyond Blue, and drug and alcohol counselling.
 - Working closely with the 'Group of Eight' universities in the 'Linking with Universities' Forum, including meeting with senior academics and Managers of Halls of Residence. As part of this program, ADFA hosted a two day 'Ethics Seminar' in April 12 which was attended by 40 students from ADFA and Group of Eight Universities.
 - Collaboration with an external consultant to design and develop a pilot Sexual Ethics Program, intended to provide ADFA cadets with a course on healthy and respectful relationships.
 - Development of a Sexual Harassment Survey which, together with the refinement of complaint handling processes at ADFA and the development of performance metrics, will progress recommendations relating to data collection and handling.²⁶

DLA Piper Review

- 7.37 The Committee raised some concerns about the DLA Piper review and the terms of reference, specifically, the issue of certain cases being 'in scope' or 'out of scope'.

25 Department of Defence, *Submission 16*.

26 Department of Defence, *Submission 21*.

- 7.38 Defence advised that, although the Defence department commissioned the DLA Piper review and the Terms of Reference were developed by Defence with discussion with the Minister's office and are publicly available, it was up to DLA Piper to assess complaints against those Terms of Reference. Defence does not have direct control of this process.²⁷
- 7.39 Defence noted that there is a process in place to review cases which the DLA Piper team have deemed to be out of scope.²⁸

Alcohol Management

- 7.40 The Committee requested an overview of the evidence that was provided and led to the development of the alcohol management strategy.
- 7.41 Defence advised the Committee that a program on alcohol management had been initiated with the Australian Drug Foundation in mid to late 2010. This program had evolved into focus groups with groups of young men and women. However, as a result of Professor Hamilton's review, any action on implementing an alcohol management strategy had been delayed until her review had been finalised.²⁹ Now this has occurred, Defence will continue to develop and implement its alcohol management strategy.³⁰
- 7.42 Defence provided a summary of perceptions expressed about drinking behaviour in the ADF during a series of focus groups conducted across Australia. This summary includes feedback from interviews with over 1,000 ADF members:

The overall perception held by senior ranks of the ADF was that drinking practices have changed over the last 15-20 years, as the organisational culture has shifted to a model of risk management. This was primarily perceived as inevitable, as civilian organisations have also shifted towards this model.

Senior command and senior Non Commissioned Officers (NCO) differed in their opinion of the outcomes of this change. Senior command more often reported that the change has facilitated a more capable, accountable and responsive Service. Senior NCOs tended to believe that this was something of a loss of tradition impacting on bonding and morale.

27 Mr D Lewis, Department of Defence, *Transcript*, 16 March 2012, p. 33.

28 Mr Cunliffe, Department of Defence, *Transcript*, 16 March 2012, p. 34.

29 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 35.

30 Air Marshal Binskin, Department of Defence, *Transcript*, 16 March 2012, p. 35.

The most frequently reported positive aspects of drinking, from all three Services, included the role of drinking in socialising, networking and unwinding from work responsibilities. This is often perceived as an integral part of ADF culture and tradition. This helps team cohesion, bonding, and morale-building. These perceptions are shared across ranks.³¹

7.43 Defence further noted:

There was relative consistency between the junior and senior ranks regarding the negative consequences or impacts associated with alcohol consumption. Terms such as 'poor decision', 'poor judgement', 'violence' or 'fisticuffs' were frequently used by junior ranks to describe the negatives of alcohol consumption.

Interestingly, senior NCOs highlighted the use of alcohol as a 'symptom of other problems'. This potentially raises the importance of attention to co-morbidity rather than addressing alcohol-related problems in isolation. A number of workshops mentioned compromised mental health as a potential outcome of heavy drinking.³²

7.44 Finally, Defence advised:

In terms of the more junior members; officers, NCOs and Other Ranks emphasise the personal and professional consequences of alcohol-related behaviour . . . Loss of reputation was often noted . . . There is also acknowledgement that poor behaviour in community settings can impact on the reputation of the ADF.

Additionally, Junior NCOs indicated that the 'media approach was a problem' with reference to the Army's alcohol consumption. The perceived practice of binge drinking among younger members was almost wholly associated with 'Gen Y', that is, bingeing is a 'normal', almost acceptable, practice among people aged 18-24 in the Army and in civilian life.

A fundamental aspect of drinking frequently noted by participants is the issue of 'accountability', particularly in reference to resultant anti-social or irresponsible behaviours. Accountability of actions, on both an individual and managerial level was discussed, though, frequently, command saw junior ranks as needing to be accountable for their actions and troops saw command as needing

31 Department of Defence, *Submission 24*.

32 Department of Defence, *Submission 24*.

to be more accountable to support the troops in better managing their recreational drinking.³³

7.45 The Committee also sought an update on the issue of alcohol pricing in Defence establishments.

7.46 Defence responded that, in some messes, the actual price of alcohol is not reduced, but it is able to be delivered at a reduced price because overheads, such as the facilities, are reduced, and the cost of staff is already included in messing contracts. This results in the price of alcohol in officers and SNCO's messes being less than the price in an airmen's or soldier's mess which is, in turn, less than it would be in the outside community. Defence advised that the pricing of alcohol was already being reviewed as part of the SRP.³⁴

7.47 Defence noted that there are a number of complexities about this issue. Firstly, ADF personnel are, mostly, adults who are trusted to go to war and conduct operations, so how much control and what can be controlled needs to be considered. Secondly, Defence establishments are often a mix of workplace and accommodation, particularly on board a ship.³⁵

7.48 Defence further noted that it is reviewing its data collection, audit and reporting systems on alcohol sales and consumption to assist in making decisions as part of the review process.³⁶

7.49 The Committee asked about the reintegration of personnel who are finishing deployments.

7.50 Defence stated that, in respect of reintegration and alcohol:

The program is evolving. Last year we ran a trial in theatre on the base at Minhad. That comes with some difficulties because you are actually trying to run this in a workplace where there are a lot of other people who are not reintegrating and looking to come home. Also, there are cultural sensitivities in running a program like that with alcohol in the country that it is in. So, we are looking at a far broader approach at the moment where we do look to run the program but we run the program at home.³⁷

7.51 The Committee observed that Mr Gyles, in his report into HMAS Success, suggested that military Commanders may be gun-shy about taking action

33 Department of Defence, *Submission 24*.

34 Air Marshal Binskin, Department of Defence, *Transcript*, 16 March 2012, p. 36.

35 Air Marshal Binskin, Department of Defence, *Transcript*, 16 March 2012, p. 36.

36 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, p. 36.

37 Air Marshal Binskin, Department of Defence, *Transcript*, 16 March 2012, p. 36.

to maintain discipline. The perception was that the pendulum has swung too far towards individual rights. The Committee asked what Defence's view of this contention was, and whether it was doing anything to redress the issue of balance.

- 7.52 Defence advised that it had only recently received the Gyles report and was currently reviewing it. Senior leadership will meet with Mr Gyles to discuss the genesis of these statements and the philosophy that led him to those observations. This will then enable Defence to assess how to respond to this issue. Defence noted this is an important issue as it affects the discipline environment for the ADF:

The report asks us all to sit back and reflect on the journey we have been on for the last seven years or so, and the treatment and direction that military justice has taken. It gives us an opportunity to look at that calibration.³⁸

Conclusions

- 7.53 The Committee notes the following in respect of the Defence Cultural Reviews:

- The reviews into Defence culture have drawn attention to Defence's many strengths, however, there are still cultural issues to be resolved.
- Defence has developed an overarching document: *Pathway to Change* which integrates the recommendations of six Defence culture reviews into a plan of action with responsibility for implementation allocated to specific senior Defence leaders.
- Defence leaders are committed to implementing the aspirations outlined in the *Pathway to Change* document, noting this will take time to permeate the organisation.
- The Committee notes that issues of inappropriate behaviour are not isolated to the ADF. Rather, this is a societal issue. The Committee has been informed, compared to community statistics, that the ADF has a relatively low number of incidents. Notwithstanding, the Committee commends the ADF's resolve to ensure there is zero tolerance to bad behaviour, and zero tolerance to turning a blind eye when complaints are made by members of the Australian Defence Force.

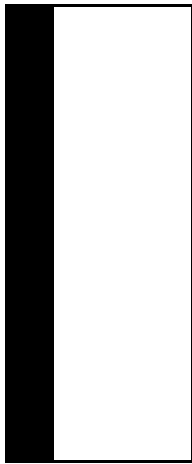
38 Gen. Hurley, Department of Defence, *Transcript*, 16 March 2012, pp. 28-29.

Senator Mark Furner

Chair, Defence Sub-Committee

Mr Michael Danby MP

Chair



Supplementary Remarks – Dr D. Jensen MP

F-35 Joint Strike Fighter Program

As can be seen from the evidence presented in Chapter 6 of this report, Defence's confidence in regard to the cost and schedule of the F-35 Joint Strike Fighter (JSF) project has no basis in fact.

So far, none of the cost and schedule targets stated in Parliament by Defence through the life of the project have been met. To start to understand and determine why this is so, we need to look at what senior Defence officials have said about the F-35A JSF unit price over the past decade:

"It's about \$37 million for the CTOL aircraft, which is the air force variant."

- Colonel Dwyer Dennis, U.S. JSF Program Office and Australian Defence Department Briefing, August 2002-

"...about \$40 million dollars per aircraft..."

-Senate Estimates/Media Air Commodore John Harvey, AM Angus Houston, Mr Mick Roche, USDM, 2002/2003-

"...US\$45 million in 2002 dollars..."

JSCFADT/Senate Estimates, Air Commodore John Harvey, Mr Mick Roche, USDM, 2003/2004-

"...the JSF Price (for Australia) - US\$55 million average for our aircraft ... in 2006 dollars..."

-Senate Estimates, AVM John Harvey ACM Angus Houston, November 2006-

"There are 108 different cost figures for the JSF that I am working with and each of them is correct."

- Dr Steve Gumley, CEO of the DMO, September/October 2007-

"...I would be surprised if the JSF cost us anymore than A\$75 million ... in 2008 dollars at an exchange rate of 0.92."

-JSCFADT, Dr Steve Gumley, CEO DMO, July 2008-

"...Dr Gumley's evidence on the cost of the JSF was for the average unit recurring flyaway cost for the Australian buy of 100 aircraft..."

-JSCFADT/Media, AVM John Harvey, August 2008-

"Confirmed previous advice i.e. A\$75 million in 2008 dollars at an exchange rate of 0.92..."

-JSCFADT, Dr Steve Gumley, CEO of the DMO, September 2009-

As the evidence shows, none of these figures come anywhere close to what is likely to be the actual unit price of the aircraft or even what was being reported to the US Congress in official US Government documents at the time.

Some may say such claims are the result of a "*conspiracy of optimism*" and "*the zeal of feeling very confident and extremely comfortable that all is well*". However, such euphemisms risk distracting the attention of all levels of Defence governance from what the evidence shows is patently "*acquisition malpractice*".

Of even greater concern is the way senior Defence officials have seemingly confused the terms 'costs' and 'price'. Though there may be many 'costs' associated with building a product like an aircraft, there is only one 'price'. Failing to state the full price of a consumer product is a practice

known as “deceptive component pricing” and is subject to sanction under consumer laws in many jurisdictions, including Australia.

Today, senior Defence officials claim the NACC/F-35 JSF Project is “*somewhat delayed but still within budget*” but the delays are due to what is happening in the USA, the implication being such things are outside the control or influence of Defence management.

A sorry state of affairs considering each DMO Executive since 2000 has stated schedule to be paramount and their principal focus, along with budget. Such a concerted focus schedule on the part of successive DMO Executives ignores the fact that schedule overruns and blowouts in budgets are consequences, not causes.

Management that focuses on the consequences rather than the causes is akin to closing the proverbial gate after the horses have bolted and displays even greater dysfunction when the aftermath excuse proffered is there wasn’t the wherewithal to close the gate, in the first place.

Evidence provided to this Review shows the professional discipline of Project Management has a simple way of describing the causes that lead to such consequences as budgetary blowouts, schedule delays and other project shortfalls and failings, including the project not meeting requirements. These are known as issues and problems that result from risks materialising which, by definition, are the result of failures on the part of those responsible to manage risk. After all, Project Management is all about managing the project which includes managing any associated risks. Submission No 2 provided this Review with clear evidence of repeated, systemic and ongoing failures on the part of Defence to manage any of the risks associated with and inherent in Australia’s involvement with the JSF Program.¹

Today, the provision of actual figures for cost estimates let alone anything substantive in relation to JSF costs (or schedule) is diligently avoided in any of the testimony provided by Defence.

On the matter of schedule, according to previous advice received from senior Defence officials, the JSF was also to replace the venerable F-111. From 2002 until around 2008, the advice from Defence was (1) this would happen in the 2010 to 2012 timeframe and (2) no interim air combat aircraft would be needed.

¹ See Air Power Australia, *Submission No. 2*, tabled titled ‘Risk Assessment IAW DMO Risk Management Guidelines: JSF Program’, p. 14.

Meantime, in 2001, experts in Industry, Academia and also within Defence itself were advising (1) the JSF Program is extremely high risk; (2) highly unlikely the JSF will be operational before 2018; and, (3) the JSF will almost certainly cost more than US\$100 Million per aircraft and will most likely exceed the unit price of the F-22A Raptor in the 2008-2010 timeframe that senior Defence portfolio officials were claiming would be when the first tranche of JSF aircraft for Australia would be available to buy.

In 2006, independent subject matter experts provided further advice to Defence which has been proven to be correct while the advice from senior Defence officials remains, at best, parlous and unsupportable.

Based on the expert evidence presented to this Review, it is clear that Defence has no differently exaggerated confidence in the capabilities offered by the JSF, particularly in light of the fighter jet technology which will deploy operationally in Russia, China and their export client nations post 2015; that is, over the coming half decade.

The expert evidence shows that capabilities required of the JSF were defined in terms of past Cold War era threats. Such definitions and the resulting requirements are contained in the JSF Operational Requirements Document (ORD). These capabilities may not be sufficient to compete with the Generation 4++ air combat aircraft (e.g. the Sukhoi Su-35S) now available for export into our region, let alone the 5th generation fighter technology currently in advanced flight testing, such as the Russian Sukhoi T-50 (PAK-FA) and the Chinese Chengdu J-20, both very capable 5th generation fighters designed from the outset to compete with the F-22.

When originally conceived, 5th generation fighters were defined as providing up to 14 design elements, of which four were central: sensor fusion, stealth, super-maneuvrability and the ability to cruise at supersonic speed without using afterburners (Supercruise). While all of these features are provided by the F-22, and are stated and evident design features of the PAK-FA and J-20, they will not all be delivered by the JSF. Indeed, the JSF is the only aircraft, claimed by its manufacturer to be a 5th generation fighter jet that does not meet all of these four central requirements.

However, Lockheed Martin seems to have changed its definition of the 5th generation fighter to be “survivable in contested airspace and integrated with networks”.

This redefinition is based on the assumption that kinematics – speed, acceleration, climb rate, agility, overall aero/propulsive performance - will not be important in future air combat technology due to the combination

of stealth, superior sensor technology and situational awareness via networks. It assumes that future air combat will take place entirely beyond visual range, and that sensors are infallible, missiles always effective, and that our future air combat capability will not require any capabilities that would allow it to outperform foreign 3rd, 4th, and 5th generation fighter aircraft in close range aerial combat. Expert evidence to the committee, and the historical record, show that, kinematic performance remains no less critical at medium and long ranges in terms of the pilot's ability to dictate the terms of the engagement, and evade or deny enemy missile shots

The assumption by Defence that kinematic performance does not matter is a poor assumption to make, and indeed is an assumption that has been made and proven incorrect many times over in the history of air power. Defence assumes a paradigm of future air combat that, if incorrect as it has always been proven to be in the past, will prove disastrous for Australia maintaining air superiority in the region.

For instance, senior Defence officials state the JSF has been designed “to have comparable fighter performance” to that of legacy aircraft with external fuel tanks (or “drop tanks”) attached. The basis for this comparison is both aircraft having ‘comparable’ fuel loads. This is a fraught and misleading benchmark, akin to comparing a fuel tanker truck with a Ferrari towing a fuel trailer so that the fuel loads are ‘comparable’. Burning the fuel in the trailer then unhitching it returns the latter to being a Ferrari. However, even when the fuel load in its bulbous fuel tank is down to the same level as that of the Ferrari, the truck is still a truck. As the name implies, external tanks are designed (and intended) to be quickly jettisoned in the event of close quarters air combat, giving the legacy aircraft a considerable improvement in its aero/propulsive performance. The JSF does not carry external fuel tanks, instead carrying all of its fuel internally, just like a fuel tanker. As such, its aero/propulsive performance cannot be improved the way a legacy aircraft's can on entering an air combat engagement.

In terms of the ability to cruise at supersonic speed (supercruise), the JSF is also inferior to its potential competitors. The JSF is not able to supercruise. This means that the JSF must increase its fuel consumption to fly at supersonic speed, which in turn shortens the amount of time it can stay in combat, several fold. While dogfights do tend to be conducted at transonic speeds, many tactical manoeuvres can occur at supersonic speeds, leaving the JSF at a considerable disadvantage. Both the Russian PAK-FA and Su-35S jets can supercruise, giving them significant advantages in close quarters as well as in beyond visual range combat which, importantly,

requires far greater volumes of air space to be covered and faster, to meet time critical demands

Given that current and emerging Russian fighter jet technology not only has the ability to supercruise, but also fly at higher altitudes than the JSF, this lack of aero/propulsive performance and ability to supercruise will mean that the Russian jets will set the terms of engagement. They can choose where and when to fight, to gain the best possible advantage. The Chinese J-20 is also built to supercruise, and will enjoy the same advantages.

Furthermore, engaging afterburners decreases the stealth of the JSF by making it easier to detect by increasing its infra-red emissions, several fold. Both Defence and Lockheed Martin have been dismissive of this severe degradation in stealth, and neither has adequately explained why they have dismissed it. Most Russian and Chinese built fighters are fitted with infrared sensors capable of detecting afterburners from distances of many tens of miles.

Considering the many limitations of the JSF, it is evident that, Defence's expectations of the JSF have been "adjusted" in order to fit the limited capabilities it offers, rather than allowing Australia's ongoing and evolving regional air superiority needs to determine what capabilities the RAAF should possess.

I also have a range of other concerns regarding the JSF project's performance to date. There are indications that the engineering has not been done properly in a number of important areas. The C-variant (for aircraft carriers) has had issues with inadequate power generation. This required changes to the generator, gearbox and driveshaft. The JSF's cooling system has been widely reported to be inadequate for the heat load of the avionics. Its fire suppression systems have been compromised to save weight. Its crew escape system has had persistent problems. These and more are detailed in the Quick Look Review and Director of Operational Test and Evaluation (DTOE) documents.

There is great potential for serious problems with the software. The JSF is intended to use many times more lines of software code than any previous aircraft, cited in 2009 as 5.9 million, and more recently at 10 million. A lot of the code for the software has not been written yet and, as such, we do not know about the quality of integration or standards compliance between the code components making up the vast amount of software that goes into the JSF. As a result, it is not yet possible to test the software on which most of the cited assumptions about the JSF's combat capabilities rely upon.

Another issue with the project has been the decrease or deferral of early production JSF procurements by both the US and foreign purchasers preceding full rate production, where efficiencies of scale assumed by the manufacturer in their costing models were to have been achieved. This presents a problem for the sellers of the JSF. In order to make low rate initial production profitable, Lockheed Martin needs to lock buyers in now by minimising or dismissing concerns raised about the capabilities offered by the JSF. This in turn, makes it a marketing issue.

When it comes to Australia's purchase of the JSF, Defence has not acted like a rational and sceptical buyer, instead acting more like a salesperson for the JSF. Should the concerns raised by expert witnesses about the capabilities offered by the JSF be borne out, and all the evidence seen to date shows this to be the expected outcome, Australia will greatly regret making this decision.

As such, it is quite clear that Australia should immediately reconsider its decision to be involved in the JSF project, and start looking towards better alternatives to maintain Australia's superiority in regional air combat capabilities.

Additionally, it appears that security classifications have been used by Lockheed Martin to avoid having to answer embarrassing questions during a public hearing held for this Review. When asked about which aircraft type was used as the threat during simulations, and specifically whether this threat was from an older generation of fighter aircraft, Lockheed Martin replied that this detail was classified and could not be discussed.²

Prima facie, this constitutes a breach of US Department of Defense classification policy, making it in effect unlawful. The most recent version of this policy states that 'if there is significant doubt about the need to classify information, it shall not be classified', and further that 'Unnecessary or higher than necessary classification is prohibited.'³

There is no good case that can be made for classifying what representative threats the JSF has been flown against in simulations. After all, making such information public would release no information about the JSF itself or its capabilities. The only thing such a release would achieve is to inform the public whether a current, near future or emerging threat has been simulated against, or alternatively, whether an older threat has been

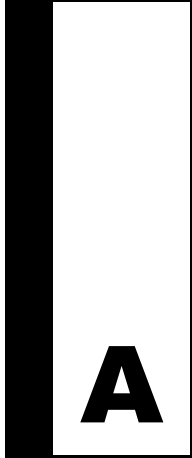
² Mr Liberson, Lockheed Martin, *Transcript*, 20 March 2012, p. 5.

³ United States Department of Defense Manual, *Information Security Program: Overview, Classification and Declassification*, Number 5200.01, Volume 1, 24 February 2012, p. 33.

misused to inflate the capabilities and effectiveness of the JSF in order to market the jet more effectively. Earlier simulation results publicly disclosed for the JSF involved exactly such, quarter century old, threat aircraft.

Of even greater concern is the use by Defence and others of the term '*classified information*' and statements like "*We can't say anything to that because the answer to that question is 'classified'*" as an omnibus means of avoiding having to answer legitimate questions. The inference that can be drawn is anything that is difficult to answer somehow has a National Security Classification. This is classic denial behaviour on the part of senior Defence officials as seen by the fact it extends to subject matters which are clearly not national security sensitive. Moreover, such behaviour stymies critical thinking and critical debate which are the fundamental tenets of due diligence, 'Red Teaming' and the application of *caveat emptor*. Along with unsupported assertions, false and misleading statements, and confabulation, such behaviour has been one of the hallmarks of the JSF Program since 2001. The adoption of such practices should be seen for what it is and one of the many reasons why the JSF Program poses a serious threat not only to the defence and security of Australia but to that of its cosignatory to the ANZUS Alliance, the United States of America.

Dr Dennis Jensen MP



Appendix A – List of Submissions

1. Defence Force Welfare Association
2. Air Power Australia
3. Air Power Australia
4. Mr Andrew Mayfield
5. REPSIM Pty Ltd
6. Mr Erik Peacock
7. REPSIM Pty Ltd
8. Department of Defence
9. Air Power Australia
10. Air Power Australia
11. REPSIM Pty Ltd
12. REPSIM Pty Ltd
13. Airpower Australia
14. REPSIM Pty Ltd
15. REPSIM Pty Ltd
16. Department of Defence – Answers to Questions on Notice
17. Department of Defence – Answers to Questions on Notice
18. Department of Defence – Answers to Questions on Notice

19. Department of Defence - Answers to Questions on Notice
20. Department of Defence - Answers to Questions on Notice
21. Department of Defence - Answers to Questions on Notice
22. Mr Danny Nowlan
23. Mr Jack Warner
24. Department of Defence - Answers to Questions on Notice
25. REPSIM Pty Ltd
26. Air Power Australia
27. Air Power Australia



Appendix B – List of Exhibits

1. Airpower Australia - Article from Aviation Week and Space Technology, 9 February 2009, *'Raptor's Edge'*.
2. Mr Erik Peacock - Updated Policy Discussion Paper *'Key Questions for Defence in the 21st Century'*.
3. REPSIM Pty Ltd - Excerpt of RAND Project AIR FORCE Presentation *'Air Combat Past, Present and Future.'*
4. REPSIM Pty Ltd - Article from Aviation Week, 8 March 2012, *'Cyberthreats, Shortfalls Threaten USAF Plans.'*
5. REPSIM Pty Ltd – Document from Lockheed Martin, *'Modelling and Simulation applied in the F-35 Program'*.



Appendix C – Witnesses appearing at public hearings

Tuesday 7 February 2012 – Air Power Australia and REPSIM Ltd

GOON, Mr Peter Anthony, Head, Test and Evaluation, Principal Consultant/ Adviser, Air Power Australia

KOPP, Dr Carlo, Head, Capability and Strategy Research, Air Power Australia

LONG, Mr Adrian Lindsay, Director, REPSIM Pty Ltd

MILLS, Mr Christopher Laurie, Director, REPSIM Pty Ltd

PRICE, Mr Michael, Managing Director, REPSIM Pty Ltd

Tuesday 28 February 2012 – Defence Welfare Association

JAMISON, Colonel David (Retired), National President, Defence Welfare Association

MORRALL, Group Captain Philip Leslie (Retired), Vice President, Pay and Conditions of Service, Defence Welfare Association

Friday 16 March 2012 – Department of Defence

BINSKIN, Air Marshal Mark, AO, Vice Chief of the Defence Force

CUNLIFFE, Mr Mark, PSM, Head Defence Legal, Defence Support Group

FOGARTY, Major General Gerard, AM, Acting Deputy Secretary People Strategies and Policy Group

GRIGGS, Vice Admiral Ray, AM, CSC, RAN, Chief of Navy

GRZESKOWIAK, Mr Steven, Acting Deputy Secretary, Defence Support Group

HURLEY, General David, AC, DSC, Chief of Defence Force

JONES, Vice Admiral Peter, AM, RAN, Chief Capability Development Group

KING, Mr Warren, Chief Executive Officer, Defence Materiel Organisation

LEWIS, Mr Duncan, AO, DSC, CSC, Secretary of Defence

LEWIS, Mr Simon, Associate Secretary Chief Operating Officer

McKINNIE, Ms Shireane, General Manager Systems, Defence Materiel Organisation

MORRISON, Lieutenant General David, AO, Chief of Army

OSLEY, Air Vice Marshal Kym, AM, CSC, Program Manager, New Air Combat Capability, Defence Materiel Organisation

PRIOR, Mr Phillip, Chief Finance Officer

SMITH, Air Vice Marshal Ian, AM, Deputy Head Strategic Reform and Governance

Tuesday 20 March 2012 – Lockheed Martin Aeronautic Company

BENTLEY, Mr Graham Mitchell, Director, International Business Development Australia

BURBAGE, Mr Charles Thomas, Executive Vice President and General Manager – F35 Joint Strike Fighter Program Integration

LIBERSON, Mr Gary Maxim, Technical Lead Operations Analysis – Strategic Studies Group

McCOY, Mr Bradley Kent, F-22 and F35 Strategic Analysis