



Submission No 21

Review of the Defence Annual Report 2010 - 2011

Organisation: Department of Defence

Senate Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q1: SRP - Civilianisation of Military Positions

Dr Jensen asked on 16 March 2012 (Proof Hansard page 8):

Provide the figures for civilianisation in each SRP Program category.

Response:

There is only one program under the Strategic Reform Program that is conducting civilianisation activities - the Workforce and Shared Services Reform stream. This stream will see the civilianisation of 535 positions across the Navy, Army and Air Force over the decade to 2018-19, delivering savings of \$374 million.

Senate Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q5: SRP KPI's

Dr Jensen asked on 16 March 2012 (Proof Hansard page 19):

Please provide a list and an update of progress on the:

- (a) Strategic reform programs key performance areas;
- (b) the key result areas; and
- (c) the key performance indicators.

Response:

(a)-(c) At the portfolio level the Strategic Reform Program (SRP) is measured through quantitative and qualitative information. Key performance indicators (KPI) are measurements of both quantitative and qualitative achievements across the key performance areas of the program.

Cost reductions under the SRP are based on annual budgets. In 2011-12, the cost reduction target for the SRP is \$1,283.9 million. This cost reduction will be delivered through initiatives under seven SRP streams as follows:

1. Information and Communication Technologies—\$147.5 million;
2. Smart Sustainment (including Inventory)—\$ 370.2 million;
3. Logistics—\$8.3 million;
4. Non-equipment Procurement—\$206.6 million;
5. Reserves—\$28.1 million;
6. Workforce and Shared Services—\$237.6 million; and
7. Other cost reductions—\$285.5 million.

*Summation variances are due to rounding.

SRP key performance areas and key result areas are across three elements of the program. These 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.

The SRP is also on target to achieve the \$1,283.9 million in cost reductions programmed for financial year 2011-12.

Defence will publish full year SRP performance in the 2011-2012 Defence Annual Report, which is expected to be released in late 2012.

Joint Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q16: Treatment of Women at ADFA

Ms Brodtmann provided in writing:

Please provide an update on actions being taken in response to the cultural reviews in terms of the treatment of women at ADFA.

Response:

Immediately following the release of the *Report on the Review into the Treatment of Women at the Australian Defence Force Academy* (Broderick Review Phase 1), the Commander Australian Defence College (ADC), who has oversight of the Australian Defence Force Academy (ADFA), established an ADC Reviews Implementation Team to manage implementation of the report's recommendations.

The primary focus of the ADC Reviews Implementation Team is to manage the implementation of 31 recommendations of the Broderick Review Phase 1, and it is doing this with regard to other reports relating to the Australian Defence Force Academy. These other reports include the *Review of ADFA Military Organisation and Culture* conducted by the current Commandant in 2010 and the five Defence culture reviews released by the Minister for Defence on 7 March 2012.

Work is either complete or underway on the majority of the Broderick Review Phase 1 recommendations. Key actions have included:

- A 'Residential Support Officer' scheme has been implemented whereby advanced students (junior military officers) with the required attributes are living in the junior cadets' accommodation to provide mentoring, tutoring, and moral support.
- The provision of a range of support options for cadets has been implemented. Posters have been developed and displayed in ADFA residential and academic premises and a wallet-sized 'ready reckoner' has been issued to all cadets. The posters and 'ready reckoners' incorporate support and emergency contact phone numbers of key internal and external support services including the Australian Defence Force Hotline, Rape Crisis Centre, Lifeline, Mensline, Beyond Blue, and drug and alcohol counselling.
- ADFA is working closely with the 'Group of Eight' (Go8) universities in a forum called 'Linking with Universities'. Commandant ADFA meets regularly with senior academics and managers of halls of residences. This forum has evolved into a broader partnership: ADFA hosted a two-day 'Ethics Seminar' in April 2012 attended by 40 students from the Go8 universities and ADFA cadets. A broad range of ethical issues facing young adults were discussed and debated in the seminar.
- ADFA is also collaborating with an external consultant to design and develop a pilot Sexual Ethics Program which will provide ADFA cadets with a course on healthy and respectful relationships.
- ADFA is developing a Sexual Harassment Survey. This, together with refinement of complaint handling processes at ADFA and the development of performance metrics, is progressing in meeting the data-related recommendations.

Senate Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012 Q20: European Supply Chain

Dr Jensen asked on Friday, 15 March 2012, Hansard page 46:

Just on the European issue and problems related to projects due to the fact that they are European: shouldn't those problems have been factored in right at the very beginning? Please provide information on industry awareness of the problems with the European supply chain system. What is to stop a similar problem occurring again in terms of lack of identification of problems early on rather than later?

Response:

European supply chains have not produced the results desired by Defence for the Australian Defence Force over the last few years, particularly in the aerospace (helicopter) sector. This has been due to a combination of factors including: the high volume of NH90 sales and the resultant unanticipated high usage of spare parts, the 'nested' sub contractor supply network that imposes delays as a result of specific contractual exclusivity provisions and finally high customer demands.

The Government considered a wide range of risks associated with both the Armed Reconnaissance Helicopter and MRH helicopter programs prior to approval. There is little doubt that there is now a greater awareness of European supply chain issues in light of both projects.

To address these problems the Kinnaird and Mortimer Reviews both made improvements to project risk assessments and the information required to be presented to Government. The Chief Defence Scientist now provides an independent technical risk assessment of every project prior to Government consideration. Chief Executive Officer Defence Materiel Organisation (DMO) also provides an independent assessment of overall risk to Government. This focus on early risk identification and management has been an important improvement in recent Defence procurement practices.

The DMO has updated its contracting templates, particularly those related to in service support to provide improved mechanisms for managing performance and to elicit detailed information on proposed supply chain.

Joint Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q21: Sustainment

Senator Fawcett asked on 16 March 2012 (Proof Hansard page 47):

With the current tranche of contracts (Romeo, C17, Super Hornet, JSF), have we increased our IP options further (refers to discussion on ARH and MRH90 IP issues on Page 46)

Response:

Information on the following sustainment contracts is provided below:

Romeo

The Romeo was purchased through a foreign military sales (FMS) case with the United States (US) Government. In the letter of request (LOR), Defence requested the necessary intellectual property (IP) to support the platform and the ability to sub-licence that IP to allow competition. At the time of signing the LOR and acceptance with the US Government, Defence had received a written undertaking that the US would ‘flow down’ any IP rights it held in respect of the data and this would be captured in the form of an IP schedule and provided to the Commonwealth ‘as quickly as possible’ after letter of acceptance signature. Although Defence cannot be certain of the extent of the rights that will be granted under the FMS case, it has a high degree of confidence that it will enable sustainment to be competed. Defence has also entered into direct IP Deeds with the original equipment manufacturers to obtain some rights to compete for sustainment activities in return for a royalty fee in the event the rights are not available through the US Government.

C-17

Like the Romeo, the C-17 capability is purchased through a FMS case. The acceptance of standard FMS terms and conditions, including in relation to IP, was a conscious decision made by Defence at the time of acquisition, based on the preferred sustainment methodology, which leveraged off existing US sustainment arrangements for the global fleet and provided cost benefits that made the acquisition and sustainment of a small C17 fleet viable. Defence understands that many items fitted to the C17 were obtained from suppliers without comprehensive IP transferring to Boeing or the US Air Force. Alterations to the standard FMS arrangements may not actually generate additional access to IP. Defence is currently considering whether to contract out a range of maintenance tasks that are currently being conducted in Australia.

Super Hornet

The Commonwealth also acquired the Australian F/A18-F Super Hornet aircraft fleet through a FMS case. The FMS case places limitations on the Commonwealth's ability to have the full scope of sustainment for the fleet contracted commercially. This is mainly as a result of the IP rights provided to the US Government by US industry. These restrictions led to the current sustainment arrangements, which have involved a combination of FMS cases (including for certain aircraft systems that must be supported via FMS) and a direct commercial contract with the Boeing Company.

The US Department of the Navy has advised that, provided appropriate approval from the US Department of State is obtained, there should be no impediments to providing technical data (and related IP) to industry to compete for the existing Boeing sustainment contract.

New Air Combat Capability (JSF)

The Commonwealth has joined the nine nation partnership to cooperatively produce, sustain and develop Joint Strike Fighter Air (JSF) Systems by signing the JSF Production, Sustainment and Follow on Development (PSFD) Memorandum of Understanding (MOU).

The common basis for the cooperative project as set out in the MOU is that the configuration of the air systems will be kept as common as possible (through production and follow on development), and that the nations will cooperate to establish a common sustainment solution. Sustainment will be delivered through a contracted solution except for operational maintenance, which each nation will manage itself.

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. The partnership does not intend acquiring the IP rights to enable the partnership to independently re-design or manufacture the air system without Lockheed Martin involvement. Instead, it is intended that Lockheed Martin will continue to play a significant role in the provision of the sustainment solution and in follow on development of the air system. Use rights for the air system are provided by virtue of the terms of the JSF PSFD MOU. The Commonwealth will obtain information delivered under contracts, subject to national disclosure policy limitations. The Commonwealth may also request that additional information be provided or purchased. The project is undertaking an IP needs analysis to identify what information may be required in relation to sustainment, noting that no air systems have yet been acquired.

Joint Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q28: Health Expenses for APS Staff

Ms Brodtmann provided in writing:

On page 390 of the Defence Annual Report, you report health expenses for APS staff of \$4.410 million for 2011 (3A).

- (a) What health services are provided to APS staff?
- (b) Can you please provide details of the health expenses for 2011?

Response:

Part (a) and (b)

Defence health expenses for 2010-11 are comprised of the following:

- \$1.862 million for Australian Public Service occupational health screenings (such as workstation assessments), required Occupational Health & Safety equipment, injury prevention assessments, flu vaccinations, first aid training and medical supplies, screen based testing and reimbursement of glasses;
- \$0.174 million for Australian Public Service General Practitioner fees for pre deployment examinations;
- \$0.656 million for Australian Public Service fitness and medical costs for Australian Public Service posted overseas;
- \$0.124 million for Australian Public Service Commonwealth Medical Officer permanent appointments tests; and
- \$1.594 million for Australian Public Service rehabilitation and case management services.

Senate Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012 Q29: Sale of Land and Buildings

Ms Brodtmann provided in writing:

On page 394 of the Defence Annual Report, you report \$90.129 million for 2011 from proceeds from sale of land and buildings (3H). Can you please provide details of the sale of the land and buildings (what buildings were sold/when were they sold/why/revenue raised from each sale), and why the dramatic increase from 2010?

Response:

The \$90.129 million identified is comprised of land sales (\$81 million) and the sale of buildings (\$9.129 million).

Land sales of \$81 million primarily relate to the sale of:

- Former Army stores depot in North Penrith
- Former Rydalmere stores depot in Ermington NSW
- Former Bushmead Rifle Range
- Rifle Cottage Artillery Barracks

Buildings valued at \$9.129 million relate to the disposal of off base housing, which is based on an agreed process with the Defence Housing Authority (DHA). The housing sold was in the following areas:

**Housing Property Sales
2010/11**

Suburb	State	Postcode	Number	Sale Value
BOMADERRY	NSW	2541	1	\$346,000
CORLETTE	NSW	2315	1	\$430,000
FLINDERS VIEW	QLD	4305	5	\$1,472,000
FOREST HILL	NSW	2651	2	\$505,000
GERALDTON	WA	6530	2	\$640,000
GLENFIELD PARK	NSW	2650	1	\$272,000
HUNTINGFIELD	TAS	7055	1	\$350,000
KALGOORLIE	WA	6430	1	\$360,000
KATHERINE EAST	NT	0850	4	\$1,343,000
KINGSTON	TAS	7050	1	\$380,000
MEDOWIE	NSW	2318	1	\$325,000
MOUNT SHERIDAN	QLD	4868	1	\$395,000
OAKEY	QLD	4401	1	\$230,000
ORANGE	NSW	2800	1	\$310,000
POINT LONSDALE	VIC	3225	1	\$547,000
RAYMOND TERRACE	NSW	2324	2	\$654,000
TAMWORTH	NSW	2340	1	\$310,000
WODONGA	VIC	3690	1	\$260,000
TOTALS			28	\$9,129,000

Defence disposed of these properties as they were no longer required for capability purposes in accordance with the Commonwealth Property Disposals Policy.

Revenue from property disposals will vary from year to year depending on timing of when properties are declared surplus to Defence needs, consideration of alternate Government use and market interest, and the need to undertake remediation in some circumstances.

Senate Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q30: Sale of Specialist Military Equipment

Ms Brodtmann provided in writing:

On page 394 of the Defence Annual Report, you report \$3.4 million for 2011 from proceeds from the sale of specialist military equipment (3H). Can you please provide details of this equipment (what/why it was sold/revenue raised from each sale), and why there was no activity in 2010?

Response:

The \$3.4 million reported at note 3H on page 394 of the 2010-11 Defence Annual Report represents part of the proceeds from the sale of Defence's Boeing 707 (B707) capability. The final B707 aircraft was withdrawn from service on 1 July 2008. The B707 capability was withdrawn from service following a capability assessment process having determined that the B707 capability had reached the end of its useful life with the Royal Australian Air Force.

The timing of sales of specialised military equipment are driven by a capability assessment process that determines the platform withdrawal dates for Defence's specialised military equipment and its availability for disposal. There was no revenue from the sale of specialised military equipment in 2009-10, as the capability assessment process had not provided assets for sale during this period.

Senate Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q32: Revenue from Services to DMO

Ms Brodtmann provided in writing:

On page 396 of the Defence Annual Report, you report revenue raised from services rendered to the DMO (4A and 4C), and the figures are significant.

- (a) Can you please provide details of each line item?
- (b) Why is the DMO treated as a separate entity?
- (c) Was this a recommendation of one of the reviews?
- (d) Why are internal payments shown on the financial statements? See also page 126 of the DMO Annual Report.

Response:

Part (a) – explanation of Defence Materiel Organisation (DMO) related line items as follows:

Recovery of military salary from DMO \$155.6 million in 2010-11

One type of agency agreements referred to is Military Workforce Agreements. This is a mechanism by which the Services and DMO agree on the number of military personnel who will be supplied by Defence to work within the DMO.

Under this approach, military staff are ‘owned’ by Defence but ‘employed’ within DMO and DMO pays Defence a ‘fee’ for services provided. The ‘fee’ is treated as a suppliers cost for DMO and revenue for Defence. In 2010-11, \$155.6 million was recognised as revenue to Defence for military personnel supplied to the DMO.

Sale of services to DMO \$187.9 million in 2010-11

Another of the agency agreements between Defence and DMO is Defence Services Agreements (DSAs). These agreements are priced services agreements that articulate the purchase of Defence services by the DMO. For example sustainment services that were previously provided directly to the DMO by Joint Logistic Command must now be purchased via DSAs. In 2010-11, \$187.9 million was recognised as revenue by Defence for the sale of services to the DMO primarily comprised of:

- Logistic support services from Vice Chief of the Defence Force Group \$148.4 million;
- Science & technology support from the Defence Science and Technology Organisation \$31.3 million; and
- Infrastructure related support from Defence Support Group \$6.4 million.

Resources received Free of Charge \$750.4 million in 2010-11

Resources free of charge for goods and services are recognised as revenue when a fair value can be reliably determined and the services would have been purchased had they not been donated. Use of those resources is recognised as an expense. Fair value is determined based on actual full cost of the resources were to be purchased.

Resources received free of charge are comprised of:

- DMO acquisition and sustainment services of \$746 million in 2010-11

The DMO is appropriated directly for its civilian workforce who contributes to delivering goods and services to Defence. As such, Defence recognises the receipt of these services as being received free of charge. The services of DMO's civilian workforce recognised in Defence's accounts as being received free of charge is comprised of services contributing to the delivery of:

- \$541 million for sustainment related activities;
 - \$203 million for acquisition related activities; and
 - \$1.8 million for commercial policy and practice (procurement and legal advice).
- Other resources received free of charge of \$4 million in 2010-11 includes services received from the Australian National Audit Office.

Parts (b), (c) and (d)

In 2003 the Government commissioned a study into the effectiveness and efficiency of Defence acquisition and sustainment: 'The Defence Procurement Review' (also known as the 'Kinnaird Review/Report'). The review made several recommendations to Government. One of those recommendations was the prescription of the DMO to generate a customer – supplier relationship with Defence.

From 1 July 2005, the DMO became a prescribed agency under the Financial Management and Accountability Act 1997 (FMA Act). This means that the Chief Executive Officer of the DMO (CEO) is accountable independently to the Minister for Defence under the FMA Act and that Defence and DMO produce independent financial statements.

As a Prescribed Agency under the FMA Act, DMO now receives the majority of its revenue from two sources: Government (via direct appropriation) and Defence (via Agency Agreements).

Senate Standing Committee on Foreign Affairs, Defence and Trade

QUESTIONS ON NOTICE - COMMITTEES

Parliamentary Committee

2010-11 Defence Annual Report Hearing – 16 March 2012

Q34: Surplus

Ms Broadtmann provided in writing:

On page 126 of the DMO Annual Report, you report a surplus attributable to the Australian Government of 56.4 million for 2011.

- (a) What is this?
- (b) What does this mean?
- (c) Why has it halved between 2010 and 2011?

Response:

Parts (a), (b) and (c)

The amount of \$56.4 million disclosed on page 126 of the Defence Materiel Organisations (DMO) Annual Report as “surplus attributable to the Australian Government”, represents unspent appropriation for DMO workforce and operating costs.

The reduction in this amount from 2010 to 2011 represents an increased ability to spend against budget/appropriation and a return during the year of forecast underspend in appropriation to Consolidated Revenue.