

## Introduction

- 1.1 During the period July 2006 to June 2007, Defence continued to maintain a focus on military operations and equipment acquisition, as well as seeking improvements in the areas of finance, management and accountability.
- 1.2 The Australian Defence Force (ADF) was involved in 10 overseas operational deployments during the year, as well as a number of peacetime National tasks, such as support to APEC 2007, Border Protection Operations (Operation Resolute) and the Northern Territory Emergency Response Task Force, supporting indigenous communities. As at June 2007, over 3,800 ADF personnel were deployed to areas such as Iraq, Afghanistan, Timor Leste, the Solomon Islands and a number of other locations for ongoing Peace Keeping commitments.
- 1.3 Along with the annual classified Defence Planning Guidance, Defence produced two major public strategy documents in 2006-07. In May 2007, the Chief of the Defence Force outlined his 'vision' for future military operations in *Joint Operations for the 21<sup>st</sup> Century*. In July 2007, the Prime Minister launched a new *Defence Update*, which reviewed the Government's response to the changing security environment, including Defence's evolving military posture and capabilities and emphasised the importance of partnerships in securing Australia's strategic interests at the global, regional and local levels. Both documents underlined the increasing integration within the separate arms of the ADF, and between Defence and other government agencies.
- 1.4 In August 2006, the Minister for Defence established the *Defence Management Review*. Led by Ms Elizabeth Proust, the review team

examined organisational efficiency and effectiveness across Defence. The aim of the review was to make recommendations for clarifying accountabilities and streamlining the governance framework, improving the quality of advice to Ministers, providing better support to Defence's people, and reforming Defence's business systems and processes. The report and Defence's response were released publicly on 5 April 2007. Of the review's 53 recommendations, Defence agreed to implement 50 in full and two in part; it did not agree with one recommendation relating to the 'diarchy' arrangement where the Secretary and the Chief of Defence Force act essentially as joint CEOs of the Defence organisation.

- 1.5 Defence has continued to focus on improving its financial management and made significant progress during the year. During 2006 – 2007, Defence built on the work of the previous year and has no new areas of qualification by the Australian National Audit Office (ANAO). In addition, the 2006–07 ANAO qualification relating to *Repairable Items* has been successfully remediated, with the only outstanding area of qualification relating to the uncertainty around *General Stores Inventory*.

## **Defence objectives, personnel and 2006-07 Budget allocation**

- 1.6 The Portfolio Budget Statements (PBS) 2007–08, in conjunction with the Portfolio Additional Estimates Statements 2007–08 (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 (Defence Update 2003); Australia's National Security: A Defence Update 2005 (Defence Update 2005); and Australia's National Security: A Defence Update 2007 (Defence Update 2007). The strategic environment of recent times is dynamic and challenging, and Defence's 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. A new White Paper is due for completion in December 2008.

- 1.7 As at 30 June 2007, the ADF was maintaining a force structure that comprised the following combat elements:
- a surface combatant force of five Adelaide-class guided missile frigates (reduced to four at the end of 2007) and eight Anzac-class frigates;
  - a naval aviation force comprising 16 Seahawk naval combatant helicopters, six Sea King maritime support helicopters and 13 Squirrel naval training helicopters. The Sea King helicopters are due to be progressively replaced by MRH90 helicopters from 2010;
  - 12 Armidale-class patrol boats (ACPB) to provide patrol, and response capability in Australia's maritime approaches (an additional two ACPB were delivered in late 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 warfare force comprising six Huon-class coastal mine hunter vessels, 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 and one fleet replenishment ship;
  - nine combined arms battlegroups to provide depth, sustainability, utility and flexibility for the Army;
  - a Reserve Force designed to provide specified individual and collective capabilities to support, sustain and reinforce the Army's operational forces;
  - three regional force surveillance units;
  - a Special Operations Command consisting of the Special Air Services Regiment, a Regular Army commando regiment, an Army Reserve commando regiment, an Incident Response Regiment, a Special Forces Training Centre and a Special Operations Logistics Squadron;
  - as part of implementing Stage 1 of the Enhanced Land Force initiative, an additional infantry battalion was raised in December 2006. In 2007, infantry battalion growth is to occur and support capabilities are being raised;

- an air combat force consisting of three F/A-18 squadrons and two F-111 squadrons (to be retired from service in 2010), supported by a training wing comprising four units;
- an airlift and air-to-air refuelling force that operates one heavy airlift squadron operating two Boeing C-17 Globemaster III aircraft (an additional two C-17s were in-service by 2008), one C-130 Hercules airlift squadron, one squadron each of DHC-4, B-707, and Special Purpose Aircraft (B-737 BBJ and CL-604 Challenger) supported by a training squadron;
- a combat support group consisting of two expeditionary combat support wings that provide the essential air base combat support required to conduct deployed air operations on bare bases and in low infrastructure conditions, and a health support wing;
- a maritime patrol force comprising two P-3 Orion squadrons and one conversion unit;
- a battlespace management force consisting of a command and control capability for air operations, wide-area surveillance system (Jindalee Operational Radar Network) monitoring Australia's northern approaches, and a range of ground radars and other supporting elements; and
- diverse capabilities for intelligence collection and analysis.<sup>1</sup>

1.8 Defence commented that:

The major combat elements are being integrated through a robust communications network and information systems required to support the ADF's mission command, intelligence, surveillance, reconnaissance, imagery and military geospatial information sharing requirements. Capabilities such as satellite communications, tactical information exchange links and the command support environment are being progressed. The delivery of Defence capabilities continues to be dependent on the support of the Defence Science and Technology Organisation<sup>2</sup>.

1.9 For 2006-07, the most recent Budget estimates for Defence are shown in the PBS. The Defence budget for 2006-07 is summarised in Table 1.1 below.

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1 Department of Defence, *Portfolio Budget Statements 2007-2008*, pp. 4 - 6.

2 Department of Defence, *Portfolio Budget Statements 2007-2008*, p. 6.

Table 1.1 Defence Resourcing Summary 2006-07

	<b>2006-07 Budget Estimate \$000<sup>1</sup></b>	<b>2006-07 Additional Estimate \$000<sup>2</sup></b>	<b>Actual Result \$000</b>
Revenue from Government for outputs	19,001,283	19,155,941	19,219,939
Own source revenue <sup>3</sup>	594,645	751,380	771,226
Net Capital receipts	23,192	57,603	95,005
Administered appropriation	2,632,000	2,817,000	2,804,999
<b>Total Defence resourcing</b>	<b>22,251,120</b>	<b>22,781,924</b>	<b>22,891,169</b>

## Notes:

1. Budget estimates are consistent with Portfolio Budget Statements 2006-07.
2. Revised estimates are consistent with Portfolio Additional Estimates Statements 2006-07.
3. Own-source revenue excludes revenue from 'assets now recognised' and 'net gains from sale of assets'.

Source *Defence Annual Report Volume 1 2006-2007, p. 33*

1.10 The average funded strength of the three services for 2006-07 is shown in Table 1.2 below.

Table 1.2 ADF Permanent Force Average Funded Strength

	<b>2005-06 Actual</b>	<b>2006-07 Budget Estimate</b>	<b>2006-07 Revised Estimate</b>	<b>2006-07 Actual</b>
Navy	12,767	12,784	12,700	12,690
Army	25,241	25,220	25,467	25,525
Air Force	13,143	13,249	13,280	13,289
<b>Total Permanent Force</b>	<b>51,151</b>	<b>51,253</b>	<b>51,447</b>	<b>51,504</b>

## Notes:

1. Figures in this table are average funded strengths; they are not a headcount. Reservists undertaking full-time service are included in the figures. The average funded strength of Reservist undertaking full-time service in 2006-07 was 1,364 comprising Navy 301, Army 854 and Air Force 209. Personnel on forms of leave without pay are not included.
2. Includes ADF members in the DMO.

Source *Defence Annual Report Volume 1 2006-07, p. 125*

1.11 ADF Reserve paid strength is shown in Table 1.3 below.

Table 1.3 2006-07 ADF Reserve paid strength

	<b>2005-06 Actual</b>	<b>2006-07 Budget Estimate</b>	<b>2006-07 Revised Estimate</b>	<b>2006-07 Actual</b>
Navy	1,598	1,850	1,850	1,730
Army	15,579	15,000	15,000	15,413
Air Force	2,287	2,400	3,100	2,419
<b>Total paid Reserves</b>	<b>19,464</b>	<b>19,250</b>	<b>19,950</b>	<b>19,562</b>

Notes:

1. Figures in this table are average funded strengths; they are not a headcount. Reservists undertaking full-time service are included in the figures. The average funded strength of Reservist undertaking full-time service in 2006-07 was 1,364 comprising Navy 301, Army 854 and Air Force 209. Personnel on forms of leave without pay are not included.
2. Includes ADF members in the DMO.

Source *Defence Annual Report Volume 1 2006-07, p. 126*

1.12 APS full-time equivalent civilian staffing is shown in Table 1.4 below.

Table 1.4 2006-07 APS full-time equivalent - average

	<b>2005-06 Actual</b>	<b>2006-07 Budget Estimate</b>	<b>2006-07 Revised Estimate</b>	<b>2006-07 Actual</b>
ADF	13,577	14,148	14,227	14,516
DMO	4,895	4,994	5,304	5,249
<b>Total</b>	<b>18,472</b>	<b>19,142</b>	<b>19,531</b>	<b>19,765</b>

Notes:

1. Figures in this table are average full-time equivalent (FTE); they are not a headcount.
2. The DMO figures include Professional Service Providers (individuals under contract filling line positions).

Source *Defence Annual Report Volume 1 2006-07, p126 and Defence Annual Report Volume 2 2006-07, p. 79*

## Annual Report review objectives and scope

1.13 The review of the Defence Annual Report is an important task and an opportunity for the Defence Sub-Committee to inquire into a broad range of Defence issues as part of the process of accountability of Government agencies to Parliament. The Defence Sub-Committee takes this responsibility very seriously.

1.14 The review examined a combination of information from the Portfolio Budget Statements 2007-08 (including Portfolio Additional Estimates Statements 2007-08), both Volumes of the Defence Annual Report 2006-07 and took evidence from senior Department of Defence officials at two public hearings. The Committee also encouraged public input through a wide public advertising campaign, resulting in

six submissions and three exhibits being provided to the Committee for consideration. The Committee thanks those individuals and organisations that have contributed.

## Focus areas

- 1.15 The Defence Sub-Committee selected a broad range of issues for examination at public hearings held on 10 July 2008 and 29 August 2008. The public hearings provided an opportunity for the Committee to seek further information on how Defence is addressing current opportunities and challenges. In broad terms, the focus areas were:
- Defence Materiel Organisation (DMO);
  - Joint Strike Fighter (JSF);
  - Personnel; and
  - Other issues.
- 1.16 In addition, the Chief of the Defence Force (CDF) attended the final session of the hearing on 29 August 2008, providing an opportunity for the Committee to discuss a range of issues across the entire Defence portfolio.
- 1.17 The first topic examines a number of key DMO responsibilities, including significant funding slippages in DMO's Top 30 Projects list and Australian industry capability.
- 1.18 The consideration of the JSF examines the background of the project, the progress to date and cost estimates. The issue of future air combat capability was raised with the CDF and is discussed in this section of the review.
- 1.19 Under the heading of 'personnel', the Committee examined the progress of the Military Justice Reforms, recruitment and retention, personnel shortages in critical trades and the issue of reportable fringe benefits for selected Defence conditions of service and allowances.
- 1.20 'Other issues' examined include:
- ADF's preparedness to conduct peacekeeping operations;
  - the current and future role of armour;
  - interoperability of new communications platforms with legacy systems; and
  - the Hardened and Networked Army.

