

Introduction

- 1.1 During the period July 2003 to June 2004, Defence has been subject to a range of external and internal challenges. The *Defence Update 2003* highlighted the changed strategic environment in which the Australian Defence Force (ADF) operates.¹ In particular, the rise of global terrorism and the threat of non-state actors is causing Defence to reassess its capabilities. The new Defence Capability Plan (DCP) provides detailed information on the capabilities that Defence will acquire during the next 10 years.
- 1.2 Defence has embarked on an ambitious program of reform to its procurement arising from the Kinnaird Report.² The Defence Material Organisation (DMO) will become a separate prescribed authority headed by Dr Stephen Gumley. In addition, a Capability Development Group (CDG) was formed within Defence for the purpose of defining capability requirements and advising DMO of specific capability needs.
- 1.3 The management of Defence's budget is critical. Defence has a large complex system and like other government agencies must demonstrate transparency and accountability to the Parliament. Defence's budget is qualified and a significant amount of work is being done on rectifying these concerns.
- 1.4 At the same time that these internal reforms are occurring, Defence has personnel deployed on operations in areas such as Iraq, the Solomon Islands and East Timor. In addition, ADF personnel have, at short notice, been called to provide humanitarian assistance following the tragic Tsunami on Boxing Day 2004.

1 Department of Defence, *Australia's National Security, A Defence Update 2003*, March 2003.

2 Department of Prime Minister and Cabinet, *Defence Procurement Review 2003*, 15 August 2003.

- 1.5 The four topics selected for examination, as part of the review of the *Defence Annual Report 2003-04*, cover some of these issues. The first topic examines reforms to the Defence procurement system. In particular, the changes to the DMO and the developing relationship between the DMO and the CDG will be explored.
- 1.6 Topic two examines Australia's future amphibious capability. The current DCP has confirmed that two large amphibious ships will be purchased to replace Australia's current amphibious capability. Some groups such as ASPI suggest that it may be more effective to purchase four smaller amphibious vessels rather than two large ships. This issue will be examined as part of this topic.
- 1.7 Defence's qualified financial statements, and the steps Defence is taking to improve this situation are examined in topic three.
- 1.8 The final session examines Defence's range of humanitarian relief operations. The most recent example is Defence's contribution following the Tsunami on Boxing Day 2004. Defence will detail the extent of its humanitarian relief capabilities and their relationship to Defence's key war fighting objectives.

Defence objectives, personnel and 2004-05 Budget allocation

- 1.9 The Portfolio Budget Statements (PBS) 2004-05 provides information on the overall Budget allocation and key initiatives. Defence's strategic objectives are influenced by the strategic principles set out in *Defence 2000 – Our Future Defence Force* (the Defence White Paper) and in *Australia's National Security: A Defence Update 2003* (the Defence Update 2003). Defence states that the principles set out in these documents 'remain a valid framework for addressing Australia's defence policy.'³ This point was reiterated in the Defence Update with the comment that 'while the principles set out in the White Paper remain sound, some rebalancing of capability and expenditure will be necessary to take account of changes in Australia's strategic environment.'⁴
- 1.10 As outlined in the White Paper, there are five strategic objectives to which Defence contributes:
- ensuring the defence of Australia and its direct approaches;

3 Defence Portfolio, *Portfolio Budget Statement 2004-05*, p. 3.

4 Department of Defence, *Australia's National Security, A Defence Update 2003*, February 2003, pp. 5-6.

- fostering the security of Australia's immediate neighbourhood;
- promoting stability and cooperation in Southeast Asia;
- supporting strategic stability in the wider Asia-Pacific region; and
- supporting global security.

1.11 In relation to capability, Defence states:

The training and skill levels of the ADF will be suitable for providing the nucleus for an Australian-led coalition force, or for providing a commitment to other coalitions. Consequently, the ADF will be able to operate in the maritime, air and land environments both separately and jointly.⁵

1.12 The ADF is maintaining a force structure that comprises the following combat elements:

- a surface combatant force of six guided missile frigates (FFGs) which will be reduced to four from 2006, and five Anzac-class frigates (rising to eight by 2006), together with onboard helicopters;
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships and one heavy landing ship;
- a mine hunter force comprising six coastal mine hunters (two of which are to be placed in extended readiness from 2006) and a hydrographic force comprising two hydrographic ships;
- an afloat support force comprising one oil tanker (to be replaced by 2006 with a more environmentally-friendly double-hulled tanker) and one replenishment ship;
- five Army Infantry Battalions at 90 days readiness or less, an ASLAV Cavalry Regiment, and a Tank Regiment, each supported by a range of armour, aviation, engineer, artillery, logistics and transport assets, and a number of lower-readiness formations and units able to provide personnel for sustainment and rotation;
- a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
- three Regional Force Surveillance Units;
- a Special Force Group consisting of a Special Air Service Regiment, a regular Commando Regiment, a reserve Commando Regiment, an Incident Response Regiment and a combat service support company;
- an air combat force of three front-line F/A-18 Squadrons and one operational F-111 Squadron (to be retired from service by about 2010),

5 Defence Portfolio, *Portfolio Budget Statement 2004-05*, p. 3.

supported by training squadrons, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements. Airborne Early Warning and Control aircraft will be deployed from 2007 and new operational air-to-air refuelling aircraft from late 2006;

- a maritime patrol force of two front-line P-3C Orion Squadrons; and
- agencies responsible for intelligence collection and analysis.⁶

1.13 Defence commented that these 'major combat elements are being progressively more integrated and informed through a number of command, communications and intelligence systems.'⁷

1.14 For 2004-05 the most recent Budget estimates for Defence are shown in the PBS. Table 1.1 reproduces the key information.

Table 1.1 Defence Resourcing Summary – 2004-05

	2003-04 Actual Result \$000	2004-05 Budget Estimate \$000
Revenue from Government for outputs	14,636,157	15,625,941
Own source revenue	428,849	330,562
Equity injection from Government	706,334	299,025
Net Capital receipts	101,961	91,980
Administered appropriation	2,319,500	2,336,900
Total Defence resourcing	18,192,801	18,684,408

Notes

1. Own-source revenue excludes 'assets now recognised' revenue and 'net gains from sales of assets' revenue.
2. The administered appropriation of \$2,336.9m covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed by the Department of Finance and Administration (Commonwealth Superannuation) and the Defence Housing Authority (housing subsidies) on Defence's behalf.

Source Defence Portfolio Budget Statement 2004-05, p. 23; Defence Annual Report 2003-04, p. 37.

1.15 The average annual strength of the three services for the five years from 2000-01 through to 2004-05 is shown in Table 1.2 below.

⁶ Defence Portfolio, *Portfolio Budget Statement 2004-05*, pp. 4-5.

⁷ Defence Portfolio, *Portfolio Budget Statement 2004-05*, p. 5.

Table 1.2 Average Annual Strength of Services (number of persons) – 2000-01 to 2004-05

	2000-01	2001-02	2002-03	2003-04 Actual result	2004-05 Budget estimate
Navy	12,396	12,598	12,847	13,133	13,167
Army	24,488	25,012	25,587	25,446	26,035
Air Force	13,471	13,322	13,646	13,455	13,670
Total Permanent Force	50,355	50,932	52,080	52,034	52,872

Source Defence Annual Report 2003-04, p. 260; Defence Portfolio Budget Statements 2004-05, p. 205.

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

Table 1.3 2004-05 ADF Reserve and civilian staffing

Reserve Force	2003-04 Actual result	2004-05 Budget Estimate
Navy	1,881	1,850
Army	16,445	16,700
Air Force	2,162	2,160
Total Reserve Force	20,448	20,710
Civilian Staffing	18,303	17,841

Source Defence Portfolio Budget Statements 2004-05, p. 206; Defence Annual Report 2003-04, pp. 260-261.

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

Table 1.4 2004-05 Total Defence Workforce

Workforce	2003-04 Actual result	2004-05 Budget Estimate
Military	72,522	73,582
Civilian	18,303	17,841
Professional service providers	1,878	n/a
Total Workforce	92,703	91,423

Source Defence Portfolio Budget Statements 2004-05, p. 205; Defence Annual Report 2003-04, p. 263. Professional Service Providers are individuals under contract filling line positions. This category of worker was not tracked until 2003-04.

Annual Report review objectives and scope

1.18 The review examines a combination of information from the PBS 2004-05 and the Defence Annual Report 2003-04.

Focus areas

1.19 The four focus areas selected for scrutiny at the public hearing provided an opportunity to examine how Defence is addressing the new strategic environment as articulated through the Defence Update and the Defence Capability Review. The four focus areas were:

- reforms to the DMO;
- Australia's future amphibious requirement.
- the adequacy of Defence's financial statements; and
- Defence's contribution to humanitarian relief operations.

1.20 In addition, the Secretary of Defence and the Chief of the Defence Force attended the hearing. The session with the dual leaders of the ADO provided an opportunity to scrutinise a range of issues across the entire Defence Annual Report.