

Introduction

- 1.1 During the period July 2004 to June 2005, Defence saw a continued focus on military operations, procurement reform and financial management remediation.
- 1.2 The Australian Defence Force (ADF) was involved in 17 offshore operations during the year. Two of these operations are noteworthy. First, the strengthening of the presence in Iraq with the deployment of a 450-strong Task Group to the Al Muthanna. Second, the humanitarian relief effort undertaken in response to the tragic aftermath of the South-East Asian tsunami. The tsunami relief operation was a demanding mission and one that was completed with professionalism and compassion. The many achievements of the ADF during this relief operation were tempered by the sad loss of nine personnel, and the injuries of two others, in the helicopter crash on Nias in early April. Such accidents are a reminder that the men and women of the ADF do a dangerous job, often in unforgiving environments, through the spectrum of operations from humanitarian relief, to peacekeeping to warlike.
- 1.3 The *Defence Update 2005* was released in December 2005 and builds upon the White Paper, the previous Defence Update and the Defence Capability Plan. *Defence Update 2005* outlined the way the Government continues to 'shape the ADF as a highly capable and

flexible military force able to meet a wide range of strategic and responsive tasks.¹

- 1.4 During 2004-05, particular attention was also accorded to military justice matters, intelligence reforms and issues of Australian Defence Force (ADF) recruitment and retention.
- 1.5 The four topics selected for examination as part of the review of the *Defence Annual Report 2004-05* cover some of these issues. They range from the long-term such as the ongoing reforms to the Defence Materiel Organisation (DMO) and the remediation of Defence's qualified financial statements, to the more immediate, such as the management and coordination of the various aspects of people, systems and platforms that enable the ADF to fulfil the roles, and meet the tasking, necessary to achieve national interest objectives.
- 1.6 The DMO was accorded prescribed agency status on 1 July 2005, and in cooperation with Defence, particularly Capability Development Group, has been actively addressing the deficiencies identified in the Kinnaird Review of Defence procurement. The first topic addresses aspects of the DMO in the context of its Prescribed Agency Status and the changed relationship with Defence, as well as providing an overview of selected acquisition projects and a general introduction to their project management methodologies.
- 1.7 The second area for examination was primarily focused on the Chinook helicopter, its upgrade program and the deployment to Afghanistan, as well as the broader issue of the future of the ADF's helicopter fleet in the context of the AIR 9000 project. A related topic that was also briefly examined was the future light tactical airlift capability of the ADF, in particular, determining the appropriate force mix of rotary, fixed-wing or a combination of both aircraft.
- 1.8 Topic three examined the roles, responsibilities and inter-agency relationships of the Joint Offshore Protection Command (JOPC). In March 2005 the Minister for Defence and the minister for Justice and Customs, officially opened the JOPC to enable a more effective, efficient and coherent whole-of-Government approach to various high priority operations conducted in Australia's offshore areas. Augmented patrols commenced on 30 March and this report examined the activities being undertaken under the auspices of the JOPC, in particular Operations RELEX II and CRANBERRY, the

¹ Defence Portfolio, *Portfolio Additional Estimates Statement 2004-05*, p. 3

future direction of the Command and ongoing development of relationship with other Government agencies.

- 1.9 Defence's qualified financial statements, and the steps Defence is taking to improve this situation, are examined in topic four. Defence notes that 'a full financial controls framework that will standardise financial transactional and management processes across Defence is being introduced to improve the integrity of ... financial data, budgeting and financial statements.'² Specifically, this review examines the remediation plans and the rectifications and progress to date, the Australian National Audit Office Categorisations and impacts on Defence, as well as addressing in a general sense compliance with accounting methodologies and Defence's future expectations in relation to financial management.

Defence objectives, personnel and 2005-06 Budget allocation

- 1.10 The Portfolio Budget Statements (PBS) 2005-06, in conjunction with the Portfolio Additional Estimates Statements 2005-06 (PAES), provide the 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), in *Australia's National Security: A Defence Update 2003* (the Defence Update 2003), and *Australia's National Security: A Defence Update 2005* (Defence Update 2005). The underpinning principles of the White Paper remain valid, however, noting that the strategic environment of recent times is dynamic and challenging, and that the Defence strategy for Australia has evolved to meet these changing demands. The Defence Updates provide a framework to ensure the ongoing security of Australia and our national interests, as well as enabling the development of an ADF that is capable enough and flexible enough to contribute with increasing effectiveness to global, regional and domestic tasking as necessary.
- 1.11 A key enhancement announced in the *Defence Update 2005* was the development of a Hardened and Networked Army (HNA). HNA is a 'ten year plan that will allow the Army to be more capable, more survivable, and more able to provide a broader range of options that

² *Defence Portfolio Budget Statements, 2005-06* p. 7.

can be employed for longer and if necessary, in more lethal scenarios.³ HNA will be achieved by a combination of increased personnel numbers, new force structures of combined arms battlegroups and enhanced and new equipment and support systems.

1.12 For the period 2004-05, the ADF was maintaining a force structure that comprised the following combat elements:

- a surface combatant force of five Adelaide-class guided missile frigates (FFGs) which will be reduced to four by the end of 2007, and seven Anzac-class frigates;
- 16 Seahawk naval combatant helicopters, six Sea King maritime support helicopters, 13 Squirrel naval training helicopters, and ten (increasing to a final of 11 in early 2006) Super Seasprite naval combatant helicopters which have achieved interim acceptance for training prior to estimated operational acceptance of full capability (not before mid-2006);
- 12 Fremantle-class patrol boats (reducing to 10 by mid-2006 with the remainder to be decommissioned by mid-2007) and an Armidale-class patrol boat (increasing to 14 by the end of 2007);
- six Collins-class submarines;
- an amphibious lift and sea command force comprising two amphibious landing ships, one heavy landing ship and six heavy landing craft;
- a mine hunter force comprising six Huon-class coastal mine hunters (two of which have been placed in extended readiness from 2006), two auxiliary minesweepers and two clearance diving teams;
- a hydrographic force comprising two Leeuwin-class hydrographic ships, four Paluma-class survey motor launches, a laser airborne-depth sounder aircraft and a deployable geospatial support team;
- an afloat support force comprising one auxiliary oil tanker (to be replaced by 2006 with a more environmentally-friendly double-hulled tanker) and one fleet replenishment ship;
- five Army infantry battalions at 90 days readiness or less, supported by a range of armour, aviation, engineer, artillery,

³ *Australia's National Security: A Defence Update 2005*, Minister for Defence Speech, 15 Dec 05

logistics and transport assets, and a number of lower-readiness formations and units able to provide personnel for sustainment and rotation;

- a Reserve Force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment;
- three Regional Surveillance Units;
- a Special Operations Command consisting of a Special Air Service regiment, a regular commando regiment, a reserve commando regiment, an Incident Response Regiment and a combat service support company;
- an air combat force of three front-line F/A-18 Hornet squadrons and one operational F-111 squadron (to be retired from service by about 2010), supported by a training wing comprising four units, a wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other support elements;
- an air transport and air-to-air refuelling force that operates two C-130 Hercules airlift squadrons, one squadron of DHC-4, B-707 and B-737, and Special Purpose Aircraft (B300 Beechcraft and Challenger). Airborne Early Warning & control aircraft will be deployed from 2007;
- a maritime patrol force of two front-line P-3C Orion squadrons and one conversion unit; and
- agencies responsible for intelligence collection and analysis.⁴

1.13 Defence commented that these 'major combat elements are being progressively more integrated and informed through a number of command, communications and intelligence systems.'⁵

1.14 For 2004-05 the most recent Budget estimates for Defence are shown in the PBS.

1.15 Table 1.1 below reproduces the key information.

⁴ *Defence Portfolio Budget Statements 2005-06, pages 9-10, Portfolio Additional Estimates Statements 2005-06, p. 4.*

⁵ *Defence Portfolio Budget Statements 2005-06, p. 10*

Table 1.1 Defence Resourcing Summary – 2004-05

	2004-05 Actual Result \$000	2005-06 Budget Estimate \$000
Revenue from Government for outputs	15,749,688	15,977,721
Own source revenue ¹	499,225	371,341
Equity injection from Government	393,286	1,121,148
Net Capital receipts	105,697	371,341
Administered appropriation ²	2,793,453	2,539,359
Total Defence resourcing	19,541,349	20,034,423

Notes

1. Own-source revenue excludes 'assets now recognised' revenue and 'net gains from sales of assets' revenue.

2. The administered appropriation covers costs associated with the military superannuation schemes, and also covers the provision of housing subsidies to current and retired Defence personnel. The administered appropriation is managed by the Department of Finance and Administration (Commonwealth Superannuation) and the Defence Housing Authority (housing subsidies) on Defence's behalf.

Source *Defence Portfolio Budget Statement 2005-06, p. 32; Defence Annual Report 2004-05, p. 11.*

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

Table 1.2 Average Annual Strength of Services (number of persons) – 2001-02 to 2005-06

	2001-02	2002-03	2003-04	2004-05 Actual	2005-06 Budget Estimate
Navy	12,598	12,847	13,133	13,089	13,209
Army	25,012	25,587	25,446	25,356	25,484
Air Force	13,322	13,646	13,455	13,368	13,498
Total Permanent Force	50,932	52,080	52,034	51,813	52,191

Source *Defence Annual Report 2004-05, p. 90; Defence Portfolio Budget Statements 2005-06, p. 186.*

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

Table 1.3 2004-05 ADF Reserve and civilian staffing

Reserve Force	2004-05 Actual result	2005-06 Budget Estimate
Navy	1,243	1,850
Army	15,845	16,000
Air Force	2,187	2,300
Total Reserve Force	19,275	20,150
Civilian Staffing	17,754	13,370 ¹

Note:

1. Includes Defence Material Organisation

Source Defence Portfolio Budget Statements 2005-06, p. 186; Defence Annual Report 2004-05, pp. 90-91.

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

Table 1.4 2004-05 Total Defence Workforce

Workforce	2004-05 Actual result	2005-06 Budget Estimate
Military	71,090	72,341
Civilian	17,754	13,370
Professional service providers	1,913	1,341
Total Workforce	90,757	87,052

Source Defence Portfolio Budget Statements 2005-06, p. 186; Defence Annual Report 2004-05, p. 93.
(Professional Service Providers are individuals under contract filling line positions. This category of worker was not tracked until 2003-04.)

Annual Report review objectives and scope

1.19 The review examined a combination of information from the Portfolio Budget Statements 2005-06 (including Portfolio Additional Estimates Statements 2005-06) and the Defence Annual Report 2004-05.

Focus areas

1.20 The four focus areas selected for scrutiny at the public hearing on 3 March 2006 provided an opportunity to examine how Defence was addressing the new strategic environment as articulated through the Defence Updates and the Defence Capability Review. The four focus areas were:

- Prescribed agency status for the DMO, implications for ongoing reform and selected project updates;
- Chinook helicopter: AIR 9000 upgrades, future and effectiveness for deployed operations in Afghanistan.
- Joint Offshore Protection Command: roles, responsibilities, future; and
- Remediation of Defence's financial statements.

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