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The Parliament of the Commonwealth of Australia

# **Review of the Defence Annual Report 2001-02**

Joint Standing Committee on Foreign Affairs, Defence and Trade

September 2003  
Canberra

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## **Chairmen's Foreword**

The 2001-02 Defence Annual Report covers a period of climactic events affecting Australian and world security. The terrorist attacks of 9-11 and the rise of non-state adversaries are causing nations to evaluate and reconsider their national defence strategies and priorities. Australia is not alone in this challenge.

The review of the Defence Annual Report provides an opportunity to scrutinise the performance of Defence in delivering key services but also in how it is reacting to new security threats. Defence has recently established a Special Operations Command. A key component of this is the new Tactical Assault Group (East) and the Incident Response Regiment. A key challenge faced by Defence in providing these new capabilities is the provision of highly trained personnel.

The Australian Defence Force (ADF), and particularly the Army, is subject to high operational tempo which has implications for personnel, training and equipment. The Committee examined how Defence is managing Army personnel and equipment.

A key Defence procurement program is the replacement of the F/A-18 and F-111 combat and strike aircraft. The Government has committed funding to the Systems Design and Development stage of the Joint Strike Fighter (F-35) program. A decision on whether to purchase the F-35 is not required until 2006. The Committee examined the F-35's capability, the transitional arrangements from the existing aircraft to the F-35, and possible Australian industry involvement opportunities.

Financial management and performance reporting of Defence outcomes and outputs are key requirements which ensure transparency and accountability to the Parliament. The 2003-04 Portfolio Budget Statements (PBS) are an improvement over the previous year. Further improvements, however, are possible.

The final session of the public hearing examined a range of issues which focused on the *Defence Update 2003*, Reserve policy, and military justice.

Through the review of the 2001-02 Defence Annual Report, the Committee recommends that the Department of Defence should:

- include in future Portfolio Budget Statements cost data on the ADF Reserve Forces including total cost data and cost data by Service; and
- respond to the measures proposed by the Australian Strategic Policy Institute to improve Defence budgetary transparency discussed on pages 99 to 105 of the ASPI Defence Budget Brief 2003-04.

In addition, the Department of Defence should provide information in its Annual Report:

- indicating, and giving reasons for, the key changes to Defence capability which are identified in the next Defence Capability Plan;
- detailing the Army's personnel deficiencies and the measures being undertaken to address these problems;
- detailing the work and performance outcomes of the Military Inspector General (Military Justice) of the Australian Defence Force;
- giving a description of the role, structure and function, including transition to new functions, of Reserve forces, and the extent to which Army is blending them with regular units; and
- outlining Australia's role in the Joint Strike Fighter program, the projected cost, transitional arrangements and progress with Australian industry involvement in the program. The Department of Defence should include performance targets and objectives in its report. Subsequent Annual Reports should report outcomes against those targets and objectives.

The Committee concludes that the implementation of these measures will enhance transparency and Parliamentary accountability of Defence operations. In conclusion, and on behalf of the Committee, we would like to thank all those who have contributed to the review of the 2001-02 Defence Annual Report.

**Senator Alan Ferguson**  
**Committee Chairman**

**Hon Bruce Scott, MP**  
**Chairman**  
**Defence Sub-Committee**



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## Membership of the Committee

**Chair** Senator A B Ferguson

**Deputy Chair** Hon L J Brereton, MP

**Members**

Senator A Bartlett (from 1/7/02)	Hon K C Beazley, MP
Senator M Bishop (from 1/7/02; to 19/8/02)	Hon A R Bevis, MP
Senator the Hon N Bolkus (from 1/7/02)	Hon G J Edwards, MP
Senator V W Bourne (to 30/6/02)	Mr L D T Ferguson, MP
Senator P H Calvert (to 19/8/02)	Mrs J Gash, MP
Senator H G P Chapman (to 30/6/02)	Mr D P M Hawker, MP
Senator the Hon P Cook	Hon D F Jull, MP
Senator A Eggleston (from 1/7/02)	Mr P J Lindsay, MP
Senator C Evans	Hon Dr S P Martin, MP (to 16/8/02)
Senator B Gibbs (to 30/6/02)	Hon J E Moylan, MP
Senator B Harradine	Mr G R Nairn, MP
Senator S Hutchins (to 30/6/02; from 19/8/02)	Hon L R S Price, MP
Senator D Johnston (from 22/8/02)	
Senator J A L Macdonald	Hon G D Prosser, MP
Senator K O'Brien (from 1/7/02)	Hon B C Scott, MP
Senator M A Payne	Hon W E Snowdon, MP
Senator the Hon C Schacht (to 30/6/02)	Hon A M Somlyay, MP
Hon B G Baird, MP	Mr C P Thompson, MP
Mr R C Baldwin, MP	

**Secretary** Dr Margot Kerley





## **Membership of the Defence Sub-Committee**

**Chair** Hon B C Scott, MP

**Deputy Chair** Hon L R S Price, MP

**Members** Senator C Evans  
Senator A B Ferguson  
Senator S Hutchins (to 30/6/02; from 19/8/02)  
Senator D Johnston (from 22/8/02)  
Senator J A L Macdonald  
Senator M A Payne

Mr R C Baldwin, MP  
Hon K C Beazley, MP  
Hon A R Bevis, MP  
Hon L J Brereton, MP  
Mr AM Byrne, MP  
Hon G J Edwards, MP  
Mrs J Gash, MP  
Mr D P M Hawker, MP  
Mr P J Lindsay, MP  
Mr G R Nairn, MP  
Hon W E Snowdon, MP  
Hon A M Somlyay, MP  
Mr C P Thompson, MP

**Secretary** Mr Stephen Boyd

**Defence  
Adviser** Wing Commander Rob Scrivener, AM, CSM

**Administrative  
Officer** Ms Emma Flynn



## **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.<sup>1</sup>

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

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<sup>1</sup> See *Journals of the Senate*, No. 3, 14 February 2002 and *Votes and Proceedings*, No. 3, 14 February 2002

<sup>2</sup> See *Votes and Proceedings*, No. 3, 14 February 2002



## List of abbreviations

ADF	Australian Defence Force
AIGDC	Australian Industry Group Defence Council
ANAO	Australian National Audit Office
ASPI	Australian Strategic Policy Institute
ASR	Annual Strategic Review
CBR	Chemical, biological and radiological weapons
CBRNE	Chemical, biological, radiological, nuclear and explosives
CDF	Chief of Defence Force
CISA	Centre for International Strategic Analysis
CUC	Capital Use Charge
IRR	Incident Response Regiment
IRS	Parliamentary Library Information Research Service
JSF	Joint Strike Fighter
PAES	Portfolio Additional Estimates Statements
PBS	Portfolio Budget Statements
SDD	System Design and Development
TAG	Tactical Assault Group



## List of recommendations

### Recommendation 1

The Committee recommends that the Government investigate claims of possible duplication between the Tactical Assault Group (TAG) and State Police Forces and clearly set out the long term role of the TAG, its working relationship with State Police Forces and the types of action that the TAG will perform that State Police Forces will not.

Second, the Commonwealth Government should consult with State Governments about their capacity to provide response capabilities to chemical, biological, radiological, nuclear and explosive incidents. Following this consultation, the Commonwealth Government should clearly set out its future role for the Incident Response Regiment (IRR).

Third, the Commonwealth Government should clarify whether it is satisfied that funding for the enhanced TAG capability and the IRR has achieved an adequate balance between the two. [Paragraph 2.39]

### Recommendation 2

The Committee recommends that the Department of Defence provide details in its Annual Report of the Army's personnel deficiencies, including the personnel shortage profile, the measures being undertaken to address these problems including policies arising from the *Defence Personnel Environment Scan 2020* and the time required to achieve optimum personnel levels. [Paragraph 3.31]

**Recommendation 3**

The Committee recommends that when the 2003-2013 Defence Capability Plan is released, the Department of Defence should release a statement indicating, and giving reasons for, the key changes to Defence capability that have been made. [Paragraph 3.41]

**Recommendation 4**

The Committee recommends that the Department of Defence should respond to the measures proposed by the Australian Strategic Policy Institute (ASPI) to improve Defence budgetary transparency discussed on pages 99 to 105 of the ASPI Defence Budget Brief 2003-04. [Paragraph 4.22]

**Recommendation 5**

The Committee recommends that the Department of Defence outline in its Annual Report Australia's role in the Joint Strike Fighter program, the projected cost, lifecycle costs, transitional arrangements and progress with Australian industry involvement in the program. The Department of Defence should include performance targets and objectives in its reports. Subsequent Annual Reports should report outcomes against those targets and objectives. [Paragraph 5.44]

**Recommendation 6**

The Department of Defence should include cost data on the ADF Reserve Forces including total cost data and cost data by Service. The Defence Portfolio Budget Statement should include a new Outcome Statement which includes information on the Reserves and provides information about Reserve capability together with measurable performance indicators down to formation equivalent level. [Paragraph 6.19]

**Recommendation 7**

The Department of Defence should include detailed information in the Defence Annual Report on the role, structure and function, including transition to new functions, of Reserve forces and the extent to which Army is blending them with regular Army units. This description should provide a diagrammatic representation detailing all Army Reserve units, their size, location and the regular units that they support. [Paragraph 6.20]

**Recommendation 8**

The Department of Defence should include information in the Defence Annual Report detailing the work and performance outcomes of the Military Inspector General of the Australian Defence Force (Military Justice). [Paragraph 6.34]

**Recommendation 9**

The Department of Defence should provide the Committee with the final report of a review of the Defence Legal Service which was due for completion by 30 June 2003. This report should be provided to the Committee by 31 October 2003. [Paragraph 6.35]

## Introduction

- 1.1 The 2001-02 Defence Annual Report covers a period of climactic events affecting Australian and world security. The terrorist attacks of 9-11 and the rise of non-state adversaries are causing nations to evaluate and reconsider their national defence strategies and priorities. Australia is not alone in this challenge. The review of the Defence Annual Report provides an opportunity to scrutinise the performance of Defence in delivering key services but also in how it is reacting to new security threats.
- 1.2 Four topics for scrutiny were selected from the Defence Annual Report which help focus attention on how Defence is addressing the new security environment. First, Defence is expanding its counter terrorism capability by establishing a second tactical assault group (TAG). The second issue is Army's capability and readiness. The Army is experiencing a sustained period of high operational tempo with troops deployed on a range of operational tasks within the region and further a field. The result is an increased focus on readiness and preparedness to support force rotations, as well as ensuring the Army is capable of responding to new or unexpected situations as they arise.
- 1.3 In contrast to these specific responses to terrorism, Defence has embarked on a possible multi-billion dollar purchase of a new strike and interceptor aircraft, the F-35 which is the third review topic. Underpinning all of these Defence programs is the Defence Budget and military strategy. Topic four focuses on the total Defence Budget and its adequacy in delivering Defence capability. The final chapter examines a range of issues including the *Defence Update 2003*, Reserve Policy and issues relating to military justice.
- 1.4 This chapter provides an overview of Defence, focusing on the Budget, capability and personnel. The Annual Report review objectives are set out

and the review topics are briefly discussed. The following five chapters each focus on the selected topics.

## **Defence objectives, personnel and 2003-04 Budget allocation**

1.5 The 2003-04 Portfolio Budget Statements (PBS) 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). Defence states that the principles in the White Paper 'remain a valid framework for addressing Australia's defence policy'.<sup>1</sup> As outlined in the White Paper, there are five strategic objectives to which Defence contributes:

- ensuring the defence of Australia and its direct approaches;
- 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.

1.6 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 coalition forces. The ADF will be able to operate in the maritime, air and land environments both separately and jointly. Finally, Defence will be able to provide a range of peacetime contributions, including in relation to the security of Australia's territorial borders. The ADF will be sufficiently flexible to undertake some simultaneous operations in widely separated areas in defence of Australia.<sup>2</sup>

1.7 In 2003-04 the ADF is maintaining a force structure that comprises the following combat elements:

- a surface combatant force of six guided missile frigates and five Anzac-class frigates (rising to eight by 2006), together with onboard helicopters;

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1 Defence Portfolio, *Portfolio Budget Statement 2003-04*, p. 5.

2 Defence Portfolio, *Portfolio Budget Statement 2003-04*, p. 5.



- 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 and a hydrographic force comprising two hydrographic ships;
  - an afloat support force comprising one oil tanker and one replenishment ship;
  - six Army battalions at 90 days readiness or less, supported by a range of armour, aviation, engineer, fire support, logistics and transport assets, and a number of lower-readiness units able to provide personnel for sustainment and rotation;
  - a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
  - three Regional Surveillance Units;
  - an Incident Response Regiment and special forces consisting of the Special Air Service Regiment, a high-readiness commando battalion and a reserve commando battalion;
  - an air combat force of three front-line F/A-18 squadrons and one operational F-111 squadron, 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 operational air-to-air refuelling aircraft from about 2007;
  - a maritime patrol force of two front-line P-3C Orion squadrons; and
  - agencies responsible for intelligence collection and analysis.<sup>3</sup>
- 1.8 Defence states that these 'major combat elements will be integrated and informed through a number of well-developed command, communications and intelligence systems'.<sup>4</sup>
- 1.9 For 2003-04 the most recent Budget estimates for Defence are shown in the PBS. Table 1.1 reproduces the key information.

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3 Defence Portfolio, *Portfolio Budget Statement 2003-04*, pp. 6-7.

4 Defence Portfolio, *Portfolio Budget Statement 2003-04*, p. 6.

Table 1.1 2003-04 Budget estimate

	<b>2002-03 Projected Result \$000</b>	<b>2003-04 Budget Estimate \$000</b>
Revenue from Government for outputs	18,230,325	14,398,319
Own source revenue	330,316	280,945
Equity injection from Government	995,201	1,020,524
Net Capital receipts	109,482	106,484
Administered appropriation	2,236,481	2,236,481
<b>Total Defence resourcing</b>	<b>21,901,805</b>	<b>18,042,753</b>

**Notes**

1. 2002-03 revenue from Government for price of outputs includes \$5,056m associated with capital use charge revenue that has been discontinued from 2003-04.
2. Own-source revenue excludes 'asset now recognised' revenue.
3. Total own-source revenue of \$387.4m in 2003-04 includes resources received free of charge (\$2m) while this amount is excluded from total cash receipts in Table 1.10.
4. The real year-on-year per cent growth excludes capital use charge of \$5,056m in 2002-03. Total departmental funding includes the reimbursement of \$248.6m for Operations Bastille and Falconer which were funded from Defence's cash reserves in 2002-03. To show the underlying real growth, the year-on-year per cent growth has been calculated by reducing the 2003-04 figure by \$248.6m and increasing 2002-03 by the same amount.

Source *Defence Portfolio Budget Statement, 2003-04, p. 19.*

1.10 Defence reports that the 'total resourcing available to Defence in 2003-04 is \$18,043m, comprising departmental funding of \$15,806m and a further \$2,236m for the administered appropriation.'<sup>5</sup> Defence states:

Departmental funding of \$15,806m in 2003-04 represents an increase of \$1,197m compared to the projected 2002-03 result, excluding the capital use charge component in the 2002-03 budget that has been discontinued from 1 July 2003. This comprises an increase in total revenue from Government of \$1,249m and a net reduction in own-source revenue and net capital receipts of \$52m.<sup>6</sup>

1.11 The Defence Budget and performance framework is examined in more detail in Chapter four.

1.12 The average annual strength of the three services for the five years from 1998-99 through to 2003-04 is shown in Table 1.2 below.

<sup>5</sup> Defence Portfolio, *Portfolio Budget Statement 2003-04*, p. 19.

<sup>6</sup> Defence Portfolio, *Portfolio Budget Statement 2003-04*, p. 19.

Table 1.2 Average Annual Strength of Services (number of persons) – 1998-99 to 2003-04

	1998-99	1999-00	2000-01	2001-02 (actual)	2002-03 Projected Result	2003-04 Budgeted Estimate
Navy	13,661	12,887	12,396	12,598	12,828	13,000
Army	24,169	24,089	24,488	25,012	25,624	25,941
Air Force	15,065	14,051	13,471	13,322	13,652	13,400
<b>Total Permanent Force</b>	<b>52,895</b>	<b>51,027</b>	<b>50,355</b>	<b>50,932</b>	<b>52,104</b>	<b>52,341</b>

Source Department of Defence, Submission, Question W5 to review of Defence Annual Report 2000-01; Defence Annual Report 2001-02, p. 285; Defence Portfolio Budget Statements, 2003-04, p. 179.

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

Table 1.3 2003-04 ADF Reserve and civilian Staffing

Reserve Force	2002-03 Projected Result	2003-04 Budget Estimate
Navy	1,777	2,087
Army	16,500	16,700
Air Force	1,658	1,658
<b>Total Reserve Force</b>	<b>19,935</b>	<b>20,445</b>
Civilian Staffing	18,297	17,377

Source Defence Portfolio Budget Statements, 2003-04, p. 181.

1.14 Table 1.4 shows the total Defence Workforce comprising the military and civilian components.

Table 1.4 2003-04 Total Defence Workforce

Workforce	2002-03 Projected Result	2003-04 Budget Estimate
Military	72,039	72,786
Civilian	18,297	17,377
<b>Total Workforce</b>	<b>90,336</b>	<b>90,163</b>

Source Defence Portfolio Budget Statements, 2003-04, p. 179.

## Annual Report review objectives and scope

- 1.15 The review examines a combination of information from the 2003-04 PBS and the 2001-02 Defence Annual Report.

### Focus areas

- 1.16 The four focus areas selected for scrutiny at the public hearing provided an opportunity to examine how Defence is responding to the new strategic environment. The changing strategic environment raises questions about the adequacy of Defence funding, overall military strategy, tactical responses to terrorism and high levels of operational readiness. In contrast to these immediate needs is the focus on conventional Defence needs as demonstrated by the possible commitment to purchase the multi-billion dollar F-35 Joint Strike Fighter. The four focus areas are:
- ADF counter terrorism capability;
  - Army capability and readiness;
  - Financial management and performance; and
  - Force capability: Defence participation in F-35 project.
- 1.17 In addition, the final segment of the public hearing provided an opportunity to scrutinise a range of issues across the entire Defence Annual Report focusing on the Defence Update 2003, Reserve policy and military justice.

## Powers of the Defence Sub-Committee

- 1.18 Paragraph 1(b) of the resolution of appointment of the Joint Standing Committee on Foreign Affairs, Defence and Trade provides for the Committee to consider and report on the annual reports of government departments in accordance with a schedule tabled by the Speaker in the House of Representatives. The Speaker's schedule lists annual reports from agencies within the Defence and Foreign Affairs portfolios as being available for review by the Committee. The Committee's resolution of appointment is a resolution of both the Senate and the House of Representatives.
- 1.19 Paragraph 14 of the Committee's resolution of appointment provides the power to send for persons, papers and records. These powers are derived

from the powers of the Senate and House of Representatives which ultimately derive their power from section 49 of the Constitution.

- 1.20 One of the key objectives of the Committee, and the reason for its extensive powers and the right to review departmental annual reports, is to scrutinise and hold to account Executive Government. This is a key part of the separation of powers.
- 1.21 The administrative arrangements and discussions with Defence leading up to the Committee's public scrutiny of the review of the 2001-02 Defence Annual Report suggest that there is the need to remind Defence of its responsibilities to account to the Parliament. Leading up to the public hearing, the Committee advised the Minister for Defence of the five key areas that would be the focus of scrutiny. In addition, the Committee indicated that there would be an 'open session' in which a range of issues would be canvassed. Defence did not agree with the 'open session' because this could potentially require the presence of a considerable number of Defence officials.
- 1.22 This attendance of large numbers of Defence officials was not required and the Committee conducted the 'open' session as it wished. The scrutiny proceeded effectively and the Secretary of Defence and the Chief of the Defence Force (CDF) responded adequately to the wide range of questions that were asked. The Defence response to the 'open session' unfortunately fails to acknowledge the role and powers of this and other Parliamentary Committees. Executive Government cannot tell Parliamentary committees how to conduct their work or, more seriously, whether a line of questioning should proceed. As discussed above, the Committee has clear powers, deriving from the Constitution, which enable it to scrutinise and hold to account Executive Government.
- 1.23 Notwithstanding these comments, the level of cooperation with Defence over the scrutiny of the 2001-02 Defence Annual Report was a vast improvement over the previous review. Scrutiny of the nominated areas was effective and Defence cooperation was noted. In future years, the Committee will continue, as a means of promoting the efficiency of the public hearing, to advise Defence of key topics which it wishes to focus on. However, the final session will be an 'open' session in which members will raise any matters that they wish. The Committee is comfortable with the Secretary and the CDF, alone, responding to the Committee's questions and, where necessary, questions on notice can be taken.

## Conduct of the review

- 1.24 A public hearing on the review of the 2001-02 Defence Annual Report was held on 27 February 2003. A list of witnesses appearing at the hearing can be found at Appendix A.
- 1.25 The Department of Defence took some questions on notice and at a later date provided a submission containing answers to those questions. The submission is available from the Committee secretariat. The transcript of evidence and submission can be found at the Committee's website at [http://www.aph.gov.au/house/committee/jfadt/annreps\\_0102/defence.htm](http://www.aph.gov.au/house/committee/jfadt/annreps_0102/defence.htm)
- 1.26 The Committee appreciates the technical assistance of Mr Alex Tewes and Mr Peter Rixon of the Foreign Affairs, Defence and Trade Group, Information and Research Services, Parliamentary Library.

## **ADF Counter Terrorism Capability**

- 2.1 The Australian Defence Force (ADF) has increased its counter terrorism capability through the creation of a second tactical assault group (TAG East) and an incident response regiment (IRR) both based in Sydney. The ADF's existing TAG, which was formed prior to these, is located in Perth.
- 2.2 Defence commented that TAG East and the IRR 'have been formed to assist civil authorities to cope with major terrorist incidents, including the potential use of chemical, biological and radiological weapons.'<sup>1</sup> It was in response to the event of 9-11 that the Government decided to double the TAG capability.
- 2.3 This chapter examines the funding and objectives of the TAG and IRR.

### **Tactical Assault Group (EAST)**

#### **Funding, objectives and performance targets**

- 2.4 The TAG is a special forces unit trained to conduct counter terrorism activities in a range of situations, including the recovery of hostages. The full strength permanent group will be drawn from the existing ADF. Four year funding for the TAG is shown in Table 2.1.

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1 Department of Defence, *Annual Report, 2001-02*, p. 4.

Table 2.1 Four year Budget allocation for the tactical response capability

	2002-03	2003-04	2004-05	2005-06	Total over four years
Expenses (\$m)	32.6	37.8	28.8	33.4	132.6
Capital (\$m)	0.5	24.1	37.5	24.7	86.8
Total (\$m)	33.1	61.9	66.3	58.1	219.4

(Source: *Portfolio Budget Statements 2002-03, Defence Portfolio*, p. 20)

2.5 Table 2.1 shows that the ADF's counter-terrorist capability will receive \$132.6 million in expenses and \$86.8 million in capital over the next four years. During 2001-02 funding of \$23.1 million was provided to establish an interim east coast TAG.

2.6 The **performance targets** for the ADF's special forces as indicated in the Defence 2001-02 Annual Report are to:

- 'achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months, and.'
- 'achieve a level of training that maintains core skills and professional standards across all warfare areas.'<sup>2</sup>

2.7 The performance targets relate to the entire range of ADF special forces roles and tasks. This includes Special Forces counter-terrorist responsibilities (Black), as well as a broad range of war fighting (Green) capabilities. Counter-terrorism forms only one of the SAS Regiment and 4RAR outputs.

2.8 Defence reported that both performance targets were only partially achieved. In relation to TAG (East), the 4<sup>th</sup> Commando Battalion is in the process of becoming a full-time commando battalion and is responsible for establishing TAG (East).

2.9 The total cost over four years of enhancing the ADF's tactical response capability is \$219.4 million.

2.10 The TAG is trained in offensive operations in a range of environments, particularly urban, and one of the stated objectives 'is the recovery of hostages'. Terrorist action where hostages are involved is still used in an attempt to leverage terrorist demands. Recent examples include the use of hostages by Chechen terrorists and the Philippines Abu Sayaf.

2.11 Al-Qa'ida's terrorist activity, however, has mostly involved the use of suicide attacks and the delivery of bombs on soft and unsuspecting

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2 Department of Defence, *Annual Report, 2001-02*, p. 99.



targets. The Australian Strategic Policy Institute (ASPI) commented that the 'hijackings and hostage takings which were very much part of the pattern of terrorism in the 1970s have given way to attacks that aim at maximum casualties.'<sup>3</sup>ASPI concludes that, while capabilities to manage hostage situations are still important, 'our attention must shift from managing an incident once it is underway to preventing an attack before it begins, limiting the damage from an attack as much as possible'.<sup>4</sup>

- 2.12 The Parliamentary Library Information Research Service (IRS) raised questions about the establishment of the second TAG in view of current terrorist actions which seek to kill as many innocent people as possible rather than take hostages. The IRS stated:

...what is clear is that currently, hostage taking is less likely than suicide attacks. Responding to such threats would seem to require more emphasis on proactive intelligence work than on reactive counter-terrorist forces. It has been said that terrorism is easy to stop when found, but difficult to find. While the budget did allocate money to the intelligence services, it could be argued that the funds spent on the second TAG would be better spent on further increasing Australia's ability to identify potential terrorist threats.<sup>5</sup>

- 2.13 The rationale for TAG (East) is to ensure that, with the heightened security environment, the east coast of Australia would come under the umbrella of a TAG and be within reasonable response times. The Defence Minister, Senator the Hon Robert Hill, stated that the 'raising of a second TAG to complement the existing group based in Western Australia ensures that we have the capability to respond to simultaneous and geographically separate terrorist incidents.'<sup>6</sup>

- 2.14 Defence explained the call-out procedures that would apply for the use of the TAG:

...there are several ways in which call-out can be effected. Any of the jurisdictions, the various states, may apply to the Commonwealth requesting support, in which case the Commonwealth will contemplate that and may comply and

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3 Australian Strategic Policy Institute, *Beyond Bali, ASPI's Strategic Assessment 2002*, November 2002, p. 8.

4 Australian Strategic Policy Institute, *Beyond Bali, ASPI's Strategic Assessment 2002*, p. 16.

5 Department of the Parliamentary Library, Information and Research Services, *Implications, Budget 2002-03*, June 2002, p. 46.

6 Senator the Hon Robert Hill, *Media Release, New Counter-terrorist units strengthen Australia's defences*, 5 September 2002.

call-out of the Defence Force. Secondly, the Commonwealth may act in its own interest where it may call out the Defence Force to protect its own interest. They are the two broad areas. There are several other permutations relating to territories and states. The two major situations are whether a state requests of the Commonwealth for call-out or whether the Commonwealth acts on its own behalf.

Under the Defence Act there is a series of steps that must be gone through, which you are probably aware of, requiring the Governor-General in Council, finally, to sign off and authorise the calling out of the Defence Force. When that is done, the TAG is then deployed forward to an incident site and engagement with the local police forces that are deployed at the incident site begins.<sup>7</sup>

- 2.15 ASPI suggested that, for legal reasons, it may be preferable in the future to shift the counter-terrorism capabilities from the ADF to Federal and State police forces. ASPI stated:

In the longer term the primary counter-terrorism response capability might best be moved from the ADF to Federal and State police forces, which will almost always be able to get to a terrorist scene more quickly than the ADF, and are on a surer legal footing to undertake such operations. NSW and Vic have made important starts to further developing their own counter-terrorist and response capabilities. But this approach needs to be mirrored across all States and Territories. This would then free up ADF Special Forces to focus on their overseas missions.<sup>8</sup>

- 2.16 Part IIIAAA of the *Defence Act 1903* deals with the Utilisation of Defence Forces to protect Commonwealth interests, and States and self-governing Territories, against domestic violence. Section 51I discusses the recapture of premises and the freeing of hostages. Defence stated:

Part IIIAAA provides that a designated incident may be identified and rated such that there is a need for a call-out of the Defence Force to assist the civil authority to resolve that incident. That call-out process goes through the steps I have mentioned: either it is state initiated to the Commonwealth—that is, the state asks the Commonwealth—or the Commonwealth initiates in its own interest. The Governor-General in Council then signs off, saying the call-out is authorised. It will be for a specific area, and this is

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7 Major General Duncan Lewis, Commander Special Operations *Transcript*, p. 8.

8 Australian Strategic Policy Institute, *Beyond Bali, ASPI's Strategic Assessment 2002*, p. 17.

where the changes emerged in part IIIAAA. It was quite specific in terms of the geographic area; there has to be a designated area. An example might be that within the precincts of Parliament House there is an incident. In the past it was nonspecific and there would just be a general call-out for the ADF to the ACT, for example. Now we have to actually specify where this incident is taking place and the area within which the ADF can act in support of the civil authority. There are certain powers that are given to the ADF within that designated area. They relate to the powers of arrest and the powers of search, and it is quite complicated with regard to who can do what and under what circumstances.<sup>9</sup>

2.17 The use and operation of the TAG will involve coordination of Commonwealth and state responsibilities. In April 2002 an agreement between the Commonwealth, States and Territories determined that the Commonwealth is to have responsibility for 'national terrorist situations'. This means that all Commonwealth, State and Territory counter terrorism resources will be coordinated at a national level.

2.18 In particular, the agreement provides that 'the Commonwealth will consult and seek the agreement of affected States and Territories before a national terrorist situation is declared and states and territories agree not to withhold unreasonably such agreement.'<sup>10</sup> Defence explained the liaison that would occur with a State Police force in the event of the need for a counter-terrorist response:

Where a site is designated to be a counter-terrorist incident, the police will nominate a police forward commander. That police officer is the authority for that area and he remains the authority throughout, whether the Defence Force is acting within the area or not. The police officer is in charge. At some point the police officer may come to the view that the incident has deteriorated to such a point that, with his civil resources, he can no longer resolve the incident and will call on the Defence commander present, who is the commanding officer of the TAG, to resolve the incident.

If that is done in a deliberate and time allowing way, then approval for that employment of the Defence Force will be sought through the minister to government. If, however, time does not allow—if there is a cataclysmic collapse of the situation—then the Military Commander (Forward), in conjunction with the police commander, can launch the Defence Force in an assault on his

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9 Major General Duncan Lewis, Commander Special Operations *Transcript*, p. 11.

10 Attorney-General, *National Move to Combat Terror*, News Release, 7 April 2002.

own call, but he needs to satisfy a number of legal requirements, obviously, before that is done.<sup>11</sup>

- 2.19 The establishment of TAG (East) in the time required is an organisational challenge from the perspective of recruitment, training, rotation, equipment and logistics. The ISR suggests that the establishment of TAG (East) from existing special forces 'will result in a significant training liability, and will reduce the effectiveness of both 4RAR and the SAS in the short term.'<sup>12</sup> Defence stated:

As we look at Army, we quite often think of it in terms of a pyramid. If you are building towards the top, you had better make sure that the bottom is strong enough and solid enough to support what you are going to put at the top. We have asked Special Operations Command to grow in the order of 700. It is not only the Special Operations Command that has to grow; Army needs to be able to experience what that might mean for us. I have some concerns about other parts of the Army, in particular our enabling force—that is, the force that trains us, sustains us, and provides us with our logistics. They are working very hard. I think there are some real issues that we need to consider in the longer term about our ability to sustain both the types of tasks and the numbers of people that we are being asked to put into these specialist areas.<sup>13</sup>

- 2.20 In the short term, two companies of 4RAR will be trained in counter terrorist methods to allow them to rotate through TAG (East). Therefore, it is suggested that 'the capability of 4RAR in its traditional role will be reduced.'<sup>14</sup> The IRS suggests that the raising of TAG (East) and its implications for 4RAR reflect broader aspects of Defence recruitment and training. The IRS stated :

...The training time for special forces soldiers does not allow for fast replacement. Special forces cannot simply be backfilled from other units. Given the limited progress achieved between 1997 and 1999 in forming 4RAR as a commando battalion, past experience indicates that the small size of Australia's regular army could make it difficult to find enough personnel with the right aptitude and qualities needed for special forces work. More broadly, although ADF recruitment is improving, it is currently below ideal

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11 Major General Duncan Lewis, *Transcript*, p. 8.

12 Department of the Parliamentary Library, Information and Research Services, *Implications, Budget 2002-03*, June 2002, p. 45.

13 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 17.

14 Department of the Parliamentary Library, Information and Research Services, *Implications, Budget 2002-03*, June 2002, p. 45.

levels, and the 100 to 200 new positions will put more strain on the ADF's ability to meet recruitment targets.<sup>15</sup>

- 2.21 On 19 December 2002 a further expansion of the special forces was announced by the Prime Minister. The initiative 'will deliver an additional 310 highly trained combat personnel along with associated support personnel to supplement Australia's existing Special Forces.'<sup>16</sup> An additional commando company will be raised together with a Special Forces Combat Service Support Team. In helping to fulfil the proposal, the Government has requested the CDF to develop a separate proposal 'for the greater involvement of ADF Reserves in the response to domestic terrorist threats or incidents.'<sup>17</sup>
- 2.22 The Defence Minister indicated that the new 300 personnel will come from within existing units and new recruits will fill the gaps made by the departure of the 300 personnel. The Defence Minister stated:
- They normally get taken out of the ADF. In fact, I think all special forces graduate from within the ADF, and it's demonstrated they have the particular skills and attributes that's necessary for special forces.<sup>18</sup>
- 2.23 There are reports, however, that the SAS will recruit civilians for the first time.<sup>19</sup> The Assistant Defence Minister, the Hon Danna Vale, MP is reported to have said that the 'Army is considering direct recruiting to Special Operations Command to reduce the impact on units outside Special Operations.'<sup>20</sup>
- 2.24 The new Special Operations Command will comprise a joint Headquarters, the Special Air Services Regiment, 4<sup>th</sup> Battalion the Royal Australian Regiment (Commando), Tactical Assault Groups (West) and (East), 1 Commando Regiment and the Incident Response Regiment. Major General Duncan Lewis will head the new organisation. Defence stated:

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15 Department of the Parliamentary Library, Information and Research Services, *Implications, Budget 2002-03*, June 2002, p. 46.

16 Prime Minister, *Media Release*, Expansion of Special Forces Counter Terrorist Capability and New Special Operations Command, 19 December 2002.

17 Prime Minister, *Media Release*, Expansion of Special Forces Counter Terrorist Capability and New Special Operations Command, 19 December 2002.

18 Interview with the Defence Minister, the Hon Senator Robert Hill with Virginia Trioli (ABC Radio, 3LO), 19 December 2002.

19 *Sunday Telegraph*, 1 June 2003, p. 2.

20 *Sunday Telegraph*, 1 June 2003, p. 2.

The main elements of the command are that it will be equivalent to the other environmental commands—that is, we have Air Command, Maritime Command and Land Command. We now have Special Operations Command, known as SOCCOM.<sup>21</sup>

## Incident response regiment (IRR)

### Funding, objectives and performance targets

2.25 The establishment of a permanent Incident Response Regiment (IRR) in the ADF is designed to strengthen Australia's preparedness and consequence management of chemical, biological, radiological, nuclear and explosive (CBRNE) incidents. The 2002-03 PBS states:

The IRR will complement existing Commonwealth, State and Territory capabilities funded through Defence 2000 White Paper and interim arrangements put in place to cover events of national significance, such as the recent Commonwealth Heads of Government Meeting.<sup>22</sup>

2.26 The IRR will be staffed by about 300 personnel. The IRR comprises:

- a headquarters element based at Holsworthy Barracks which commands the unit and provides advice on chemical, biological, radiological, nuclear or explosive threats;
- a scientific and technical organisation supported by the Defence Science and Technological Organisation that is capable of conducting analysis and providing advice on CBR agents and materials;
- a CBR squadron capable of rendering safe CBR devices, conducting decontamination and treatment of casualties and providing advice on CBR agents and materials; and
- an emergency response squadron which consists of three emergency response troops.<sup>23</sup>

2.27 As part of the 2002-03 budget, the Government allocated \$121 million over four years to fund the IRR. The funding over this period is shown in Table 2.2.

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21 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 6.

22 Portfolio Budget Statement, 2002-03, Defence Portfolio, p. 21.

23 Senator the Hon Robert Hill, *Media Release*, 'New Counter-terrorist units strengthen Australia's defences,' 5 September 2002.

Table 2.2 Funding for the Incident Response Capability

	2002-03	2003-04	2004-05	2005-06	Total over four years
Expenses (\$m)	18.0	21.0	22.0	24.0	85.0
Capital (\$m)	0.5	11.2	17.4	6.9	36.0
Total (\$m)	18.5	32.2	39.4	30.9	121.0

(Source: *Portfolio Budget Statements 2002-03, Defence Portfolio*, p. 21)

2.28 The IRR is regarded as an essential capability and good value for money. The capability was initially developed as part of heightened security and response capabilities developed for the Sydney 2000 Olympic Games and the Commonwealth Heads of Government Meeting. Defence stated:

The Incident Response Regiment has a range of capabilities, generally structured around chemical, biological, radiological and nuclear. Those capabilities are for counter-terrorist but also for conventional operations. We see that the IRR will be able to perform both of those functions. Indeed, they are supporting Operation Bastille at the moment, a conventional operation to assist our troops.<sup>24</sup>

2.29 The areas of concern or where reassurance is required relates to the ADF's challenge of recruiting and training an adequate number of people to ensure the IRR is fully operational in the specified timeframe. Defence stated:

Currently the total number in the IRR is 245. That is against a target of 309 to be achieved by December 2005. The recruitment targets I cannot tell you. I will have to get back to you on that. Concerning the lower numbers of the capability, obviously, we are not able to achieve the mature state. I think what we are able to achieve now is a very credible capability within the IRR.<sup>25</sup>

2.30 A further issue relates to the management of the IRR, its relationship with Emergency Management Australia, and the coordination of its functions with state jurisdictions. The Minister commented that the IRR will be called out only in extreme cases where police and emergency services do not have the capability to deal with CBRNE.<sup>26</sup>

24 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 14.

25 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 14.

26 Senator the Hon Robert Hill, *Media Release*, 'New Counter-terrorist units strengthen Australia's defences,' 5 September 2002.

## Conclusions

- 2.31 The raising of Tactical Assault Group (East), following the events of 9-11, effectively doubled Australia's counter terrorism capability. At a four year cost of \$219.4 million, the establishment of TAG (East) ensures that Australia has the capability to respond to simultaneous and geographically separate terrorist incidents.
- 2.32 Some questions have been raised about the validity of establishing TAG (East) when terrorist activity such as that deployed by Al-Qa'ida involves suicide attacks and the delivery of bombs on soft and unsuspecting targets. It would be unwise to categorise potential terrorist activity too narrowly for several reasons. For example, one of the most recent large scale terrorist incidents involved a siege-hostage situation at the Moscow Theatre. Second, the raising of a second TAG sends out a clear message and has a potential deterrent effect against certain terrorist activity, albeit the level of deterrence is not known.
- 2.33 A further question mark raised about the TAG is whether, in the long term, this capability is best performed by State Police Forces. The Australian Strategic Policy Institute (ASPI) commented that, 'for legal reasons, it may be preferable in the future to shift the counter-terrorism capabilities from the ADF to Federal and State Police forces. The States are making progress in this regard. Both Victoria and New South Wales, for example, have made advances with their Tactical Response Groups.
- 2.34 The long-term objectives and role of TAG (East) need to be clearly established and enunciated. The Government should investigate claims of possible duplication between the TAG and State Police Forces and clearly set out the long term role of the TAG, its working relationship with State Police Forces and the types of action that the TAG will perform that State Police Forces will not.
- 2.35 The Incident Response Regiment (IRR) is regarded as an essential capability. The total cost of the IRR over four years is \$121.0 million. Through the IRR, the Australian public is provided with a range of capabilities structured against chemical, biological, radiological and nuclear attacks. It is essential that Defence meet its personnel targets for the IRR, and, at the same time, does not degrade broader elements of the ADF from which personnel for the IRR will be sourced. Defence advised that, at February 2003, the total number of IRR was 245 against a target of 309 to be achieved by December 2005.
- 2.36 The reach and extent of services provided by the IRR, however, should be clarified in view of possible duplicate capabilities in this area by State



Governments. The Commonwealth Government, therefore, should consult with State Governments about their capacity to provide response capabilities to chemical, biological, radiological, nuclear and explosive incidents. Following this consultation, the Commonwealth Government should clearly set out its future role for the IRR.

- 2.37 A third issue that the Commonwealth Government should clarify is whether it is satisfied that funding to the enhanced TAG capability and the IRR has achieved an adequate balance between the two.
- 2.38 A further personnel issue of interest to the Committee is the reported proposal that Special Operations Command will seek to recruit civilians rather than take recruits solely from the wider ADF. The Committee will monitor and seek briefings from Defence on this proposal and on performance in achieving targeted personnel numbers for the IRR.

### **Recommendation 1**

- 2.39 **The Committee recommends that the Government investigate claims of possible duplication between the Tactical Assault Group (TAG) and State Police Forces and clearly set out the long term role of the TAG, its working relationship with State Police Forces and the types of action that the TAG will perform that State Police Forces will not.**

**Second, the Commonwealth Government should consult with State Governments about their capacity to provide response capabilities to chemical, biological, radiological, nuclear and explosive incidents. Following this consultation, the Commonwealth Government should clearly set out its future role for the Incident Response Regiment (IRR).**

**Third, the Commonwealth Government should clarify whether it is satisfied that funding for the enhanced TAG capability and the IRR has achieved an adequate balance between the two.**

## Army capability and readiness

3.1 During 2001-02 the high level of operational tempo for the Army was displayed through its activities in a range of deployments including operations in:

- Afghanistan (Operation Slipper);
- East Timor (Operation Tanager/Citadel),
- Bougainville (Operation Bel Isi II);
- Solomon Islands (Operation Trek);
- Middle East (Operation Paladin and Mazurka);
- Africa (Operations Pomelo, Coracle and Husky)
- Europe (Operation Osier); and
- Australia's monitoring of unauthorised boat arrivals (Operation Relex I, Relex II and Cranberry).

3.2 In the 2001-02 Portfolio Budget Statement (PBS), the Army indicated three key risks which may affect its ability to meet its responsibilities. In the 2001-02 Portfolio Additional Estimates Statements (PAES), the Army identified a further risk to delivering its objectives.<sup>1</sup> The four key risks and Army's response to mitigating these risks are explained in the following dot points:

- **'Logistics:** The Logistics Support Force has been enhanced by the addition of 642 Regular positions. Some of these have contributed to the establishment of new sub-units, and others have been used to increase the readiness of individual units by replacing existing Reserve positions. The career management agencies have filled some of the new

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1 Department of Defence, *Annual Report 2001-02, 2002*, p.97.

positions, and the impact of the enhancements can be expected to continue as the staffing process continues. The Army Logistic Training Centre has been enhanced to provide greater capacity for the training of logistics personnel. The Logistic Support Force continues to employ specialist Reserve personnel on a full-time basis in order to enhance particular capabilities. The capacity of the Logistic Support Force has been enhanced by investment in a range of specialist road transport vehicles and material-handling equipment.

- **Personnel:** There are a range of remediation initiatives in place to address continued shortages in a number of key trades. These initiatives have been in place for less than 12 months. There are positive indications that the key trade deficiencies are being addressed although it will take some time before the full effects become evident. The Army will continue to pursue targeted initiatives in addressing critical personnel issues, thus enabling a transparent and measured approach to meeting personnel capability shortfalls.
- **Combat weight and deployability:** The proposed acquisition of a number of vehicles and upgrade programs by the Defence Materiel Organisation will help to address the combat weight and deployability risk.
  - ⇒ The vehicle acquisition program will include the Australian Light Armoured Vehicle (ASLAV). This program has partially achieved all forecasts for 2001-2002. Defence is contracted with General Motors Defence for the acquisition of additional ASLAVs. Vehicle deliveries will commence in mid- 2003.
  - ⇒ Project Bushranger provides infantry mobility vehicles. The outcomes of this project were not achieved. The project was hampered by the ability of the contractor to meet the original production schedule due to prototype vehicle deficiencies. A renegotiated contract was signed in July 2002.
  - ⇒ The major upgrade program for the M113 armoured personnel carriers is progressing to plan. Government approval has been given and a contract has been signed to commence the production stage, with introduction into service of an initial capability of one squadron scheduled for 2006.
  - ⇒ Lightweight, high performance night-fighting equipment, that enables the ADF to acquire and engage targets at night at close range has minor procurement action remaining to complete the equipment suite.

- **Resources.** The redirection of resources for the Army reflected a successful adaptation to the changes associated with the impact of the war against terrorism as well as the need to enhance domestic security.<sup>2</sup>

3.3 The price to government of delivering output three – Army capabilities is shown in table 3.1.

Table 3.1 Price of Output Three – Army Capabilities

	<b>2002-03 Projected result \$'000</b>	<b>2003-04 Budget estimate \$'000</b>	<b>Variation 2002-03 to 2003-04 \$'000</b>
<b>Operating Expenses</b>			
Employee Expenses	2,670,003	2,891,638	221,636
Supplier Expenses	1,379,219	1,470,911	91,696
Depreciation and amortisation	600,749	608,881	8,131
Write down of assets	150,586	85,890	(64,696)
Other expenses	17,681	17,617	(64)
<b>Total Operating Expenses</b>	<b>4,818,234</b>	<b>5,074,937</b>	<b>256,705</b>
<b>Less Total Own Source Revenues</b>	<b>289,051</b>	<b>229,918</b>	<b>59,133</b>
<b>Price to Government</b>	<b>4,529,184</b>	<b>4,845,019</b>	<b>315,835</b>

Source Portfolio Budget Statements 2003-04 Defence Portfolio, p. 76.

3.4 Defence stated, in relation to the 2001-02 financial year, that 'Army's ability to achieve the full range of directed preparedness requirements was constrained by concurrent activities, continued personnel shortages in some key trades, and shortages in equipment and specific types of ammunition.'<sup>3</sup>

3.5 The Army's capability performance information is located between pages 98 to 106 of the Annual Report. Of the 31 performance targets, 15 are only partially achieved. The key capability performance information is examined in the following sections.

2 Department of Defence, *Annual Report 2001-02*, 2002, pp. 96-97

3 Department of Defence, *Annual Report 2001-02*, 2002, p. 96.

## Operational tempo

- 3.6 The high level of operational tempo currently experienced by the ADF can impact on training, effectiveness and preparedness if it results in certain core tasks being postponed or if Defence capabilities are highly utilised in the short term. The PBS states that ‘utilisation of capabilities in the short term need to be carefully balanced against the requirement to maintain and develop core Defence capabilities over many years or even decades.’<sup>4</sup>
- 3.7 In relation to logistics, the PBS states that ‘logistic support demands from current tempo of operations have reduced inventory levels and it is expected that procurement of new and additional equipment will be necessary to meet the changing operational environment for the ADF.’<sup>5</sup>
- 3.8 In relation to the impact of operational tempo on personnel, the IRS stated:
- For the troops, such a high operational tempo means ongoing hardship, loss of opportunity for relief postings, and fewer opportunities for training and education. For example, the availability of only two SAS squadrons to meet requirements in Afghanistan means either six months duty in every twelve, or in every eighteen months.<sup>6</sup>
- 3.9 In relation to the impact of high operational tempo on Army, the 2001-02 Defence Annual Report stated:
- **Special forces:** ‘A number of training activities and exercises were not conducted *as a result of commitments to operations* or the requirement to develop new capabilities.’
  - **Light Infantry Operations:** ‘Some preparedness tasks were assigned to other sub-outputs *due to the limitations imposed by the commitments to operations in East Timor.*’
  - **Army Aviation Operation:** ‘Due to limitations imposed by the commitment *to operations in East Timor, a high operational tempo* and consequent impact upon this capability, some directed military response options required sustainability issues to be addressed.’<sup>7</sup>
- 3.10 Defence acknowledged that ‘Army’s ability to meet all our preparedness requirements, in particular some issues relating to concurrency—that is,

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4 Portfolio Budget Statements 2002-03, Defence Portfolio, May 2002, p. 29.

5 Portfolio Budget Statements 2002-03, Defence Portfolio, May 2002, p. 29.

6 Department of the Parliamentary Library, Information and Research Services, *Implications, Budget 2002-03*, June 2002, p. 36.

7 Department of Defence, *Annual Report 2001-02*, 2002, pp. 99-101.

while some of our capabilities have been committed on operations, our ability to train them for their other tasks has been somewhat curtailed.<sup>8</sup> In relation to Special Forces, Defence stated:

I am pleased to report to you that, while we are working the soldiers very hard, we have managed to implement satisfactory rest arrangements. For example, the current group that are deployed in the Middle East had a very satisfactory break over the Christmas period. They were back in Australia—from operations in the main; I cannot speak for every one of them, but the group as a whole—for about seven or eight months of last year. Providing we continue to manage it—and we will continue to manage it very closely—we are in a sustainable situation.<sup>9</sup>

- 3.11 The 2003-04 PBS indicates that the Budget provides additional logistics funding of \$1,145.1million over five years. The 2003-04 PBS stated that the ‘changes in the strategic landscape have given rise to a higher operational tempo for the ADF, which has increased the cost of maintaining and operating existing defence assets beyond that envisaged in the Defence White Paper.’<sup>10</sup>
- 3.12 High operational tempo impacts mostly on personnel and equipment. Each of these matters is discussed in more detail in the following sections.

## Personnel issues

- 3.13 Defence noted, in relation to output three, that ‘there are a range of remediation initiatives in place to address continued shortages in a number of key trades.’ In addition, Defence stated that the ‘Army will continue to pursue targeted initiatives in addressing critical personnel issues, thus enabling a transparent and measured approach to meeting personnel capability shortfalls.’<sup>11</sup>
- 3.14 Of the 31 performance targets listed for Army capabilities, a number were affected by shortfall in personnel. These shortfalls are summarised in table 3.2.

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8 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 2.

9 Major-General Duncan Lewis, Commander Special Forces, *Transcript*, p. 30.

10 Portfolio Budget Statements 2003-04, Defence Portfolio, May 2003, p. 24.

11 Department of Defence, *Annual Report 2001-02, 2002*, p. 98.

Table 3.2 Army capabilities – performance shortfalls where personnel deficiencies were cited

Capability and Performance target	Performance
<b>Mechanised Operations</b> <ul style="list-style-type: none"> <li>Quality: Achieve levels of preparedness directed by CDF</li> </ul>	Partially achieved...Equipment shortfall, <b>personnel deficiencies</b>
<b>Army Aviation Operations</b> <ul style="list-style-type: none"> <li>Quantity:</li> </ul>	Substantially achieved... <b>Shortages in key personnel</b> have reduced the aviation capability's ability to conduct all training and preparedness tasks.
<b>Ground based Air Defence</b> <ul style="list-style-type: none"> <li>Quality: Achieve levels of preparedness directed by CDF</li> </ul>	Partially achieved... <b>Personnel shortages</b> are being rectified through recruiting programs
<b>Combat Support Operations</b> <ul style="list-style-type: none"> <li>Quality: Achieve levels of preparedness directed by CDF</li> </ul>	Substantially achieved...Limitations due to equipment issues and <b>personnel deficiencies</b> in key trades affected some preparedness tasks.
<b>Operational Logistic Support</b> <ul style="list-style-type: none"> <li>Quality: Achieve levels of preparedness directed by CDF</li> </ul>	Substantially achieved...Concurrent operations and <b>personnel deficiencies</b> in a number of key trades affected the achievement of all training requirements.
<b>Motorised Operations</b> <ul style="list-style-type: none"> <li>Quality: Achieve levels of preparedness directed by CDF</li> </ul> <p>Quality: Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	Partially achieved... <b>Personnel deficiencies</b> are being addressed through ADF recruiting and retention programs Partially achieved...Some training activities were reduced in scope due to deficiencies in equipment, <b>personnel</b> and ammunition.
<b>Protective Operations</b> <ul style="list-style-type: none"> <li>Quality: Achieve a level of training that maintains core skills and professional standards across all warfare areas.</li> <li>Quantity</li> </ul>	Partially achieved. Factors such as <b>personnel numbers</b> within the Army Reserve...affected the achievement of training within this capability <b>Personnel availability</b> for units in the sub-outputs were at a sub-optimal level.

Source Department of Defence, Annual Report 2001-02, p. 105

- 3.15 From a scrutiny and accountability perspective, it is encouraging that Defence has provided some level of information about its personnel shortage. However, the Parliament needs more detail to fully understand the nature of the problem. For example, the solutions that are planned and the length of time required to achieve optimum personnel levels. The critical information that is needed to answer these questions is the personnel shortage profile. That is, are shortages occurring predominantly in base level positions or are shortages occurring across officer ranks and specialist fields. The former can be addressed through recruitment programs while the latter is related to retention.
- 3.16 The time required to recruit and train a competent rifleman is 68 weeks. However, it takes around 5.5 years to recruit and train a Captain. For some specialist areas, the time to achieve full competency may be even longer. Therefore, it is essential to understand the nature of Army personnel shortage. Defence indicated that some of the key shortages were in trades and the officer ranks. Some of the critical trades experiencing shortages were those 'associated with logistic areas, people who work in our warehouses, people involved with some of the medical trades—in particular, medical assistants—some linguist areas and a whole range of areas in relation to communications, telecommunications and computers.'<sup>12</sup> In relation to shortages in the officer ranks, Defence stated:
- These tend to be specialists. I mention dentists, nurses, doctors, chaplains and pilots. Again, some of those also have community shortages. We are working as best we can with professional groups, particularly on the medical side of things. I did mention in my introductory remarks that the Chief of Air Force, as the manager of ADF aviation, has recently taken on some responsibilities and taken some very positive steps to improve the success rate of pilot trainees and also the flow of pilots—to rectify some of the issues we have there.<sup>13</sup>
- 3.17 Defence also indicated that there has been, during recent years, shortages of officers on graduation out of the Royal Military College (RMC). This shortage has been in the order of 25 per cent for three to four years. In 2003, however, the starting class in January was overfull and the starting class at the Australian Defence Force Academy for Army is almost full.<sup>14</sup>

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12 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 22.

13 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 23.

14 Lt General Peter Leahy, Chief of Army, *Transcript*, pp.23-24.



Defence concluded that 'we do have a bubble, in that for the last three years we have been short about 25 per cent of officers.'<sup>15</sup>

- 3.18 In addressing some of these problems, Defence drew attention to the Officer Tertiary Recruitment Scheme (OTRS). Under this scheme, undergraduates would be offered the opportunity to join the Army Reserve and be trained in university regiments. At the end of a person's degree, they will be invited to join the RMC and waive the normal first six months of the 18 month course because of their Reserve service. At successful completion of their training at RMC a person will be commissioned as a Lieutenant.<sup>16</sup>
- 3.19 The Army is looking to recruit about 20 candidates to the OTRS to start in January 2004. On 29 August 2003 when the OTRS was officially launched there were two candidates in the scheme. Tertiary students will continue their studies at a tertiary institution of their choice whilst receiving a regular wage, medical and dental cover. In addition, the Army will pay the Higher Education Contribution Scheme obligations for candidates who successfully complete their tertiary and military studies.<sup>17</sup>
- 3.20 During the hearing, Defence was questioned on whether a perceived slowness of promotion was leading to personnel prematurely leaving. Defence commented that within the officer ranks, 'promotion rates are good' and in the higher ranks, 'we are quite rapidly promoting people through.' In summing up the key personnel issues, Defence stated:
- With regard to personnel, we have had some personnel problems and we have put in place remediation initiatives over the last 12 months. We have seen improved recruiting and that has been as a result of very focused recruiting in some of the critical trades listed in the papers in front of you. We are also seeing significantly improved retention. I am relatively happy with the state of Army personnel at the moment. There are shortages in specialist trades and we are intensively managing them.<sup>18</sup>
- 3.21 During 2000 the Australian National Audit Office (ANAO) conducted a performance audit on retention of military personnel.<sup>19</sup> The audit report found that 'Defence was making considerable efforts to ensure that the

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15 Lt General Peter Leahy, Chief of Army, *Transcript*, pp.23-24.

16 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 24.

17 The Hon Dana Vale, MP, Minister Assisting the Minister for Defence, *Media Release*, 29 August 2003.

18 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 3.

19 Australian National Audit Office, Audit Report No. 35, 1999-2000, *Retention of Military Personnel*.

conditions of service for members did not become a factor in members' decisions to separate from the military.<sup>20</sup> In 2003 the ANAO tabled a follow-up report on the retention of Military Personnel. The ANAO noted that the separation rate for the ADF in 2001-02 was 11.43 per cent which was 'the lowest rate for nearly five years.'<sup>21</sup> The separation rate for the individual services in 2001-02 was:

- Navy 12.15%
- Army 11.63%
- Air Force 10.37%<sup>22</sup>

3.22 In relation to some of the key retention problems, the ANAO stated:

Defence has previously acknowledged that identified retention problems relate to specific combinations of trade, rank, location and Service. For example, all three Services experience problems retaining doctors and pilots. There are separation difficulties for Air Force regarding air traffic controllers; for Navy regarding electronics technicians; and for Army in relation to members at the rank of Captain and Major.<sup>23</sup>

3.23 The ANAO concluded that Defence has made significant progress in implementing recommendations arising from the 2000 performance audit. The ANAO commented that 'Commendable work has begun in evaluating the cost-effectiveness of quality of life measures designed to retain personnel; promoting the resolution of issues affecting the education of ADF members' children; and addressing physical training injury issues.'<sup>24</sup>

3.24 Defence has sought to clearly understand its personnel trends now and into the future through the *Defence Personnel Environment Scan 2020* (2020). The aim of 2020 is to 'present a Defence Personnel Environment Scan covering external and internal personnel trends in the near future and to the year 2020, to provide direction for future human resource policies and to serve as a primary resource document.'<sup>25</sup>

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20 cited in Australian National Audit Office, Audit Report No. 31, 2002-2003, *Retention of Military Personnel-Follow-up Audit*, p. 11.

21 Audit Report No. 31, 2002-2003, *Retention of Military Personnel-Follow-up Audit*, p. 11.

22 Audit Report No. 31, 2002-2003, *Retention of Military Personnel-Follow-up Audit*, p. 11.

23 Audit Report No. 31, 2002-2003, *Retention of Military Personnel-Follow-up Audit*, p. 11.

24 Audit Report No. 31, 2002-2003, *Retention of Military Personnel-Follow-up Audit*, p. 12.

25 Department of Defence, *Defence Personnel Environment Scan 2020*, August 2001, p. 1.

## Conclusions

- 3.25 The management of human resources and the ability to recruit, train and retain personnel is a key resourcing issue and underpins Army capability. In chapter two, for example, the raising of a second TAG and Incident Response Unit requires over 400 additional personnel. The prospect that these places are being met from within Army raises further questions about Defence's capacity to deal with personnel shortfalls in Army.
- 3.26 Defence, however, has given reassurances that it better understands the nature of its human resource challenges and is responding with effective solutions. The ANAO confirmed that Defence is making progress in addressing and improving retention. Notwithstanding this, the Parliament needs more detail to fully understand the nature of Army's personnel shortages. As suggested in the previous discussion the Parliament needs to be reassured through having more detail about the solutions that are planned and the length of time required to achieve optimum personnel levels.
- 3.27 As previously stated, the critical information that is needed to answer these questions is the personnel shortage profile. That is, are shortages occurring predominantly in base level positions or are shortages occurring across officer ranks and specialist fields. The former can be addressed through recruitment programs while the latter is related more to retention. This type of information will give effect to Defence's statement that 'the Army will continue to pursue targeted initiatives in addressing critical personnel issues, thus enabling a transparent and measured approach to meeting personnel capability shortfall.'
- 3.28 The management of Defence personnel is a critical element which underpins overall Defence objectives. The Committee has previously raised human resource management as priority issues. As part of the review of the 2000-01 Defence Annual Report, the Committee made a series of findings and recommendations relating to transition management in the ADF. One of the key findings was that well designed transition management program can help in the retention of ADF personnel.
- 3.29 The Committee recommends that the Department of Defence provide details in its Annual Report of the Army's personnel deficiencies including the personnel shortage profile, the measures being undertaken to address these problems including policies arising from the *Defence Personnel Environment Scan 2020*, and the time required to achieve optimum personnel levels.

- 3.30 At the same time, the Committee will continue to monitor human resource management in the ADF. It should be noted that the Committee did not have the time during the hearing to examine certain issues to the level required. For example, the Annual Report, on page 97, stated that there were enhancements to the Logistics Support Force of 642 regular positions. The comment was made that these positions have 'helped to increase the readiness of individual units by replacing existing Reserve positions.' In future reviews, the Committee will examine the extent to which Reserves are supplementing regular positions.

## Recommendation 2

- 3.31 **The Committee recommends that the Department of Defence provide details in its Annual Report of the Army's personnel deficiencies, including the personnel shortage profile, the measures being undertaken to address these problems including policies arising from the *Defence Personnel Environment Scan 2020* and the time required to achieve optimum personnel levels.**

## Equipment and Ammunition shortages

- 3.32 As part of the review of the Defence 2000-2001 Annual Report, the issue of ammunition shortfalls was examined. Ammunition shortfalls were cited in the Defence 2001-2002 Annual Report as an issue that was affecting the Army's ability to achieve the full range of directed preparedness requirements. Some of the capabilities that were affected by ammunition and equipment shortfalls include:
- **Mechanised operations:** '*Equipment shortfalls*, personnel deficiencies in key trades and sustainability issues, particularly in relation to *ammunition*, affected the achievement of preparedness levels for some directed military response options'.<sup>26</sup>
  - **Ground-Based Air Defence:** '*Equipment*, personnel and *ammunition* deficiencies and deployment on operations affected levels of preparedness for all military response options. Ammunition

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26 Department of Defence, *Annual Report 2001-02*, 2002, p. 100.

requirements are being identified in the Army Ammunition Study and the ADF Explosive Ordnance Reserve Stockholding Study.<sup>27</sup>

- **Motorised operations:** ‘Some training activities were reduced in scope due to deficiencies in *equipment*, personnel and *ammunition*.’<sup>28</sup>

3.33 Defence acknowledged that there had been difficulties managing ammunition but practices are being improved. Defence indicated that it is improving its methodology in managing ammunition through having ‘an agreed set of endorsed training ammunition requirements which are clearly and directly linked to the achievement and maintenance of those directed levels of capability.’<sup>29</sup> Prior to this approach there was ‘no clear methodology to determine our requirement for ammunition.’<sup>30</sup>

3.34 Defence indicated that ammunition requirements are being ‘identified in the *Army Ammunition Study and the ADF Explosive Ordnance Reserve Stockholding Study*. Defence stated:

There are two issues there: both the Army ammunition study and the ADF explosive ordnance reserve stockholding study. We have come a long way in our work on both those issues. Whilst I still have some reservations about ammunition, the picture is looking much better.<sup>31</sup>

3.35 In relation to equipment shortfalls, Defence noted that these were in the ‘primary areas of B vehicles—that is, our trucks—some communications equipment, some night-fighting equipment and some C vehicles, as we call the engineer vehicles.’<sup>32</sup> Defence indicated, however, that in all cases, except B Vehicles and maybe some areas of communications, it has ‘steps in place.’<sup>33</sup>

3.36 Some of the reasons attributed for the equipment shortfall relate to the high operational tempo of recent years, the ageing nature of the Army’s fleets, and ‘structural changes to Army as a result of the White Paper.’<sup>34</sup> In addressing equipment shortfalls, Defence stated:

What are we doing about the problem? Having identified that we have shortages in some areas and that some of our fleets are old,

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27 Department of Defence, *Annual Report 2001-02*, 2002, p. 102.

28 Department of Defence, *Annual Report 2001-02*, 2002, p. 104.

29 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 26.

30 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 26.

31 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 2.

32 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 27.

33 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 27.

34 Brigadier Paul Retter, Director-General, Preparedness and Plans, Army, *Transcript*, p. 27

the approach we have taken is to address the problem through major capability improvements out of the Defence Capability Plan. In Army we have an annual Army capital program and we target that to address what we would call specific shortages, which we rate from one to whatever the number is, based upon preparedness requirements. There is also the ongoing review of equipment holdings where our aim is to cross-level.<sup>35</sup>

- 3.37 During the hearing, Defence was asked to what extent Defence Projects outlined in the Defence Capability Plan were going to be postponed so as to provide additional funding for operations. Defence acknowledged that cuts were being considered and stated:

In terms of your question about what projects will be cut or moved about, it is clear that those decisions are still to be made, and certainly, in terms of my view of what the minister said yesterday and my attendance at senior Defence committees, we have not taken those decisions. We have talked about the need to see what we might need to do. All of us would agree that these are going to be terribly hard decisions because what we have in the ADF is a relatively well-balanced force that enables us to provide government with a good range of options for the types of challenges that face us in the future.<sup>36</sup>

## Conclusions

- 3.38 It is encouraging that Defence has acknowledged that its management of ammunition required improvement. Two studies have been conducted and an agreed set of endorsed training ammunition requirements have been introduced. It is essential that Defence achieve the outcomes that it has set and achieve an effective ammunition program which is clearly linked to the achievement and maintenance of those directed levels of capability. Again, this is a matter that the Committee will continue to monitor.
- 3.39 In relation to equipment shortfalls, Defence claims that it is managing these challenges and has 'steps in place.' Of even more concern is the possibility that Army programs outlined in the Defence Capability Plan may be postponed or even cut. What this means for Army and the possible outcomes that may arise have not been clearly articulated. The Committee proposes that when Defence has made decisions in this area

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35 Brigadier Paul Retter, Director-General, Preparedness and Plans, Army, *Transcript*, p. 27.

36 Lt General Peter Leahy, Chief of Army, *Transcript*, p. 28.

that they be clearly expressed and the potential impact on capability should be explained.

- 3.40 A revised Defence Capability Plan will be issued during 2003. The Committee recommends that when the 2003-2013 Defence Capability Plan is released, the Department of Defence should release a statement indicating, and giving reasons for, the key changes to Defence capability that have been made.

### **Recommendation 3**

- 3.41 **The Committee recommends that when the 2003-2013 Defence Capability Plan is released, the Department of Defence should release a statement indicating, and giving reasons for, the key changes to Defence capability that have been made.**

## Financial management and performance

4.1 The Defence Annual Report together with the Portfolio Budget Statements (PBS) and the Portfolio Additional Estimates Statements (PAES) provide the key source of accountability and performance information to Parliament. Through these documents, Defence's overriding objective, in 2002-2003, was explained through one outcome statement which is achieved through six output statements. This approach is consistent with the 1999-2000 public sector wide adoption of an accrual-based outcomes and outputs framework which assists in the assessment of performance and particularly effectiveness.<sup>1</sup>

4.2 The Defence outcome, as indicated in the 2002-2003 PBS, is:

*The defence of Australia and its national interests.*<sup>2</sup>

4.3 An outcome statement is defined as:

The impact sought or expected by government in a given policy arena. The focus is on change and consequences: what effect can government have on the community, economy and/or national interest? Outcome statements also perform a specific legal function by describing the purpose of appropriated funds.<sup>3</sup>

4.4 Defence stated, in relation to its Outcome Statement:

The outcome reflects the general requirements for the defence of Australia in a complex modern strategic environment. In doing so,

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1 Australian National Audit Office, *Audit Report No. 18 2001-02, Performance Information in Portfolio Budget Statements, 2001-02*, November 2001, p. 12.

2 Defence Portfolio, *Portfolio Budget Statements 2002-2003*, p. 3.

3 Australian National Audit Office, *Performance Information in Portfolio Budget Statements, Better Practice Guide*, May 2002, p. 7.



it reflects the reality that activities inimical to Australia's security and national interests may not necessary involve the use of armed forces.<sup>4</sup>

- 4.5 In 2002-03 Defence had six outputs which lead to the delivery of its single outcome. Outputs are defined as the 'actual deliverables—goods and services—agencies produce to generate the desired outcomes specified by government.'<sup>5</sup>
- 4.6 For 2003-04 Defence restructured its outcome and output framework with the introduction of seven outcome statements and 30 output statements. Defence commented that the 'increase in outcomes is a combination of elevating to outcome status the current set of six capability-focused outputs funded through departmental appropriations, and the adoption of a new outcome that relates to the management of administered appropriations.'<sup>6</sup> The new outcomes are:
- 1. Command of Operations in Defence of Australia and its Interests.
  - 2. Navy Capability for the Defence of Australia and its Interests.
  - 3. Army Capability for the Defence of Australia and its Interests.
  - 4. Air Force Capability for the Defence of Australia and its Interests.
  - 5. Strategic Policy for the Defence of Australia and its Interests.
  - 6. Intelligence for the Defence of Australia and its Interests.
  - 7. Superannuation and Housing Support Services for Current and Retired Defence Personnel.<sup>7</sup>
- 4.7 Agency performance is assessed through determining how effectively the outputs help achieve the outcomes. In particular, quantifiable targets should be included in the PBS so as to provide a basis for performance assessment. The ANAO suggests that 'targets express quantifiable performance levels or changes of level to be attained at a future date, as opposed to the minimum level of performance.'<sup>8</sup>
- 4.8 Defence has included performance targets for the majority of outputs listed in the 2003-04 PBS.

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4 Defence Portfolio, *Portfolio Budget Statements 2002-2003*, p. 3.

5 Australian National Audit Office, *Performance Information in Portfolio Budget Statements, Better Practice Guide*, May 2002, p. 12.

6 Defence Portfolio, *Portfolio Budget Statements 2003-04*, p. 3.

7 Defence Portfolio, *Portfolio Budget Statements 2003-04*, p. 3.

8 Australian National Audit Office, *Audit Report No. 18 2001-02, Performance Information in Portfolio Budget Statements, 2001-02*, November 2001, p. 51.

## Adequacy of performance and Budgetary information

- 4.9 The APS moved to the accrual outcomes and outputs framework in 1999-2000. Previously Defence has been criticised for having too broad an outcome statement and too few outputs, and because of this it is difficult to adequately assess performance. The ANAO scrutinised the outcome and outputs framework used in ten different agencies. In particular, the appropriateness of outcome statements was assessed. In relation to Defence, the ANAO stated that the current outcome statement 'does not provide a basis against which effectiveness indicators can be tested in the short-term.'<sup>9</sup>
- 4.10 The ANAO suggested that some agencies were including intermediate outcomes and/or further explanatory text that, together with the outcome statement, largely provided a useful base for the development of linked outputs and strategies.'<sup>10</sup> The Australian Strategic Policy Institute (ASPI) supports this view, and in its 2002-03 Defence Budget Brief, suggested that Defence should have more than just one broad outcome statement. The Department of Foreign Affairs and Trade, for example, has four.
- 4.11 ASPI also suggested that Defence's outputs could be improved. In the 1999-2000 PBS, Defence provided information on 22 outputs. This has subsequently been reduced to 6 outputs in 2002-03. While there are sub-outputs under each of the 6 outputs, the ASPI commented that the 'budget papers do not provide resource or performance data on these sub-outputs, and this information is not available publicly elsewhere.'<sup>11</sup>
- 4.12 In relation to the PBS, ASPI stated:
- The aggregation of outputs under the current six headings obscures much of importance. The Outputs are simply too big to be useful. Defence maintains a structure of thirty plus sub-outputs that underlie the current six outputs. These sub-outputs constitute the basic building blocks of capability. This should be the level at which the PBS reports financial and performance information. This was done in 1999-2000 and 2000-01 to an extent; there seems no reason not to go back to providing that level of detail.<sup>12</sup>

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9 Australian National Audit Office, *Audit Report No. 18 2001-02, Performance Information in Portfolio Budget Statements, 2001-02*, November 2001, p. 35.

10 Australian National Audit Office, *Audit Report No. 18 2001-02, Performance Information in Portfolio Budget Statements, 2001-02*, November 2001, p. 36.

11 Australian Strategic Policy Institute (ASPI), *The Cost of Defence, ASPI Defence Budget Brief 2002-03*, May 2002, p. 6.

12 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2002-03*, May 2002, p. 89.

4.13 Defence has clearly responded to these criticisms by introducing a more detailed outcomes and outputs structure in the 2003-04 PBS. ASPI stated:

A key purpose of the outcomes and outputs framework is to provide a basis for setting targets and measuring performance. This year's PBS [2003-04] has increased the level of disclosure of output performance targets to an unprecedented level. Nevertheless, we think there a couple of avenues for further improvement in this area...<sup>13</sup>

4.14 In 2002 ASPI criticised Defence for only having one outcome statement. This year, while there are now seven outcome statements, ASPI suggests that Defence could develop 'a set of more meaningful outcomes.'<sup>14</sup> The new set of outcomes statements are a slightly reworded form of the previous output statements. ASPI suggest the following outcomes as possible examples:

- having armed forces ready for operations to meet Australia's needs;
- maintenance of a favourable strategic environment; and
- the successful conduct of military operations as directed by Government.<sup>15</sup>

4.15 In relation to performance targets listed in the PBS, ASPI notes that there are target flying hours for ADF aircraft but no similar targets for 'sea days' for Navy vessels or 'track miles' for Army armoured vehicles. ASPI indicated that the current target for Navy of 'Unit Ready Days' relates more to availability rather than activity.<sup>16</sup> ASPI suggests that it is important to focus on 'activity' because it the level of activity which influences financial outcomes. ASPI stated:

Firstly, activity performance targets relate directly to the accrual framework which itself focuses on activities rather than cash. Many of the expenses that appear in the Statement of Financial Performance will rise and fall with activity levels. Consequently, visibility of activity levels is 'the other half of the equation' in understanding the financial statements. As discussed in Section 3, this is particularly important when assessing the additional cost of deployments.<sup>17</sup>

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13 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 7.

14 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 101.

15 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 101.

16 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 102.

17 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 102.

- 4.16 A further advantage of reporting against activity rates is that it can reveal management performance. For example, Navy only achieved 73% of its flying target for Seahawk flying hours. ASPI indicated that in this case, the target was not met because of problems with 'personnel shortages including insufficient instructors.'<sup>18</sup> ASPI also points out that if the number planned versus achieved sea days was reported on then this would indicate the additional demands faced by RAN personnel and their families when operational demands mean that targets will be often be exceeded.<sup>19</sup> It should be noted that detailed performance targets relating to preparedness are not published for security reasons.
- 4.17 The PBS provides financial information for each outcome and output. ASPI, however, indicate that there is no clear mapping of the outputs to the 'Groups' which actually spend Defence money. The Defence organisational chart on page 18 of the 2003-04 PBS shows the 'Groups' which make up the Defence structure. There are about 14 or 15 'Groups' divided into the Output Executives Group, the Owner support executives Group, and the Enabling Executives Group. ASPI stated:
- These Groups and their executives are responsible for spending Defence's money and doing its business. Consequently, it is within the group structure that financial accountability occurs. But there is no clear mapping of the Groups to the outputs. Nor does the PBS provide data on how Defence's resources are divided between the Groups. This is a significant inhibition to our understanding of Defence's resource management and accountability.<sup>20</sup>
- 4.18 In June 2002 Defence refused to provide the Senate Foreign Affairs, Defence and Trade Committee with Group Budget information claiming that this Budget information is not used for performance measurement and reporting purposes.<sup>21</sup>
- 4.19 During the hearing Defence indicated that it had recently introduced a new Budget and Output Reporting Information System (BORIS) which helps to provide detailed Budget information down to weapon systems level and is claimed to provide a 'finance transformation improvement.'<sup>22</sup> Defence stated:

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18 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 103.

19 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 103.

20 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 7.

21 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 104.

22 Mr Lloyd Bennett, Secretary and Chief Finance Officer, Department of Defence, *Transcript*, p. 44.

It is something which has been developed in the last six months. ...What we have done is provide the total cost of defence capability, excluding the capital use charge, and then split that across each of the capabilities...In the third line, you see the sub-outputs. This work was tabled for the first time, but not in this sort of visible format, in the PAES document, where we have provided a fully audited cost of sub-output and capability.<sup>23</sup>

## Conclusions

- 4.20 The Defence 2003-04 Portfolio Budget Statement (PBS) is a significant improvement over the presentation used in 2002-03. Specifically, there are now seven outcome statements and 30 output statements. For the majority of the output statements there are performance targets. However, there are a range of improvements that could enhance the level of transparency and accountability to the Parliament. A range of measures have been proposed by the Australian Strategic Policy Institute (ASPI) which could be implemented in time for the next set of Budgetary documentation. ASPI's key proposals, in its Defence Budget Brief 2003-04, pages 99 to 105, are reproduced in full at Appendix B.
- 4.21 In particular, the Committee has examined and supports ASPI's proposals that:
- Defence include more performance information on 'activity' for Army and Navy rather than just availability; and
  - that 'Group' financial and personnel data be provided in the PBS in addition to the current outcome output data.

### Recommendation 4

- 4.22 **The Committee recommends that the Department of Defence should respond to the measures proposed by the Australian Strategic Policy Institute (ASPI) to improve Defence budgetary transparency discussed on pages 99 to 105 of the ASPI Defence Budget Brief 2003-04.**

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23 Mr Lloyd Bennett, Secretary and Chief Finance Officer, Department of Defence, *Transcript*, pp. 37-38.

## Adequacy of Defence spending

4.23 The Defence 2000 White Paper stated that the ‘Government estimates that defence spending will need to grow by an average of about three percent per annum in real terms over the decade and has directed Defence to plan within that budget.’<sup>24</sup> The White Paper stated:

Over the last decade defence funding remained relatively constant in real terms. The proposed level of growth constitutes a substantial increase in defence spending. By the end of the decade, defence spending in cash terms will stand at approximately \$16 billion per year in today’s dollars, compared with \$12.2 billion this year [2000]. In all, defence spending over the decade is expected to increase by a total of \$23.5 billion in real terms, compared to total defence spending had the defence budget been held flat in real terms over the decade.<sup>25</sup>

4.24 The growth in 2002-03 is estimated at 2.6 per cent. Table 4.3 shows the past and projected growth rates. ASPI indicates that the ‘difference between the nominal and real growth rates is that the former is corrected for the changes to the buying power of the currency due to inflation.’<sup>26</sup> In calculating the real growth rate, ASPI indicated that the ‘nominal dollar values of the individual years have been converted to a single base year using the deflator used by the Department of Finance to maintain Defence buying power in real terms.’<sup>27</sup>

**Table 4.3 Total Defence Funding – Real and nominal growth rates**

	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
\$m	12 445	12 648	14 501	14 609	15 806	15 942	16 174	17 139
\$m adjusted	12 445	12 648	14 501	14 857	15 557	15 942	16 174	17 139
nominal growth		1.6%	14.7%	2.5%	4.7%	2.55	1.5%	6.0%
real growth		-2.7%	12.4	-0.6%	2.6%	0.5%	-0.5%	3.9%

Source Australian Strategic Policy Institute, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 15.

24 Department of Defence, *Defence 2000, Our Future Defence Force*, 2000, p. xvii.

25 Department of Defence, *Defence 2000, Our Future Defence Force*, 2000, p. 117.

26 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 15.

27 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 15.

- 4.25 In respect to the commitment to increase Defence spending at about three percent over the next decade, ASPI states that there 'is no reason to expect the 3% real growth delivered by the White Paper in 2001-02 to be visible given the very significant additional funds allocated to Defence in the early years of this decade in supplementation for deployments over and above the White Paper increases and the budget measures enacted to boost domestic security.'<sup>28</sup>
- 4.26 It should be noted that in Table 4.3 that the significant growth in 2001-02 is due to the initial White Paper funding, commencement of the war on terrorism and exchange rate fluctuations. ASPI commented that these 'factors tend to exaggerate the actual growth from the previous year and serve to reduce the growth to 2002-03 that would have otherwise been the case.'<sup>29</sup>
- 4.27 In 2003-04 Defence spending as a percentage of GDP will be about 2 per cent. Defence spending as a percentage of GDP and Commonwealth Payment for past and future years is shown in Table 4.4.

**Table 4.4 Defence spending as a percentage of GDP and Commonwealth Payments**

Year	Total Departmental Funding % of GDP	Underlying Cash Balance Impact % of GDP	Total Departmental Funding % of Commonwealth Cash Payments	Underlying Cash Balance Impact % of Commonwealth Cash Payments
2000-01	1.89%	1.86%	8.17%	8.04%
2001-02	2.03%	1.85%	8.87%	8.05%
2002-03	1.93% (1.97%)	1.79%	8.59% (8.74%)	7.96%
2003-04	1.99% (1.96%)	1.89%	8.94% (8.80%)	8.51%
2004-05	1.90%	1.82%	8.58%	8.22%
2005-06	1.83%	1.80%	8.35%	8.24%
2006-07	1.83%	1.82%	8.55%	8.48%

Source Australian Strategic Policy Institute, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, pp. 16-17.

- 4.28 Table 4.4 provides an 'underlying cash balance impact' as a % of GDP and Commonwealth Payments. ASPI comments that the 'underlying cash

28 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 15.

29 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 15.

balance impact' 'accords with government financial statistics conventions used by the Australian Bureau of Statistics and may provide a better measure for international comparison.'<sup>30</sup> ASPI indicates that the figures in brackets 'are the result after taking account of the repayment in 2003-04 for expenses incurred in 2002-03.'<sup>31</sup>

4.29 In view of the terrorist events of 9-11 and 10-12, Australia's commitment to the war on terrorism, and the debate about the relevance of Australia's military strategy of 'home defence', there is a need to consider the adequacy of Australia's commitment to Defence spending. The White Paper suggested that through the decade Defence spending will remain at close to 1.9% of GDP which is 'justified within our overall national priorities and will ensure that we can achieve the strategic objectives we have identified.'<sup>32</sup> However, using the underlying cash balance impact shown in Table 4.4 Defence spending through to 2007 will be closer to 1.8 % of GDP and not 1.9%.

4.30 The Defence spending level of 1.9% of GDP is considered, by some groups, to be inadequate for Australia's security needs. As part of the inquiry into maritime strategy, the Centre for International Strategic Analysis (CISA) commented:

A steady commitment of 2.5% of GDP across the past decade and into the decade ahead would have put the ADF in a better position to meet Governments' expectations. A large increase in defence expenditure is now required. However, given the lead times for the acquisition and introduction to service of defence systems and personnel the results of this will appear too late to be effective in the current crises. Australia's national security, and the ability to protect our national interests are in jeopardy.<sup>33</sup>

4.31 Similarly, the Navy League of Australia commented that it 'is deeply concerned that the increased demands placed on the Defence Force since Defence 2000 was published and the possibility of continued and growing involvement with international coalitions of forces has already shown that actual and forecasted funding for Defence is inadequate.'<sup>34</sup>

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30 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 16.

31 ASPI, *The Cost of Defence, ASPI Defence Budget Brief 2003-04*, May 2003, p. 16.

32 Department of Defence, *Defence 2000, Our Future Defence Force*, 2000, p. 118.

33 Centre for International Strategic Analysis, Submission 6 to the inquiry into Maritime Strategy.

34 Navy League of Australia, Submission 11 to the inquiry into Maritime Strategy.



## Conclusions

- 4.32 In recent times, the overall funding of Defence has never been so critical. Australia, like many western democracies, is confronting and responding to the war on terrorism through initiatives to enhance homeland security and through contributing Australian forces globally to coalitions against terror. There is an increased operational tempo which places significant demands on personnel and equipment. At the same time, Defence is facing 'block obsolescence' in a range of key defence platforms over the next decade. It is in this context that the Parliament and the Australian people should engage and revisit the debate about what is an adequate level of defence spending. This debate would need to examine overarching strategy, capability and force development.
- 4.33 Defence funding in 2002-2003 was about \$14.5 billion and in 2003-2004 it is estimated to be about \$15.8 billion. The latter is estimated to be about 2 per cent of GDP. The usage of GDP share is only a broad indicator and there is no correlation between increases in GDP and changes in Australia's security. Outlays to Defence would depend as much on movements in GDP itself. The Committee has previously commented on this issue.<sup>35</sup>
- 4.34 The Committee is conducting an inquiry into Australia's maritime strategy and a report will be tabled later in 2003. As part of that report, the Committee will comment more on the adequacy of defence spending.

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35 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Funding Australia's Defence*, CanPrint, April 1998, p. 16.

## Defence participation in the F-35 project

### Background

- 5.1 The Defence 2000 White Paper states that ‘air combat is the most important single capability for the defence of Australia, because control of the air over our territory and maritime approaches is critical to all other types of operation in the defence of Australia.’<sup>1</sup> Currently, Australia’s air combat capability is based on a fleet of 71 F/A-18 fighters. The F/A-18 is due to be phased out by 2012.
- 5.2 Air strike is the capability to destroy or neutralise land and sea targets outside Australia’s territory. Australia’s air strike capability is provided through 28 F-111 aircraft.
- 5.3 On 27 June 2002 the Government announced that it would participate in the development phase of the Lockheed Martin F-35 Joint Strike Fighter, ‘with the expectation that the F-35 will meet Australia’s future air combat and strike requirements.’<sup>2</sup>
- 5.4 Australia has committed US\$150 million over 10 years to the project which will give it Level 3 status. Other countries that have joined the program include the United Kingdom (Level 1), the Netherlands, Italy, Denmark and Norway (Level 2), and Canada (Level 3). The decision by Australia to be part of the System Design and Development (SDD) has ended the competitive tender element phase 1A of Air 6000. Air 6000 is the procurement replacement program for the F/A-18 and F-111 aircraft.

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1 Department of Defence, *Defence 2000, Our Future Defence Force*, 2000, p. 84.

2 Department of Defence, *Annual Report 2001-02, 2002*, p. 7.

- 5.5 The Government's decision to be part of the SDD is not an obligation to purchase the aircraft. The actual procurement decision will not be made until 2006.<sup>3</sup> The Defence 2000 White Paper indicated that Australia, under the Defence Capability Plan, would need to purchase up to 100 new aircraft to replace both the F/A-18 and F-111 aircraft.<sup>4</sup>
- 5.6 The Defence Minister did not commit to the need to purchase 100 F-35s commenting that what Australia is looking for 'is a capability equivalent of 100 aircraft.' The Minister commented that 'by the time we get to the acquisition decision it might be decided that less aircraft can achieve that capability and they may be phased in over a longer period as well.'<sup>5</sup> An issue that may influence the final number of F-35s purchased is the ongoing development of Unmanned Combat Air Vehicles (UCAVs).
- 5.7 One of the claimed design attractions of the F-35 is that it will be an 'open architecture aircraft'. This means that it will be capable of being continually developed and new design and technological enhancements will be capable of being added as these become available. The Minister suggested that Australia would need to decide on which 'block' status it would start purchasing in.
- 5.8 The first production aircraft have been set for 2008, and 2011 is the US Air Force initial in service date. The customer base includes the US Air Force (1763 units), US Navy (480 units), US Marine Corps (609 units) and the Royal Air Force and Navy (150 units), and with export orders the total production is expected to exceed 4500 units.

## Capability and cost

- 5.9 The F-35 is described as a fifth generation aircraft powered by a single engine and incorporating stealth design. The combat radius is expected to be over 600 nautical miles (1100 kms) and its speed is rated at supersonic with some sources specifying Mach 1.4+. The aircraft will carry weapons internally which adds to the stealth qualities. Air Marshal Angus Houston commented:

It will be very very capable in the air combat role, which as you will all recall was one of the most important aspects of the

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3 Senator the Hon Robert Hill, Minister for Defence, *Media Release*, Transcript of Australia to Join Joint Strike Fighter, 27 June 2002, p. 1.

4 Department of Defence, *Defence 2000, Our Future Defence Force*, 2000, p. 87.

5 Senator the Hon Robert Hill, Minister for Defence, *Media Release*, Transcript of Australia to Join Joint Strike Fighter, 27 June 2002, p. 2

government's White Paper. But it will also be flexible enough to go out there and conduct strike operations. And I think that all in all it's a great day for the Royal Australian Air Force and I think a very enlightened decision that ensures that we will be able to control the air approaches above our northern land areas and also our maritime approaches.<sup>6</sup>

- 5.10 The F-35 will be made in three variants comprising a conventional take-off and landing version (CTOL), a carrier suitable aircraft (CV), and a short take off and vertical landing aircraft (STOVL) for the US Marine Corps and UK Royal Navy and Royal Air Force.<sup>7</sup> Defence states that the aircraft 'is characterised by a low observability design, internal weapons carriage, an Active Electronically Scanned Array (AESA) radar, advanced electro-optical and infrared sensors and the ability to employ a wide range of air-to-surface and air-to-air weapons.'<sup>8</sup>
- 5.11 Lockheed Martin is also responsible for developing the F-22 Raptor which is considered by many defence analysts to be the most capable air superiority fighter in the world and the eventual replacement for the F-15. The Lockheed Martin Website indicates that around 339 F-22s are being developed for the US Government.<sup>9</sup> However, there are reports that the production run could be down to about 276 because of cost caps imposed by Congress.<sup>10</sup> The original production numbers for the F-22 were in the order of about 750.
- 5.12 Air Marshal Houston suggested that the stealth technology and other features of the F-22 will be applied to the F-35 program. Air Marshal Houston acknowledged that the F-22 was too expensive for Australia.
- 5.13 In a combat situation, the US plan is for the F-22 to enter an air space and clear it of all opposition fighters. When air superiority has been achieved, the F-35's would enter the air space and attack the enemy on the ground.<sup>11</sup> The F-22 is powered by two F119-PW-100 turbofan engines with afterburners and two-dimensional thrust-vectoring nozzles. These engines are capable of 'supercruise' which enable the F-22 to cruise supersonically

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6 Senator the Hon Robert Hill, Minister for Defence, *Media Release*, Transcript of Australia to Join Joint Strike Fighter, 27 June 2002, p. 3.

7 Australian Defence Business Review, *JSF set to fly Australian skies?*, Vol. 21, No. 10, 30 June 2002, p. 12.

8 Department of Defence, Lockheed Martin F-35 Joint Strike Fighter, Fact Sheet.

9 See Lockheed Martin Website: [http://www.lmaeronautics.com/products/combat\\_air/f-22/specs.html](http://www.lmaeronautics.com/products/combat_air/f-22/specs.html)

10 Jane's, *Defence Weekly*, Vol. 39, 21 May 2003, Issue No. 20, p. 8.

11 Wilson, Jim, *Flexible Flyer*, *The Joint Strike Fighter puts the best of every 20<sup>th</sup> century warplane into one nimble and stealthy package*, p. 2.

- without the use of afterburners.<sup>12</sup> It is estimated that the F-22 could transit to combat areas in half the time of contemporary aircraft and the F-35.<sup>13</sup>
- 5.14 Some defence analysts have raised questions about the capabilities of the F-35. In particular, will the F-35 provide a marked improvement over Australia's current combat and strike capability. In relation to air combat, Woolmer asserts that although 'speed is no longer the crucial factor in aerial combat, the F-35 offers no advance over the F/A-18 in other areas of aerodynamic performance.'<sup>14</sup> In addition, Woolmer comments that for all 'other nations involved in the JSF program, the F-35 will be a second tier aircraft behind a more highly performing fighter design.'<sup>15</sup>
- 5.15 Kopp suggests that the F-35 as an air combat fighter will be competitive, in certain areas, with F-16C or F/A-18C aircraft.<sup>16</sup> This mainly relates to the modern integrated avionic architecture, combat thrust/weight ratio, and combat radius. The F-35 should provide competitive acceleration and climb performance at similar weights to the F-16 and F/A-18A/C. Kopp, however, suggests that the F-35 performs less well in the supersonic Beyond Visual Range combat regime. This is because the wing planform design is not optimised for this regime.<sup>17</sup>
- 5.16 While the F-35 has stealth capability, it is not considered to be an all-aspect stealth capability like the F-22. Woolmer states that the F-35 'has a reduced stealth capability optimised to reduce forward aspect ratio cross section but with no stealth treatment for the rear quadrant.'<sup>18</sup> In addition, if the aircraft is required to undertake long range exercises then it will need external fuel tanks and air-to-air refuelling which will both increase radar cross sections and therefore reduce stealth.
- 5.17 The F-35 is more heavily criticised in the area of its strike capability. Woolmer comments that with a 'maximum speed of Mach 1.5, it is slower than both current RAAF combat aircraft and has little more than half the

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12 Lockheed Martin Website: [http://www.lmaeronautics.com/products/combat\\_air/f-22/specs.html](http://www.lmaeronautics.com/products/combat_air/f-22/specs.html)

13 Kopp, C., 'Analysis: Lockheed-Martin F-35 Joint Strike Fighter, Part 2, Sizing up the Joint Strike Fighter', *Australian Aviation*, May/June 2002

14 Woolmer, D., 'The Right Choice', *Aircraft and Aerospace Asia Pacific*, 1 October 2002.

15 Woolmer, D., 'The Right Choice', *Aircraft and Aerospace Asia Pacific*, 1 October 2002.

16 Kopp, C., 'Analysis: Lockheed-Martin F-35 Joint Strike Fighter, Part 2, Sizing up the Joint Strike Fighter', *Australian Aviation*, May/June 2002.

17 Kopp, C., 'Analysis: Lockheed-Martin F-35 Joint Strike Fighter, Part 2, Sizing up the Joint Strike Fighter', *Australian Aviation*, May/June 2002.

18 Woolmer, D., 'The Right Choice', *Aircraft and Aerospace Asia Pacific*, 1 October 2002.

radius of action of the F-111.<sup>19</sup> The F-111 has a combat radius of over a 1000 miles. Kopp stated:

Claims that the Joint Strike Fighter is an F-111 class bomb truck are scarcely credible, especially if the F-111 is armed with internal JDAMs or 'small bombs' – a variable geometry wing and 34 000 lb of internal fuel is impossible to beat in the bomb trucking game...The only decisive system level advantage the Joint Strike Fighter has against the F-111 is its use of second generation stealth technology – no radar cross section reduction on the F-111 will make it competitive against this type. In terms of avionics, if the RAAF retains the F-111 post 2020 then Joint Strike Fighter generation technology would most likely find its way into the Pig [F-111] and thus render this comparison meaningless.<sup>20</sup>

5.18 In making capability assessments about the F-35 it is essential to consider military strategy. The Defence White Paper 2000 states that 'the key to defending Australia is to control the air and sea approaches to our continent, so as to deny them to hostile ships and aircraft'.<sup>21</sup> Woolmer suggests that if this strategy was varied so that there was greater focus on coalition operations then this would influence the assessment of the appropriateness of the F-35's capabilities.

5.19 Not all defence analysts, however, are as critical of the F-35's capabilities. Stevens, for example, discounts comparisons with the F-22 and suggests that at a price of about \$US 200 million and the fact that Australia will never have to face the F-22 in combat means that it is not needed for the RAAF.<sup>22</sup> In relation to criticisms that the F-35 will not have very low observability (VLO) from behind, Stevens responds that 'the F-35 will be vastly less observable than every one of its rivals for the RAAF contract, an air combat advantage of the highest order.'<sup>23</sup> Stevens concludes:

Alone among the contenders the F-35 will leap a generation of technology. It promises to be the only affordable option with the potential to give the RAAF regional superiority in control of the air and strike out to 2030 and beyond, thereby enabling every other combat element of the ADF across the full spectrum of contingencies. Additionally, the F-35 will be capable of making a

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19 Woolmer, D., 'The Right Choice', *Aircraft and Aerospace Asia Pacific*, 1 October 2002.

20 Kopp, C., 'Analysis: Lockheed-Martin F-35 Joint Strike Fighter, Part 2, Sizing up the Joint Strike Fighter', *Australian Aviation*, May/June 2002.

21 Department of Defence, *Defence 2000, Our Future Defence Force*, 2000, p. 47.

22 Stephens, Alan, 'An Enlightened Decision? Australian and the Joints Strike Fighter', *Asia-Pacific Defence Reporter*, February 2003, pp. 6-9.

23 Stephens, Alan, 'An Enlightened Decision? Australian and the Joints Strike Fighter', p. 7.

first-order contribution to any allied coalition, anywhere in the world, on day one of any operation.<sup>24</sup>

- 5.20 During the hearing, Defence reported that what Australia is getting in the F-35 'is something that is far superior to what we currently have, the F/A-18-F111 combination.'<sup>25</sup> In relation to combat radius, Defence commented that the F-35 is part of a package that will comprise air-to-air refuelling capability and Airborne Early Warning and Control (AEWC) aircraft which will maximise the effectiveness of the F-35.<sup>26</sup> Defence did, however, acknowledge that 'there is nothing that replaces an F-111' for range. The F-111, however, is limited in other respects. Defence stated:

...the other thing that I should perhaps stress is that the F35 joint strike fighter will also be able to use its stealth characteristics to go into the target. The F111 does not have any stealth characteristics whatsoever. In terms of the sorts of threats that are likely to present in the future, the F35 is going to be much more survivable in that environment than the F111.<sup>27</sup>

- 5.21 Defence suggested that a further virtue of the F-35 was the potential for reduced running costs compared to the present arrangement of running two aircraft. Defence commented that 'we will be able to operate the F35, which is a multirole aircraft, to do what both the F-111 and the F/A-18 do now, and we will be able to do it more cheaply than currently.'<sup>28</sup> Defence stated:

It is a marked increase in terms of raw capability and it will be also much cheaper to operate than the current aircraft we operate. I suppose one of the most expensive parts of operating an aircraft system through the years—like the F-111 or the F/A-18—is the in-service costs. The in-service costs of running the aircraft are about two-thirds of the total cost of the whole program, so we anticipate that the costs of operating the joint strike fighter, the F35, will be in the order of 50 per cent of what it costs to operate the current fleet. That is because we are moving into fifth-generation aircraft technology and also because the concept of the aircraft is to minimise costs.<sup>29</sup>

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24 Stephens, Alan, 'An Enlightened Decision? Australian and the Joints Strike Fighter', p. 9.

25 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 62.

26 Mr Michael Roche, Under Secretary Defence Material, Department of Defence, *Transcript*, p.60.

27 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 59.

28 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 49.

29 Mr Michael Roche, Under Secretary Defence Material, Department of Defence, *Transcript*, p.48.

- 5.22 Defence has not made firm decisions as to the type of F-35 variant that would be most appropriate for Australian conditions. At this stage, Defence considers that the best suited aircraft will be the conventional take-off and landing aircraft that will be operated by the US Air Force. Defence stated that 'if we go down that route, there is also the added advantage of having something that is totally interoperable with the United States Air Force.'<sup>30</sup>
- 5.23 The cost of each aircraft is estimated at US\$40 million with a total estimated procurement cost to Australia of '\$12 billion plus'.<sup>31</sup> It should be noted that the 2001-2010 Defence Capability Plan indicated that expenditure for Air 6000 is estimated at between \$10.5 and \$12 billion. This expenditure comprises two phases:
- AIR 6000 Phase 1A is more than \$6000m; and
  - AIR 6000 Phase 1B is \$4500 - \$6000.<sup>32</sup>

## Conclusions

- 5.24 Defence describes air superiority as the single most important capability for the defence of Australia. It is for this reason, and the estimated \$12 billion dollar cost of replacing the F/A-18 and F-111 platforms, that the Parliament must scrutinise Defence over the proposed purchase of the F-35 replacement aircraft. During the hearing, Defence was vigorously questioned about public concerns about the F-35's capabilities. Defence provided reassurances that the F-35, as a package with enhancements to air-to-air refuelling and Airborne Early Warning Aircraft, will be superior to the current platforms.
- 5.25 There appear to be credible arguments that the F-35 will provide enhanced lethality through stealth improvements and through technological progress with radar and weaponry. At the same time, there will be enhanced interoperability with coalition forces that comprise UK and US forces. Although the Committee does note reservations about the capability of the F-35 made by part of the Defence community.
- 5.26 The Government is not required to commit to the purchase of the F-35 until 2006. Between now and this deadline, Defence should wherever possible seek to define its needs more clearly and seek flexibility in the

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30 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 50.

31 Department of Defence, Australian Participation in the Joint Strike Fighter Program, <http://www.defence.gov.au/jsf/index.htm>; Senator the Hon Robert Hill, Minister for Defence, Transcript of Australia to Join Joint Strike Fighter Program, 27 June 2003.

32 Department of Defence, *Defence Capability Plan 2001-2010, Public Version*, p. 60.



contract when and if it is signed. For example, Defence suggested that it is leaning towards a conventional take-off and landing aircraft. Defence may wish to give consideration to the purchase of some vertical take-off and landing aircraft which may be of particular use in possible amphibious operations.

- 5.27 The Parliament's interest in the F-35 program is only just beginning. The next decade will see an ongoing role for scrutiny. Therefore, the Committee will continue its oversight of this large and complex program.
- 5.28 In relation to the cost of the program, it is noted that the 2001-2010 Defence Capability Plan indicated a total cost of Air 6000 at between \$10.5 and \$12 billion. The JSF Website indicates that the total estimated procurement cost to Australia will be in the order of '\$12 billion plus'. The JSF acquisition could be the most expensive Defence purchase in the history of Federation. Firm estimates are required and during the next scrutiny process, Defence will be requested to provide a history of the projected cost of Air 6000 with details of the current and future estimates. Defence will have the opportunity to note any potential increases in the program. The Parliament must be aware of this information before it ultimately provides funding. Defence must seek to contain costs and seek to avoid the inevitable cost increases that are often associated with these types of purchases.

## Transition from current platforms to F-35

- 5.29 Replacing an existing defence platform with a new one presents various challenges. For example, in many situations it is desirable to plan the phase out of an existing platform and ensure that capability is not seriously eroded while the new platform is being introduced. Navy had to deal with this issue when the Oberon Class Submarines were replaced by the Collins Class Submarines. There was a loss of operational capability in the transition phase.<sup>33</sup>
- 5.30 The F/A-18 aircraft are expected to reach the end of their service life between 2012 and 2015 while the F-111 is expected to reach its life of type between 2015 and 2020.<sup>34</sup> Air Marshal Houston stated:

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33 Joint Committee of Public Accounts and Audit, *Report 368, Review of Audit Report No. 34, 1997-98, New Submarine Project*, Department of Defence, June 1999, pp. 73-83.

34 Department of Defence, *Defence 2000, Our Future Defence Force*, 2000, p. 86 and 93.

...the US Air Force will be introducing its first aircraft [F-35] in about 2011. And it will reach its initial operational capability by about 2012. I think that we want to get in at a reasonably early stage. But, as you would be aware, most programs, aircraft programs, take a while to bed down. So I'd prefer to be going a little bit later on. And we have to have a look at all of that, but the intention always was to replace the F/A-18 in the 2012-2015 timeframe. And the F-111 in the 2015-2020 timeframe.<sup>35</sup>

- 5.31 The main challenge for Defence is to ensure that the F-111 and F/A-18 can be sustained through their life of type and provide a seamless transition to the new F-35 platform. White, however, suggests that Defence may need to retire the existing platforms earlier and introduce a stopgap measure. White states:

...the RAAF is having second thoughts. The F/A-18 upgrade is looking problematic, and recent wing cracks in the F-111, though now fixed, show how hard it will be to keep it flying until its 50<sup>th</sup> birthday. So it is looking for ways to replace one or both of these aircraft much sooner within a few years.<sup>36</sup>

- 5.32 White suggests that the RAAF is planning to solve this problem through leasing interim aircraft, although he is concerned that capability could be lost through this solution. The *Australian Defence Business Review* (ADBR) commented that 'a future place in the RAAF for the Super Hornet and/or the Lockheed Martin F-22 remains a distinct possibility, however, in the likelihood Australia's 'bet' on key future JSF development/delivery milestones comes unstuck, or additional uncertainties arise in regard to the achievement of the full 'life-of-type envisaged by the RAAF for either the current F/A-18 Hornets, or the combined F-111C/G fleet.'<sup>37</sup> Similarly, the *Asia-Pacific Defence Reporter* commented that it 'is obvious that the RAAF must either lease or buy an interim fighter to bridge the gap between the exit of its F/A-18s, and possibly also its F-111C/Gs, and the probable introduction of the F-35 to operational service in 2016-17.'<sup>38</sup>

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35 Senator the Hon Robert Hill, Minister for Defence, *Media Release*, Transcript of Australia to Join Joint Strike Fighter, 27 June 2002, p. 6.

36 White, H., 'New Fighters all very well, but we have to stay airborne in the interim', Australian Strategic Policy Institute, 4 July 2002, Reported in Sydney Morning Herald.

37 Thomas, T., 'JSF set to fly Australian skies?' *Australian Defence Business Review*, Vol. 21, No. 10, 30 June 2002, p. 13.

38 Kainikara, Sanu, 'RAAF needs interim fighter to bridge the JSF delivery gap', *Asia-Pacific Defence Reporter*, February 2003, pp. 36-37.

- 5.33 During the hearing, Defence confirmed that the first production aircraft will go into service with the US in 2008 and the first deliveries to Australia of the F-35 would be about the 2012 timeframe.<sup>39</sup> Defence stated:

The committee can have a fair degree of confidence that the way this program is running—and thus far everything we have seen is that the program is going exceedingly well—means we are basically going to have the aircraft in reasonable order and in reasonable time. I do not think that we are going to have the huge delays that have bedevilled previous projects. However, we are looking at all that in great detail.<sup>40</sup>

- 5.34 Defence addressed claims that an ‘interim’ aircraft might be needed in the event that the F/A-18 was withdrawn sooner than expected or delivery of the F-35 was delayed beyond 2012. Defence commented that by 2005 ‘we are going to be in a position to know precisely how long we could keep the F/A-18 going.’<sup>41</sup> Defence acknowledged that ‘the 2012-15 planned withdrawal date is based on quite old data’ and that there were ‘risks in terms of the transition period.’<sup>42</sup> Defence stated:

People keep raising the issue that we will need an interim. I would resist that unless our strategic circumstances demand it at the time. I would resist that because the best way for Australia is to have a smooth, seamless transition from what we have now into what we are going to in the future. We do not have to make any decisions at this point. There is a lot of speculation at the moment out in the community, but we are going through, in a very rigorous way, all the information available to us. We will give advice to government in 2005 as to the best way to proceed for the future. You can feel very confident that there will be a rigorous process and we will come up with the best decision for Australia.<sup>43</sup>

## Conclusions

- 5.35 The management of multi-billion dollar defence acquisition projects is highly complex and often subject to delivery slippage which affects capability and often has cost implications. Defence is undertaking a ‘rigorous’ examination, due by 2005, of the transition from the F/A-18 to

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39 Mr Michael Roche, Under Secretary Defence Material, Department of Defence, *Transcript*, p.53.  
Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 48.

40 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 58.

41 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 52.

42 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, pp. 52 and 55.

43 Air Marshal Angus Houston, Chief of the Air Force, *Transcript*, p. 59.

the F-35. The F/A-18s are due to be phased out at the beginning of 2012 and the delivery of the F-35 begins in the same year. Many defence analysts suggest that an 'interim' fighter will be needed as a stop-gap because of fatigue to the F/A-18 and invariable delivery delays in a program as large and complex as the F-35.

- 5.36 If transitional problems do arise in the purchase of the F-35 then this will have the potential to undermine Australian air superiority. The Committee will await the advice Defence provides to Government in 2005. It is an extremely important issue and must be managed carefully. In the lead-up to the 2006 sign-on date, Defence must ensure that every option is taken to ensure a smooth transition. The Committee will pursue this line of examination in the period prior to 2006.

## Australian industry involvement

- 5.37 A possible added benefit of Australia's involvement in the JSF SDD is the potential for Australian industry involvement. The Minister reported that 'Defence will now start negotiating the terms of Australia's involvement in this phase of the project, with a view to ensuring maximum Australian industry participation.'<sup>44</sup> At the same time, the Minister acknowledged that the choice of the JSF 'was primarily driven by the capability of the aircraft' and 'then we looked to the best opportunity for Australian involvement.'<sup>45</sup>
- 5.38 Defence is working with the Department of Industry, Tourism and Resources (DITR) 'to ensure Australian industry opportunity for participation in the JSF program.'<sup>46</sup> A JSF Industry Advisory Council has been formed to advise Defence and DITR on plans and strategies to pursue JSF work. Defence stated:

There is an industry advisory council chaired by Mr Ken Peacock, formerly of Boeing, which comprises both industry and government representatives and a range of industry capability teams that we are facilitating. We already have, I think, 81 Australian companies who are named in the global project arrangement set up in the US to facilitate the release of technology.

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44 Senator the Hon Robert Hill, Minister for Defence, *Media Release*, Australia to join Joint Strike Fighter Program, 27 June 2002.

45 Senator the Hon Robert Hill, Minister for Defence, *Media Release*, Transcript of Australia to Join Joint Strike Fighter, 27 June 2002, p. 8.

46 <http://www.defence.gov.au/jsf/>

There are already 26 requests for quotations—RFQs—that have been issued to Australian companies, and 20 technical assistance agreements. There is a very significant range of Australian companies that have been engaged at the earliest possible stage.<sup>47</sup>

- 5.39 Within the Defence community, there are some reservations about the extent to which Australian industry will benefit from the JSF project. The Australian aerospace industry currently has a one percent share of the aerospace market. It is estimated that if Australia can achieve this figure for the \$400 billion dollar JSF project then that will amount to about \$4 billion worth of work.<sup>48</sup> The *Australian Defence Report* commented that ‘while Australia’s aerospace industry may have one percent of the world market most of that is in the civil aviation market and it is not certain that industry’s current skills and capabilities are readily transferable to a military aircraft program.’<sup>49</sup> The *Australian Defence Magazine* reports that Lockheed Martin has stated:

...suppliers and sub-contractors will be selected competitively on a best value for money basis. Customer nations won’t be able to insist on a certain level of local industry involvement with the attendant risk of unacceptable cost premiums.<sup>50</sup>

- 5.40 The Australian Industry Group Defence Council (AIGDC) commented that the JSF program ‘present some opportunities and challenges for the Australian Government, the Defence Organisation and Australian industry.’<sup>51</sup> In particular, the AIGDC stated:

...the Government will have to negotiate hard to ensure the interests of Australian industry are not overwhelmed by the larger investments which have already been made by the United Kingdom, Canada, Denmark, the Netherlands and Italy. Australia should expect an acceptable commercial return on its investment of US \$150 m.<sup>52</sup>

- 5.41 Defence explained that the JSF program ‘is about allowing Australian companies to become part of global supply chains, so that, rather than

47 Mr Michael Roche, Under Secretary Defence Material, Department of Defence, *Transcript*, p.63.

48 Senator the Hon Robert Hill, Minister for Defence, *Media Release*, Transcript of Australia to Join Joint Strike Fighter, 27 June 2002, p. 2.

49 Australian Defence Report, ‘Industry not so sure of JSF opportunities,’ Vol. 13, No. 11, 27 June 2002, p. 3.

50 *Australian Defence Magazine*, ‘JSF Industry Plan’, November 2002, p. 9.

51 Australian Industry Group, Defence Council, *Media Release*, ‘JSF Involvement: Opportunities and Challenges’, 27 June 2002.

52 Australian Industry Group, Defence Council, *Media Release*, ‘JSF Involvement: Opportunities and Challenges’, 27 June 2002.

having a short production run of maybe 100 aircraft, the companies that do take part in this project and get some share of the action will be looking at a market of at least 4,000 aircraft and possibly up to 6,000 aircraft.<sup>53</sup> Defence stated:

The guiding principle in all of this is that this is not about subsidies or support; this is about ensuring that Australian industry has the chance, on a level playing field, to compete against global countries and to get their products out onto the world stage. At this stage the indications are very encouraging.<sup>54</sup>

## Conclusions

- 5.42 A constant feature of the JSF program are favourable assertions by Government that Australia's purchase of the aircraft will lead to increased air superiority, no transitional problems between the existing platforms and the entry of the F-35, reduced running costs and the potential involvement for Australian industry in the multi-billion dollar program. There is continued speculation, however, in the Defence community that the JSF program will fall short of its claimed benefits. The Committee's scrutiny of these matters, as part of the 2001-2002 Defence Annual Report, is the start of a process that will continue to intensify. Reassurances about the JSF program will be sought from Defence and presented to the Parliament on an ongoing basis in the lead up to 2006 when a Government decision will need to be made about purchasing the aircraft.
- 5.43 The cost, significance and magnitude of the JSF program requires enhanced reporting to the Parliament. Therefore, the Committee recommends that the Department of Defence should outline in its Annual Report Australia's role in the program, the projected cost, transitional arrangements and progress with Australian industry involvement with the program. The Department of Defence should include performance targets in its reports. Through this measure, the Parliament will be kept informed of key developments, progress, and milestones with the program.

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53 Mr Michael Roche, Under Secretary Defence Material, Department of Defence, *Transcript*, p.63.

54 Mr Michael Roche, Under Secretary Defence Material, Department of Defence, *Transcript*, p.64.

**Recommendation 5**

- 5.44 **The Committee recommends that the Department of Defence outline in its Annual Report Australia's role in the Joint Strike Fighter program, the projected cost, lifecycle costs, transitional arrangements and progress with Australian industry involvement in the program. The Department of Defence should include performance targets and objectives in its reports. Subsequent Annual Reports should report outcomes against those targets and objectives.**

## Generic Issues

### Introduction

- 6.1 The final session of the hearing on the 2001-2002 Defence Annual Report was an 'open session' in which a range of generic issues were raised. The Chief of the Defence Force (CDF) and the Secretary of Defence were both available for this session and responded effectively to the range of questions.
- 6.2 The key issues raised during the session focused on ADF Reserve Policy, the Defence Update 2003 which was released the day before the hearing on 26 February 2003, and military justice. Each of these issues is discussed in more detail in the following sections.

### Reserve Policy

- 6.3 Reserve policy is the responsibility of the Vice Chief of Defence Force Group. The 2001-02 Defence Portfolio Budget Statements outlined the following objective as a priority for Reserve policy:
- Allow wider employment options for enlisted Reservists and provide increased support to Reservists and their employees.<sup>1</sup>
- 6.4 In response to this objective, Defence reported:

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<sup>1</sup> cited in the 2001-2002 Defence Annual Report, p. 215.



This priority was substantially achieved in 2001-02. Legislative amendments in 2001 provided the ADF with wider call-out provisions and gave authority for Service Chiefs to restructure their Reserve components. This presented increased opportunities for the employment of Reservists. Regulations to authorise new categories of Reserve service, including high-readiness Reserves, will be introduced in December 2002. Associated conditions of service packages will be introduced as new categories are raised.<sup>2</sup>

6.5 The six new categories of Reserve service which were authorised from 1 December 2002 are:

- High Readiness Active Reserve
- High Readiness Specialist Reserve
- Specialist Reserve
- Active Reserve
- Standby Reserve
- Other categories<sup>3</sup>

6.6 On 18 May 2003 the Government announced a further expansion of the role of Reserves in helping to bolster Australia's defences against terrorism. The Reserve Response Force will now be able to help police respond to a terrorist incident. The Minister for Defence stated:

The Reserve Response Force soldiers will be trained for short notice response to domestic security incidents including terrorist incidents as well as quick response to other civil emergencies. Reserve Response Forces will be employed primarily as formed units to cordon off an area, provide static protection of a site or to assist other ADF elements. They could also provide limited on site medical and transport support.<sup>4</sup>

6.7 During the hearing, aspects of Reserve operation were clarified and additional information was sought. For example, the status of the 'high-readiness reserves' was examined. Defence stated:

Admission to high-readiness reserve status is contemplated based on the availability and competency of the individual reservist and it will reflect an important career aspiration for the soldier.

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2 2001-2002 Defence Annual Report, p. 215.

3 Defence Personnel Regulation 2002

4 Minister for Defence, *Media Release*, Reserves to Bolster Australia's Defences Against Terrorism, 18 May 2003.

High-readiness reserves are contemplated on a national footing. As we look towards the introduction of the scheme, the first step is to encourage individual reservists to come forward.<sup>5</sup>

6.8 Defence indicated that in view of the extra commitment in training required to achieve high readiness reserves, the aim is to achieve about 2000 reservists at this level.<sup>6</sup>

6.9 In view of the extra training and level of preparedness required of high readiness reserves, the issue of their conditions of service was raised. Defence stated:

In a philosophical sense, I agree with you that if we ask more of the reserves, we should be offering them more. We are certainly, within Army, preparing our position in relation to the high-readiness reserves and it does encompass an enhanced conditions of service package so that we can reward them; that there is an incentive there; and also that they are equipped to do the tasks that we might ask of them.<sup>7</sup>

6.10 In relation to Australia's peacekeeping effort in East Timor, a Reserve Company was sent to East Timor. This is the first time since World War II that a combat unit of Army Reserve soldiers has deployed on operations. The duration of the reservist deployment is six months.<sup>8</sup> Defence stated:

The company that has deployed to East Timor is a blended company, predominantly from the brigades in New South Wales and southern Australia. They are completely reservists. It is not as though we have put a structure of regulars there. They are reservists who have volunteered, who have gained permission and authority from their employers.<sup>9</sup>

6.11 The total and individual Service costs of ADF Reserves is not provided by Defence through its Annual Report or PBS. In 2001 the Australian National Audit Office (ANAO) conducted a performance audit on the ADF Reserves.<sup>10</sup> The ANAO sought from Defence data on the full cost of operating the Reserve forces. Defence was able to provide some data but the ANAO was forced to derive some costs. The indicative cost of the Army Reserve in 1999-2000 was \$952 million.

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5 Major –General Greg Carde, Head Reserve Policy, *Transcript*, p. 19.

6 Lt-General Peter Leahy, *Transcript*, p. 21.

7 Lt-General Peter Leahy, *Transcript*, p. 18.

8 General Peter Cosgrove, Chief of the Defence Force, *Transcript*, pp. 75-76.

9 Lt-General Peter Leahy, Chief of the Army, *Transcript*, p. 5.

10 Australian National Audit Office, *Audit Report No. 33, 2000-01, Australian Defence Force Reserves*, Department of Defence.

- 6.12 The cost for Air Force and Navy Reserves was more difficult to determine and the answers were sourced from Defence answers to Parliamentary Questions on Notice in May 2000. From this, the Air Force Reserve was estimated to cost \$20 million and the Navy Reserve \$19 million.<sup>11</sup>
- 6.13 The ANAO concluded that detailed information on the cost of ADF Reserves was needed. The ANAO, therefore, recommended that 'to provide transparency of the costs of maintaining Reserve forces, Defence annually establish and publish the full cost of each Reserve service and the capabilities provided.'<sup>12</sup> Defence agreed to the recommendation noting that 'it will take some time to implement since it depends on the maturity of planned financial and management systems and costing models.'<sup>13</sup>
- 6.14 During the hearing, Defence confirmed that if a cost figure of \$950 million is used to determine the cost of the Army Reserve, then this equates to about \$60 000 per head given that there are about 16 000 Army Reserves.<sup>14</sup>

## Conclusions

- 6.15 The ADF Reserves make a significant contribution to overall Defence outcomes. Since 1999 Reservists have been deployed to East Timor and through a variety of other countries. In relation to the East Timor commitment, this is the first time since World War II that a combat unit of Army Reserve soldiers has deployed on operations.
- 6.16 The role of Reserves is set to expand through the establishment of a Reserve Response Force which will respond to domestic security incidents including terrorist incidents. It is noted that the high readiness reserves will be called upon to provide an increased range of services. The Government must ensure that the conditions of service for Reserves is commensurate with their high utilisation in regular forces and, in particular, their contributions to forces on overseas deployments.
- 6.17 There is a paucity of cost data and performance information on the ADF Reserves. The ANAO noted this in 2001 and made a recommendation to improve the level of transparency of maintaining ADF Reserve forces. The Committee agrees that there is a need for improved transparency through the provision of detailed cost data on the ADF Reserves. The Defence Portfolio Budget Statement should include an additional 'outcome

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11 *Audit Report No. 33, 2000-01, Australian Defence Force Reserves*, p. 121.

12 *Audit Report No. 33, 2000-01, Australian Defence Force Reserves*, p. 122.

13 *Audit Report No. 33, 2000-01, Australian Defence Force Reserves*, p. 122.

14 Mr Lance Williamson, Director-General, Corporate Management and Planning, Department of Defence, *Transcript*, p. 45.

statement' which includes information on the ADF Reserves. This outcome could provide information on the total cost of the Reserves, the cost for each Service, regimental and unit breakdown and a range of performance targets down to formation equivalent level. The Defence Annual Report should then report on achievement against the nominated performance targets. This information would provide a useful starting point for scrutinising the value, performance and effectiveness of the ADF Reserves.

- 6.18 As part of future reviews, the Committee will examine in more detail the training, effectiveness and capability of Reserve forces, in particular the Army, and the extent to which they are being blended with regular Army units. As a first measure, Defence should include in its Annual Report a detailed description of the role, structure and function, including transition to new functions, of all Reserve forces, and the extent to which Army is blending them with regular units. This description should provide a diagrammatic representation detailing all Army Reserve units, their size, location and the regular Army units that they support.

#### **Recommendation 6**

- 6.19 **The Department of Defence should include cost data on the ADF Reserve Forces including total cost data and cost data by Service. The Defence Portfolio Budget Statement should include a new Outcome Statement which includes information on the Reserves and provides information about Reserve capability together with measurable performance indicators down to formation equivalent level.**

#### **Recommendation 7**

- 6.20 **The Department of Defence should include detailed information in the Defence Annual Report on the role, structure and function, including transition to new functions, of Reserve forces and the extent to which Army is blending them with regular Army units. This description should provide a diagrammatic representation detailing all Army Reserve units, their size, location and the regular units that they support.**

## ***Defence Update 2003***

6.21 On 26 February 2003 the Government released *Australia's National Security, A Defence Update* which builds on the Government's Defence White Paper, *Defence 2000: Our Future Defence Force*.

6.22 The *Defence 2000 White Paper* is not a static document but is subject to change through the annual strategic review process. This ensures that significant events, which may influence the security environment, are factored into military strategy on an annual basis. The Defence Minister stated:

This statement [*Defence Update 2003*] reviews the implications for Australia's defence posture. It concludes that while the principles set out in the Defence White Paper remain sound, some rebalancing of capability and expenditure will be necessary to take account of changes in Australia's strategic environment. This rebalancing will not fundamentally alter the size, structure and roles of the Defence Force, but will inevitably result in increased emphasis on readiness and mobility, on interoperability, on the development and enhancement of important new capabilities and, where sensible and prudent, a reduced emphasis on capabilities of less importance.<sup>15</sup>

6.23 One of the key events that has changed the strategic security environment is the impact of 9-11, and other terrorist activity including the Bali bombings. *Defence Update 2003* stated that 'while the Defence White Paper focused on the development of capabilities for the Defence of Australia and its National Interests, two matters – terrorism and the spread of weapons of mass destruction, including to terrorists – have emerged to new prominence and create renewed strategic uncertainty.'<sup>16</sup> The Defence 2001-02 Annual Report commented that 'while there are still fundamental aspects of our environment that are little changed by the events of last September, we now pursue our interests in a different world to that described in the Defence White Paper.'<sup>17</sup>

6.24 During the hearing, the level of consultation used in developing the *Defence Update 2003* was examined. This follows claims made to the inquiry into maritime strategy that there was minimal consultation used to

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

16 Department of Defence, *Australia's National Security, A Defence Update 2003*, p. 7.

17 Department of Defence, *Annual Report 2001-02, 2002*, p. 4.

develop the Defence White Paper.<sup>18</sup> Defence indicated that there was wide consultation for the *Defence Update 2003*. Defence stated:

I cannot speak for the detail inside parts of the organisation but principals were involved in a number of different drafting and consideration exercises. I believe there would be no member of the Chiefs of Service Committee or no principal advisory member of the Defence Committee who could claim to be uninvolved or whose view was not sought and heard particularly in the earlier drafts of the defence update; remembering that later drafts were submitted for whole of government consideration.<sup>19</sup>

- 6.25 While the Defence Update has only been public for a relatively short time it has generated significant interest. The focus of public comment has been on whether the Defence Update has addressed possible shortcomings in the Defence White Paper. In particular, is the focus on Defence of Australian territory, which has dominated Defence policy for the last 15 years, an adequate strategy to deal with the operations that the ADF is frequently tasked with? These types of operations include Australian forces operating as peacekeeping forces and members of coalitions in the fight against terrorism. Woolner states:

Critics of the 'defence of Australia' strategic policy argued that defence of continental Australia was unlikely to be required in the foreseeable future. Yet pursuit of this policy had allowed numbers, training, and equipment for land warfare forces (particularly infantry) to decline, despite having been in consistent demand for almost two decades of peace keeping and disaster relief.<sup>20</sup>

- 6.26 Woolner suggests that the Defence Update has not adequately addressed these concerns. There was no 'fundamental change to the size, structure, or roles of the ADF but rather some 'rebalancing' affecting operational readiness, interoperability, and some new capabilities.'<sup>21</sup>

## Conclusions

- 6.27 The Committee's current inquiry into Australia's Maritime Strategy is examining some of the key objectives which underpin Australian military

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18 Brigadier Jim Wallace, (Retd), Inquiry into Maritime Strategy, 26 February 2003, *Transcript*, p. 150.

19 General Peter Cosgrove, Chief of the Defence Force, *Transcript*, pp. 69-70.

20 Woolner, Derek, The 2003 Defence Statement: The Failure to Marry Politics and Policy, Symposium: Advancing the National Interest?, 28 April 2003.

21 Woolner, Derek, The 2003 Defence Statement: The Failure to Marry Politics and Policy, Symposium: Advancing the National Interest?, 28 April 2003.

strategy. In particular, is the 'defence of Australia and its direct approaches' still a credible strategic objective when the threat of a direct attack on Australia is very small, and Australian forces are increasingly engaged in regional and global operations in the defence of Australian interests. The *Defence Update 2003* has acknowledged that 'the prospect of conventional attack on Australian territory has diminished.'<sup>22</sup> In addition, the update states that 'there may be increased calls on the ADF for operations in Australia's immediate neighbourhood.' The *Defence Update 2003* states:

The changed global strategic environment and the likelihood that Australian national interests could be affected by events outside of Australia's immediate neighbourhood mean that ADF involvement in coalition operations further a field is somewhat more likely than in the recent past.<sup>23</sup>

- 6.28 Notwithstanding this, there are still concerns that the Defence Update has not gone far enough particularly in the area of the size, structure and role of the ADF. The update does state that 'new circumstances indicate a need for some rebalancing of capabilities and priorities to take account of the new strategic environment, changes which will ensure a more flexible and mobile force'. *Defence Update 2003*, however, does not expand on this point and explain what this 'rebalancing of capabilities' will be.
- 6.29 The Committee will revisit these issues when it completes its inquiry into Australia's Maritime Strategy.

## Military Justice

- 6.30 The Committee has tabled two reports on military justice in the ADF.<sup>24</sup> These reports made a series of significant recommendations which sought to improve the military justice framework. In view of this background, the Committee maintains an interest in matters affecting military justice.
- 6.31 In August 2001 the military audit team, under retired Federal Court Judge James Burchett released its report of an inquiry into military justice in the ADF. One of the recommendations supported the need for an Inspector General of the ADF. During the hearing, Defence was asked about how

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22 Department of Defence, *Australia's National Security, A Defence Update 2003*, p. 23.

23 Department of Defence, *Australia's National Security, A Defence Update 2003*, p. 23.

24 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Military Justice Procedures in the Australian Defence Force*, June 1999; *Rough Justice? An Investigation into Allegations of Brutality in the Army's Parachute Battalion*, April 2001.

the work of the Inspector General of the ADF would be reported. There was no clear advice on this matter. The Committee views the work of the Inspector General as significant and therefore the work outcomes of the Inspector-General should be reported in the Defence Annual Report.

- 6.32 On a further matter, Defence was asked about the progress with a review of the Defence Legal Service and whether the Committee could be provided with a copy of the final report. Defence stated:

The review of the Defence Legal Service is due for completion by 30 June 2003. The Secretary of the Department of Defence and Chief of the Defence Force, and subsequently, the Minister for Defence, will consider the report. It is not yet decided whether the report will be released publicly.<sup>25</sup>

- 6.33 The Committee maintains that it should be provided with the report of a review of the Defence Legal Service in the interests of transparency and the Committee's long term interest in military justice issues.

#### **Recommendation 8**

- 6.34 **The Department of Defence should include information in the Defence Annual Report detailing the work and performance outcomes of the Military Inspector General of the Australian Defence Force (Military Justice).**

#### **Recommendation 9**

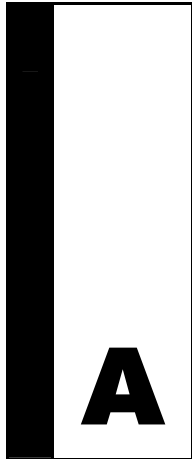
- 6.35 **The Department of Defence should provide the Committee with the final report of a review of the Defence Legal Service which was due for completion by 30 June 2003. This report should be provided to the Committee by 31 October 2003.**

Senator Alan Ferguson  
Chairman  
17 September 2003

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25 Department of Defence, *Submission 1, Question 3*.





## **Appendix A – Witnesses at the 27 February 2003 Public Hearing**

### **Department of Defence**

ADAMS, Rear Admiral Brian, AO, Head, Defence Personnel Executive

APPLETON, Brigadier Christopher George, Director-General, Defence Education and Training Policy

BENNETT, Mr Lloyd, Deputy Secretary and Chief Finance Officer

CARMODY, Mr Shane, Deputy Secretary Strategic Policy

COSGROVE, General Peter, AC, MC, Chief of the Defence Force, Australian Defence Force

GARDE, Major General Greg, AM, RFD, QC, Head, Reserve Policy

HOUSTON, Air Marshal Allan Grant, AO, AFC, Chief of Air Force

LEAHY, Lieutenant General Peter Francis, AO, Chief of Army

LEWIS, Major General Duncan Edward, Commander, Special Forces, Army

RETTTER, Brigadier Paul Bernard, Director-General, Preparedness and Plans, Army

ROCHE, Mr Mick, Under Secretary Defence Materiel

SHALDERS, Vice Admiral Russell Edward, AO, CSC, RAN, Vice Chief of the Defence Force

SLATER, Colonel Michael David, Director-General, Personnel, Army

SMITH, Mr Richard Campbell, AO, Secretary

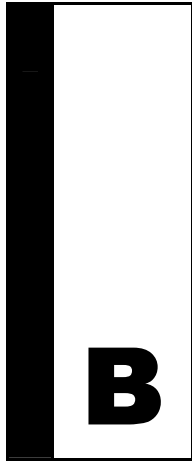
VEITCH, Mr George Ernest, First Assistant Secretary, Business Strategies

WEBER, Mr Graham Anthony, Acting Assistant Secretary, Accounting Policy and Practices, Financial Services

WELSH, Mr Gregory, First Assistant Secretary, Financial Services

WILLIAMSON, Mr Lance Brian, Director-General, Corporate Management and Planning, Army

YACOUB, Brigadier George, Director-General, Joint Ammunition Logistics Organisation, Army



## **Appendix B – Extract from ASPI Defence Budget Brief 2003-04**

### **SECTION 4 – IMPROVING DEFENCE BUDGET TRANSPARENCY**

#### **Introduction**

The White Paper outlined a new approach to Defence funding and management that it claimed would, among other things, provide an improved basis for accountability by Defence to Government and the public for the efficient and effective use of defence funds (Defence 2000, p.120). It expressed the principle that ‘the public should have the information required to assess the efficiency and effectiveness of the use of defence funds’. With that in mind, we proposed a series of options for improving the transparency of the Defence budget in last year’s ASPI Defence Budget Brief. At that time there was substantial room for improvement with the PBS giving only sparse visibility of many important aspects of Defence spending.

This year’s PBS is a very marked contrast. Not only has the amount of financial and performance information increased substantially but also the presentation is clearer and more systematic than any before. We would like to think that we had some small influence on the shape of these improvements, but it must be said that in some areas Defence has gone beyond the level of disclosure we suggested.

Nevertheless, this year we continue our focus on budget transparency by tracking the progress to date and further exploring options for improvement. With \$15.8 billion of public money at stake its still worthy of close examination. In doing so, we are careful to respect the limitations imposed by official secrecy and commercial confidence.

#### **Progress over the Last 12 Months**

The improvements have been in four key areas:

- The Resourcing section of the PBS has been greatly expanded and better presented. The Total Defence Funding can now be read simply from a table without any need

for a separate calculation. The White Paper funding figures for the decade are provided explicitly, and a reconciliation of budget measures and adjustments going back to 2000-01 has been provided. On top of this, the budget measures and adjustments for the current year have been detailed and explained more completely than in the past. The complex funding arrangements for the Iraq conflict have been made clear and a good deal of effort has gone into explaining the management of Defence's cash reserves. Finally, the PBS even includes a very helpful discussion of different methods of presenting the budget as they appear elsewhere in the Commonwealth's budget papers.

- The previous 29 Defence sub-Outputs, which were largely invisible, have been elevated to the status of Outputs with a corresponding increase in disclosure. This is perhaps the most important improvement of the many that have occurred.
- At the Output level the price is now broken down in terms of various expense components rather than simply being presented as a single figure. This includes employee expenses, suppliers (including inventory) and depreciation. At the same time, activity rate performance targets for aircraft, and availability rate performance targets for vessels, have been reinstated. In future years, as a baseline of data accumulates, this will allow trend analysis to be undertaken linking activity and expenses.
- The Capital Budget is better explained than ever before and now includes a breakdown in terms of the actual capital investment programs, not just formal accounting categories. Along with this, the top twenty projects have been supplemented by a discussion of other significant major capital equipment projects.

In addition, the capital use charge has been discontinued thereby eliminating a highly artificial construct that obscured much more than it ever informed.

### **Further Opportunities to Improve Budget Transparency**

While laudable progress has been made in many areas, we still think some further improvements are possible. In the remainder of this section we further develop options for improving budget transparency.

#### ***Making the Goal Clear – The Outcomes***

A clear and content-rich statement of the Government's intended outcomes is the foundation of the whole outcomes and outputs framework. The framework cannot function unless the outcomes are expressed in terms which are clear enough to allow genuine assessment of the extent to which they are achieved, and of the extent to which outputs have contributed to their achievement.

Last year we argued that the single Defence Outcome *The Defence of Australia and its National Interests* was too general and unspecific to provide an adequate foundation for the framework, and a basis for performance evaluation. Indeed, we argued that the single, broad outcome set out for Defence *The Defence of Australia and its National Interests* was not much more than a feel-good slogan; and no basis for a year-by-year evaluation of the success of the Defence organisation in doing what the Government wants.

This year there are seven Defence outcomes. The first six of which are little more than a rewording of the previous six outputs, and the seventh covers administered appropriations. In reality, little has changed. For example, the Output previously known as *Navy Capabilities* is now designated the Outcome *Navy Capability for the Defence of Australia and its Interests*. Little has been gained in terms of clarity or usefulness at the Outcome level.

At the risk of repeating what we said last year, a better approach would be to recognise that the Government has several different outcomes that it seeks from the Defence function. These outcomes need to reflect the slightly paradoxical nature of a lot of Defence activity: the Government wants to maintain capable defence forces but does not want to use them. It would rather maintain an environment in which it does not need to use them. But when it does use them it wants them to be successful.

Developing a set of more meaningful outcomes for Defence would take a little thought, but just to provide an example of what might be possible, we offer the following suggestions:

- Having armed forces ready for operations to meet Australia's needs;
- Maintenance of a favourable strategic environment; and
- The successful conduct of military operations as directed by Government.

#### ***Making Effectiveness Clear – Outputs***

Last year we reported on the substantial decline in Output and sub-Output level information disclosed in the PBS since 1999-00. Pleasingly, this trend was reversed with the release of the 2002-03 PAES and the improvements have been built upon substantially in the 2003-04 PBS. Table 4.2 details the level of output information that has been disclosed over recent years. We ignore the material included under what is now Output 7 for administered funds.

#### **Table 4.2: Output Information Contained in the Defence PBS/PAES**

While substantial improvement has occurred, there remain several ways to improve the transparency of the Outcomes and Outputs including:

#### ***Provide More Information Down to the Output Level***

The disclosure of Output prices and performance targets in the 2003-04 PBS is a positive step forward in improving budget transparency. However, price variations, and the discussion of risks and risk mitigation, only appears at the Outcome level.

The Outputs constitute the basic building blocks of capability, and it is at that level that *all* financial and performance information should be given. Last year's annual report provided useful detail on the problems arising down at what is now the Output level. It would be good if this same level of detail was included in the PBS in terms of risks and limitations. And similarly for the variations to price at the Output level.

#### ***Further Develop Measurable Output Performance Targets***

Perhaps the most serious shortcoming in the 2001-02 and 2002-03 PBS was the absence of quantified performance targets. Since then, both the 2002-03 PAES and the 2003-04 PBS have reinstated many of the performance measures used in previous years at the sub-output level. And the 2001-02 Defence Annual Report provided the 2001-02 targets albeit after

the event. This is a very welcome development. Without clear performance targets it is impossible to judge how well the organisation is performing.

However, there is still some scope for further development in the areas of activity rates, availability rates and preparedness targets. We explore these possibilities below.

### *Activity Rates*

Although we now have targets for the number of 'flying hours' for ADF aircraft, no similar targets is given for the number of 'sea days' planned for Navy vessels nor 'track miles' planned for Army armoured vehicles. In the case of Navy it was routine to provide targets for both the number of sea days and vessel availability prior to 1997-98. All that we have today is a target for the number of Unit Ready Days (URD) which refers to the time that a vessel is *able* to perform in accordance with its designed capability, whether it does so or not. That is, availability not activity.

There are three reasons to introduce activity rate targets for Navy vessels in terms of days spent at sea, and for Army armoured vehicles in terms of 'track miles':

Firstly, activity performance targets relate directly to the accrual framework which itself focuses on activities rather than cash. Many of the expenses that appear in the Statement of Financial Performance will rise and fall with activity levels. Consequently, visibility of activity levels is 'the other half of the equation' in understanding the financial statements. As discussed in Section 3, this is particularly important when assessing the additional cost of deployments.

Second, activity rates can be a useful pointer to management problems and issues. For example, in 2000-01 Navy planned to undertake 4450 Seahawk helicopter flying hours in a year but only achieved 73% of that target. This indicated that Navy had not achieved some 1189 hours of training and exercises previously deemed necessary for the delivery of their output. Unless some more efficient way of delivering the output with less flying hours had been found, it was difficult to escape the conclusion that the output has not been delivered in full. In fact it transpired that there were problems in personnel shortages including insufficient instructors.

Thirdly, and somewhat specific to Navy, the numbers of planned versus achieved sea days is a direct measure of the additional demands being shouldered by the men and woman of the RAN (and their families) when operational demands boost time at sea as has occurred over the past few years.

### *Availability Rates*

With the use of URD targets for Navy ships and submarines, we now have a measure of the availability for tasking within planned readiness requirements. This is important because it measures the effectiveness of Navy's personnel, training and logistics systems in maintaining vessels and their crews ready for action. For exactly these reasons the same sort of measures should be applied to ADF aircraft and armoured vehicle based capabilities, and indeed to any unit that has a preparedness goal.

Moreover, the acquisition of capabilities is increasingly moving towards specifying the average number of platforms to be mission capable per day. This is how both the Aerial

Reconnaissance & Fire Support Helicopter and Hawk Lead-in-Fighter projects defined their goals. If this is how we are going to specify future capabilities, it makes sense to plan, measure and report against similar targets.

Table 4.1 draws together proposed performance measures for various ADF platforms in terms of activity and availability targets.

**Table 4.1: Possible Activity and Availability Rate Measures for ADF Platforms**  
Platform Activity Rates Availability Rates

### *Preparedness Targets*

Preparedness is a capability's readiness to undertake and sustain operations. It is perhaps the key deliverable for the Defence organisation. Explicit in the PBS, and explained in detail on page 186, is that preparedness is measured relative to the targets in the Chief of the Defence Force's Preparedness Directive. A qualitative assessment of preparedness achievement at what is now the Output level was included in the 2000-01 and 2001-02 Annual Reports. And this year's PBS includes some of the very general preparedness goals for Army Outputs.

Security considerations would inhibit the publication of very much more detailed preparedness targets and achievements, but there is probably room to expand this general approach to the Navy and Airforce outputs.

Finally, we would encourage the option of providing classified preparedness targets and performance information to Parliamentary Committees, as occurs in the US Congress. This would require some detailed development as a policy proposal.

### *Making Efficiency and Accountability Clear – The Groups*

Group financial and personnel data been absent from the PBS since 2000-01. And in June 2002 Defence refused point blank to provide the Senate Foreign Affairs, Defence and Trade committee with Group budget information, citing that Group budgets are an internal management mechanism not used for performance measurement and reporting purposes.

This is disappointing. Many Defence Groups are larger than most Commonwealth agencies, and it is within the Groups that most management decisions are made and accountability lies. But their budgets, staffs and performance targets are not reported to the public. For example, we think that the Defence Science and Technology Organisation consumes something like \$250 million a year – but we are only guessing. This is comparable to the current funding for the Australian Research Council. Yet the PBS includes only seven vague dot-points on p.15 to explain how that money will be spent. Defence's initiatives for Science, Technology and Industry make no mention of what they might cost or what the Research and Development budget is. In contrast, other nations look to their investment in military Research and Development as a key measure within the make up of Defence spending.

In fact, the groups are the real business units of Defence. Quite simply, without presentation of group financial, personnel and performance targets, it is very difficult to assess the efficiency of Defence at other than the most aggregate level. To make a

commercial analogy, Defence is a sole-source provider and there needs to be an 'open book' contract to ensure value-for-money.

Ultimately, the absence of a benchmark for the price of Defence outputs, any assurance of efficiency must rely on an analysis of group performance.

Options for the presentation of group information include:

- Reinstating the dual presentation of groups and outputs that was provided in the PBS of 1999–2000. This included much useful discussion of the financial interrelation between groups and outputs. But that presentation could be expanded to include personnel, financial and performance targets for the groups, based upon the organisational performance agreements described on page 162 of the PBS.
- Use the Customer Supplier Arrangements that are being set up in Defence to provide transparency of the services provided to the output groups by the enabling groups. This would yield a powerful insight into the delivery of in excess of \$5 billion of services to the outputs.

### ***Making Investment Clear***

This year's PBS provided a very valuable and systematic description of the financial aspects of the Capital Investment Program, and there was also an expansion of the material provided covering individual major capital equipment projects.

Nevertheless we think that the presentation of Defence's budget would be greatly improved by the development of a uniform program of performance targets for the major capital equipment investment program. In this regard we agree with the recommendation of the Senate Foreign Affairs, Defence and Trade Committee 2003 Inquiry into *Material Acquisition and Management in Defence* that:

The Senate requests the auditor general:

- (a) To produce, on an annual basis, a report on progress in major defence projects, detailing cost, time and technical performance data for each project;
- (b) To model the report on that ordered by the British House of Commons and produced by the UK Comptroller and Auditor General; and
- (c) To include in the report such analysis of performance and emerging trends as will enable the parliament to have high visibility of all current and pending major projects.

The latest report by the UK Comptroller and Auditor General can be found at [http://www.nao.gov.uk/publications/nao\\_reports/](http://www.nao.gov.uk/publications/nao_reports/).

In another recommendation the Committee recommend that during Budget Estimates the DMO table before the Senate FAD&T Legislative Committee an audited summary of the feedback provided by industry to the DMO via the 360-degree scorecard process. We think this is an excellent idea.



***Making the Personnel Picture Clear***

There are four ways that the presentation of personnel information could be made more transparent in the PBS:

- Details of ADF permanent, Reserve and Civilian personnel should be available for each output;
- Recruiting and retention targets for the upcoming year could be given. And reported figures should identify separations that are management initiated;
- Targets and expenses for the planned use of ‘professional service providers’ could be given to complete the workforce picture; and
- The planned combat/combat-related component of the ADF for the upcoming year could be given on the basis of the 1996 DRP baseline. This would help track progress towards the Government’s goal of a 65% combat force.