
The Parliament of the Commonwealth of Australia

Review of the Defence Annual Report 2003-04

Joint Standing Committee on Foreign Affairs, Defence and Trade

Canberra
September 2005

Cover Photos:

Locals help to unload an Australian Navy Sea King helicopter, Shark 21 from HMAS Kanimbla, which carried relief supplies of rice, water and tents to the isolated village of Aluebata, Aceh Province.

SGT Karen King of the Army Security Detachment Baghdad engages with local children near the Australian Embassy Iraq 2003

A Royal Australian Air Force (RAAF) AP-3C Orion, of 92 Wing, jettisons flares during a trial of electronic warfare self-protection systems in preparation for deployment to the Middle East .



Foreword

During the period July 2003 to June 2004, Defence has been subject to a range of external and internal challenges. The *Defence Update 2003* highlighted the changed strategic environment in which the Australian Defence Force (ADF) operates. In particular, the rise of global terrorism and the threat of non-state actors is causing Defence to reassess its capabilities. The new Defence Capability Plan (DCP) provides detailed information on the capabilities that Defence will acquire during the next 10 years.

Defence has embarked on an ambitious program of reform to its procurement arising from the Kinnaird Report. These reforms culminated when the Defence Material Organisation (DMO) became a separate prescribed authority on 1 July 2005, headed by Dr Stephen Gumley. In addition, a Capability Development Group (CDG), headed by Lieutenant General David Hurley, has been formed within Defence for the purpose of better defining capability requirements and advising DMO of specific capability needs. This procurement reform is the first of four topics explored by the Committee as part of the review of the *Defence Annual Report 2003-04*. The Committee found mixed progress on major procurement projects but overall noted significant improvement to the process by which capability requirements are identified and briefed to Government.

Topic two examines Australia's future amphibious capability. The current DCP states that two large amphibious ships will be purchased to replace Australia's current amphibious capability. ASPI argues very strongly that it may be more effective to purchase four smaller amphibious vessels, rather than two large ships. The Committee notes ASPI's arguments that a larger number of smaller ships may be more effective in some circumstances but accepts the comprehensive nature of the Navy and Defence analysis which shows that the acquisition of two larger ships to be more efficient, in both operational capability and cost-effectiveness, over the life of the project. In addition Defence's decision to procure two large ships was based on their capacity to embark an Army combined arms battle group and deliver this force ashore more rapidly and effectively than would be possible from smaller platforms.

The management of Defence's budget continues to be problematic. In part difficulties stem from the transition to accrual accounting standards, but other procedural and cultural difficulties remain. The Department of Defence is a complex organisation, designed in the first instance to support operational activities such as the deployment of the Al Muthanna Task Group. However, like other government agencies, Defence must comply with Australian Accounting Standards and to demonstrate transparency and accountability to the Parliament. Defence's budget remains qualified and, while a significant amount of work is being done to rectifying these concerns, much room for improvement remains. Defence's qualified financial statement, and the steps the Department is taking to remedy this situation are examined in topic three. In its review the Committee notes that the Defence leadership have been particularly frank about the nature and extent of the problems they face and that significant progress has been made on reforms. The Committee makes some recommendations in this section intended to assist Defence in prioritising resources while seeking to meet the requirements of the Financial Management Act. These recommendations are based on the need to stratify the data held by Defence to ensure money is not wasted seeking old audit data that has not been retained.

The final topic examines Defence's capability for humanitarian relief operations. The most recent example of the ADF capacity for relief operations came during the exemplary response to the Tsunami on Boxing Day 2004. During the hearing, Defence detailed the extent of its humanitarian relief capabilities and their relationship to Defence's key war-fighting objectives. The Defence balance of capabilities, designed for war-fighting but suited to relief operations, is considered appropriate. The Committee concluded this section of the inquiry by commending the ADF for its performance on humanitarian relief operations throughout Australia and our region.

To conclude this review of the *Defence Annual Report 2003-04* the CDF, General Peter Cosgrove, and the Secretary, Mr Ric Smith, made themselves available for a wide-ranging discussion on current issues in the Department. In this section the Defence leadership demonstrated a high level of cohesion and left the Committee confident the reforms described in other sections of the report were being allocated sufficient priority.

Finally, the Committee offers its sympathy to the families and friends of the crew of Sea King Helicopter 'Shark 02' for the tragic loss of their loved ones in Aceh. The loss of this fine group of service men and women highlights the dangers faced by all ADF personnel and confirms the need to ensure the ADF receives the best equipment and support our nation can afford.

Hon Bruce Scott, MP
Chairman
Defence Sub-Committee



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Membership of the Committee

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Membership of the Defence Sub-Committee

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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.¹

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

¹ See *Votes and Proceedings*, No. 3, 18 November 2004 and *Journals of the Senate*, No. 3, 18 November 2004.

² Speaker's Schedule: Allocation to Committees of Annual Reports of Departments, Agencies, Authorities and Companies, 2004, p. 17. See *Votes and Proceedings*, No. 9, 7 December 2004.



List of abbreviations

AACAP	ATSIS Army Community Assistance Program
ADA	Australia Defence Association
ADF	Australian Defence Force
ADO	Australian Defence Organisation
AEWC	Airborne Early Warning and Control
ANAO	Australian National Audit Office
APS	Australian Public Service
ASLAV	Australian Light Armoured Vehicle
ASPI	Australian Strategic Policy Institute
AVO	Australian Valuation Office
CDF	Chief of Defence Force
CDG	Capability Development Group
CN	Chief of Navy
DAR	Defence Annual Report
DIO	Defence Intelligence Organisation
DCP	Defence Capability Plan
DMO	Defence Materiel Organisation
DSTO	Defence Science and Technology Organisation
EO	Explosive Ordnance
JSF	Joint Strike Fighter
Kinnaird Review	The Defence Procurement Review 2003

LPA	Landing Platform Amphibious
LPD	Landing Platform Dock
MOLE	Manoeuvre Operations in the Littoral Environment
MBTs	Main Battle Tanks
PBS	Portfolio Budget Statements
RAAF	Royal Australian Air Force
RAN	Royal Australian Navy
RRF	Reserve Response Force
SDSS	Standard Defence Supply System
SMEs	small and medium enterprises
STOVL	Short Take-off Vertical Landing
TAG	Tactical Assault Group



List of recommendations

Recommendation 1

The committee recommends that initiatives to increase the number and tenure of military officers posted to the DMO and DIO are closely monitored to ensure that individual officers are not left bearing the cost of these organisational demands through reduced career progression or posting opportunities to command or operational deployments.

Recommendation 2

The committee recommends that Defence seek to stratify inventory pricing data, drawing a line under old inventory for which pricing data cannot be found in order to prevent the wasteful expenditure of commonwealth funds in seeking records of values that are unlikely to exist.

Recommendation 3

The committee recommends that Defence analyse the Standard Defence Supply System (SDSS) to determine whether it has the capacity to cope with the significant upgrades required to meet best practice, or whether an alternate system is available that better meets the requirements of Defence practitioners and the audit legislation.

Recommendation 4

The committee recommends that Defence seek to stratify valuation data for Explosive Ordnance, seeking to identify points from which valuation records can be trusted, and then writing off the value of ordnance which predate current record keeping requirements, in order to prevent the waste of further resources in seeking old valuations that are unlikely to be found.

Recommendation 5

The committee recommends that military leave discrepancies be resolved by accepting current leave balances, after a 30 day warning period but that a process of appeal be established to ensure any grievances can be processed equitably.

Recommendation 6

The Committee recommends that Defence continue to invest heavily in training in critical trade areas, including reconsideration of technical trade apprenticeships for school leavers.