



Australian Government

Department of Defence

Defence Annual Report | 2002-03

03

HEADLINE RESULTS FOR 2002-03

OPERATIONAL

- Defence met the Government's highest priority tasks through:
 - effectively contributing to the international coalition against terrorism and enforcing United Nations' Security Council resolutions, contributing some 2,000 ADF personnel to the war in Iraq
 - providing support to the rehabilitation of Iraq after the cessation of formal hostilities in May 2003
 - responding to the terrorist attacks in Bali on 12 October 2002
 - planning for the major deployment under Operation Helpem Fren to assist the Solomon Islands Government in restoring law and order
 - handing over military operations in Bougainville from the Peace Monitoring Group to the civilian Bougainville Transitional Team
 - continuing to play a major role in assisting East Timor, including support to help train and develop the fledgling East Timor Defence Force
 - continuing to detect, intercept and deter vessels carrying unauthorised arrivals from entering Australia
 - supporting civil agencies in curbing illegal fishing in Australian waters
- The ADF continued to perform an expanding range of tasks at a very high level of activity

Further information can be found in Chapter Two

SOCIAL

- Community attitudes towards Defence:
 - 86 per cent of Australians said they were proud of the ADF
 - 79 per cent believed the Navy is effective, 83 per cent believed the Army is effective, and 81 per cent believed the Air Force is effective – a slight decrease from 2001-02
 - 92 per cent considered the ADF is well trained – an increase of five per cent over 2001-02
- ADF recruiting:
 - Enlistments fell in comparison to 2001-02 figures, but remained above 2000-01 figures
 - Separation rates across all three Services fell in 2002-03 to a ten-year low
 - Army Reserve personnel numbers were down on 2001-02 figures, but up on 2000-01 figures
- Intake of 206 graduate recruits was highest ever
- In more than 400 communities throughout Australia, more than 26,000 young people are participating as Navy, Army or Air Force cadets. Over 2,450 adult volunteers lead and supervise personal development and training activities for cadets

Further information can be found in Chapter Five

FINANCIAL

- Defence recorded a net surplus of \$4,160m (before the capital use charge of \$5,056m) compared to the revised estimate of \$4,792m as reported in the *Portfolio Budget Statements 2003-04*. The major reasons for the difference are:
 - additional depreciation and amortisation expenses due mainly to the accelerated depreciation associated with the disposal of APG-65 radars from F/A-18 aircraft and the full year's effect of asset revaluations
 - a decision to account for potential claims for asbestos-related diseases
 - an increase in inventory consumption
- The net asset position of Defence improved from a revised estimate of \$45,845m to \$46,175m. The movement over the revised estimate is due to an increase in the value of land and buildings compared to the revised estimate
- The Australian National Audit Office issued a limitation of scope qualification with respect to four elements of the 2002-03 financial statements. While three elements, general stores inventory, explosive ordnance inventory and repairable items, were also qualified as part of the 2001-02 financial statements, Defence improved the quality of the data surrounding these accounts during 2002-03 and the extent of the qualification has been reduced. Defence is continuing to work on improving the quality of its financial data

Further information can be found in Chapter Three

ENVIRONMENTAL

- Defence became a founding board member of the Green Building Council of Australia in October 2002
- Annual energy consumption reduced by 559,000 gigajoules, exceeding the reduction target by 2.6 per cent
- Defence further reduced greenhouse gas emissions by an estimated 50,745 tonnes (results available in November 2003). The Defence greenhouse strategy was endorsed in January 2003
- Budgeted expenditure on water remained at \$13.3m. An independently reviewed water conservation strategy was developed and will be implemented in 2003-04

Further information can be found in Chapter Three

GUIDE TO THE REPORT

The format and content of this annual report reflects the requirements developed by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accounts and Audit in June 2002 under subsection 63(2) of the *Public Service Act 1999*.

The *Defence Annual Report 2002-03* addresses the Department of Defence and the Australian Defence Force (ADF), which are collectively referred to as 'Defence', while the Department of Veterans' Affairs and the Defence Housing Authority, which are parts of the Defence portfolio, have separate annual reports.

Annual reports and portfolio budget and additional estimates statements are the principal formal accountability mechanisms between government, departments and the Parliament. Portfolio budget statements set out performance targets for departmental outputs, portfolio additional estimates statements may contain revised targets, and annual reports describe achievement against those targets.

In addition, Defence's annual reports are designed to link performance during the year under review with performance forecasts contained in the portfolio budget statements for the following year.

STYLE CONVENTIONS

In general, figures provided in the tables in this report are rounded to the nearest \$1,000, although there are some tables in which the figures are rounded to the nearest \$100,000. Figures referred to in the text are usually to the nearest million dollars. Figures are rounded down if the end digit is less than five, and rounded up if the end digit is five or more. Totals are the sums of unrounded figures.

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Australian Government
Department of Defence

27 October 2003

Senator the Hon Robert Hill
Minister for Defence
Parliament House

Dear Minister

We are pleased to present the annual report of the Department of Defence for the year ended 30 June 2003. This report has been prepared in accordance with section 63 of the *Public Service Act 1999*.

Subsection 63(1) of the Act requires that our report to you be tabled in the Parliament.

The report summarises the performance of Defence for 2002-03, and includes other information required by legislation.

In accordance with Section 45 of the *Financial Management and Accountability Act 1997* and pursuant to Regulation 19 of that Act, we are satisfied that Defence has prepared appropriate fraud risk assessments and fraud control plans, and has in place appropriate fraud prevention, detection, investigation and reporting procedures and processes that meet the specific needs of Defence and comply with the Commonwealth Fraud Control Guidelines 2002.

Yours sincerely

Handwritten signature of R C Smith in black ink.

R C Smith AO, PSM
Secretary
Department of Defence

Handwritten signature of P J Cosgrove in black ink.

P J Cosgrove AC, MC
General
Chief of the Defence Force

CONTENTS

Headline Results.....	ii
Guide to the Report.....	iv
Letter of Transmittal.....	v
List of Tables and Charts.....	viii
Chapter Guide.....	xi
Corrections to the <i>Defence Annual Report 2001-02</i>	xii

CHAPTER ONE – OVERVIEW

Year in Review	3
Review by the Secretary and the Chief of the Defence Force.....	3
Implementing the White Paper.....	15
Financial Overview.....	31
Accountability Arrangements	51
Corporate Governance.....	51
Organisational Changes.....	51
Organisational Chart.....	52
Senior Executive.....	53
Changes.....	53
Remuneration for Period in Office.....	53
Study of Parliamentary Process.....	54
Senior Committees.....	54
Internal Audit and Risk Management Arrangements	65
Internal Audit.....	65
Ethics Awareness and Fraud Control.....	65
Portfolio Evaluations.....	66
Enterprise Risk Management.....	67
External Scrutiny	68
Parliamentary Committees.....	68
Auditor General's Reports.....	71
Defence Force Ombudsman.....	74
Decisions of Courts and Tribunals.....	75
Responsiveness to the Ministers and the Parliamentary Secretary	76
Report on the Operation of the Defence Service Charter	78

CHAPTER TWO – RESULTS FOR GOVERNMENT AS DEFENCE'S CUSTOMER

Price to Government of Defence's Outputs	84
Output One: Defence Operations	85
Australian Defence Force Operations.....	96
Australian Defence Force Exercises.....	102
Output Two: Navy Capabilities	124
Output Three: Army Capabilities	138
Output Four: Air Force Capabilities	153

Output Five: Strategic Policy	163
Defence Cooperation.....	170
Output Six: Intelligence	180

CHAPTER THREE – RESULTS FOR GOVERNMENT AS DEFENCE’S OWNER

2002-03 Financial Statements	193
Capital Budget Overview	269
Major Capital Equipment.....	273
Capital Facilities	287
Asset Management	303
Purchaser-Provider Arrangements with the Defence Housing Authority	305
Discretionary Grants	306
Vice Chief of the Defence Force	311
Defence Science and Technology	315
Protective Security in Defence	321
Public Affairs and Corporate Communication	324
Ecologically Sustainable Development and Environmental Performance	328
Freedom of Information	348

CHAPTER FOUR – ENABLING BUSINESS PROCESSES

Improvement Initiatives	360
Commercial Support Program.....	360
Defence Materiel Reform (including Purchasing).....	362
Delivering Internal Services.....	366
Defence Information Environment	370
External Consultants	374
Contracts Exempt from Publication in the Purchasing and Disposal Gazette	395
Advertising and Market Research	396

CHAPTER FIVE – PEOPLE MATTER

People	408
Workforce Overview	408
Performance Against People Matter Priorities in 2002-03	420
Non-Operational Training	427
Workplace Equity and Diversity	430
Occupational Health and Safety	435
Annual Report on the Administration and Operation of the <i>Defence Force (Home Loans Assistance Act) 1990</i>	439

APPENDIX

ADF Units and Establishments	445
Glossary	456
Acronyms and Abbreviations.....	461
Alphabetical Index	465

LIST OF TABLES AND CHARTS

Table 1: Corrections to Exempt Contracts from 2001-02	xii
Table 2: Corrections to Advertising and Market Research Contracts from 2001-02	xiii

CHAPTER ONE – OVERVIEW

Table 1.1: Original White Paper Funding Allocation	16
Table 1.2: Original White Paper Funding Allocation (updated to current 2003-04 prices outturned)	16
Table 1.3: High Priority People Initiatives	21
Table 1.4: White Paper Savings	27
Table 1.5: List of Major Capital Equipment Projects Approved by Government in 2002-03	29
Table 1.6: Defence Resourcing Summary – 2002-03	31
Table 1.7: Operating Performance 2002-03	32
Chart 1.1: Major Categories of Defence Spending (Actual)	34
Table 1.8: Statement of Financial Position	35
Chart 1.2: Historical Trend Defence’s Assets and Liabilities	37
Table 1.9: Details of Cash Movement in 2002-03	38
Table 1.10: Planned vs Actual Cash Balances	39
Table 1.11: Growth in Employee Liabilities	42
Table 1.12: Use of Cash (Appropriation Receivable) Over the Forward Estimates	44
Table 1.13: Cost of Operations 2002-03	45
Table 1.14: Summary of Operations Funding (Net Additional Costs)	47
Table 1.15: Revenues and Expenses Administered on Behalf of Government	49
Organisational Chart	52
Table 1.16: Senior Executive Remuneration 2002-03	54
Table 1.17: Complaints Made to Defence 1998-99 – 2002-03	80
Table 1.18: Percentage of Departmental Response Times Against Standard Requirement of 10 Days	80
Table 1.19: Percentage of Accounts Paid by Due Date	81

CHAPTER TWO – RESULTS FOR GOVERNMENT AS DEFENCE’S CUSTOMER

Table 2.1: Overall Output Price to Government	84
Table 2.2: Price of Output One: Defence Operations	94
Table 2.3: Contributing to the Security of the Immediate Neighbourhood	96
Table 2.4: Supporting Wider Interests	97
Table 2.5: Peacetime National Tasks	99
Table 2.6: ADF Joint Exercises	102
Table 2.7: Combined ADF/United States Exercises	105
Table 2.8: Combined ADF/Five Power Defence Arrangements Exercises	108
Table 2.9: Combined ADF/New Zealand Exercises	109
Table 2.10: Other Combined Exercises	111
Table 2.11: Price of Output Two: Navy Capabilities	136
Table 2.12: Price of Output Three: Army Capabilities	151
Table 2.13: Price of Output Four: Air Force Capabilities	161

Table 2.14: Price of Output Five: Strategic Policy.....	168
Table 2.15: Defence Cooperation Summary.....	170
Table 2.16: South Pacific Region Summary.....	172
Table 2.17: Pacific Patrol Boats by Country.....	174
Table 2.18: South East Asia Summary.....	176
Table 2.19: Price of Output Six: Intelligence.....	184

CHAPTER THREE – RESULTS FOR GOVERNMENT AS DEFENCE’S OWNER

Statement of Financial Performance.....	193
Statement of Financial Position.....	194
Statement of Cash Flows.....	196
Schedule of Commitments.....	198
Schedule of Contingencies.....	200
Schedule of Administered Items.....	201
Table 3.1: Defence Financial Performance for the Capital Program 2002-03.....	269
Table 3.2: Defence Capital Receipts – 2002-03.....	271
Table 3.3: Top 20 Projects by Actual 2002-03 Expenditure.....	273
Table 3.4: Remaining Top 20 Projects by Total Approved Project Cost.....	281
Table 3.5: Former Top 20 Projects.....	283
Table 3.6: Approved Major Capital Facilities Projects by State and Federal Electorate.....	287
Table 3.7: Approved Medium Capital Facilities Projects by State and Federal Electorate.....	293
Table 3.8: Grants awarded in 2002-03.....	306
Table 3.9: Army Military History Research Grants Scheme expenditure.....	306
Table 3.10: Defence Family Support Funding Program Expenditure 2002-03.....	307
Chart 3.1: Annual Energy Consumption of Defence Establishments.....	331
Chart 3.2: Greenhouse Gas Emissions.....	334
Table 3.11: Defence Environmental Panel Projects September 2000 – April 2003.....	336
Table 3.12: Number of Environmental Incidents Reported in 2002-02.....	339
Chart 3.3: Defence Referrals under the Environmental Protection and Biodiversity Conservation Act July 2000 – June 2003.....	342
Table 3.13: Defence Referrals in 2002-03.....	343

CHAPTER FOUR – ENABLING BUSINESS PROCESSES

Table 4.1: Status of the Commercial Support Program as at 30 June 2003.....	360
Table 4.2: Activities Under Way.....	360
Table 4.3: Activities to be Progressed or Considered.....	361
Table 4.4: Activities not Proceeding under the Commercial Support Program.....	361
Table 4.5: Corporate Services and Infrastructure Group Contracts for 2002-03.....	369
Table 4.6: Defence Use of Consultants.....	374
Table 4.7: Breakdown of ‘Consultants and Professional Services’ Category in Note 4B to the Financial Statements.....	375
Table 4.8: Key to Particulars of Consultancy Contracts.....	375
Table 4.9: Particulars of Consultancy Contracts.....	376
Table 4.10: Contract/Standing Offer Exemptions from Publication by Group.....	395

Table 4.11: Total Advertising and Market Research Expenditure by Type of Agency	396
Table 4.12: Total Advertising and Market Research Expenditure by Group.....	396
Table 4.13: Particulars of Payments by Group for Advertising and Market Research	397

CHAPTER FIVE – PEOPLE MATTER

Chart 5.1: Defence Workforce Staffing as at 30 June 2003.....	408
Table 5.1: Distribution of Australian Defence Organisation Personnel by Employment Location, as at 30 June 2003.....	409
Table 5.2: Distribution of APS Personnel by Employment Location and Classification, as at 30 June 2003	410
Table 5.3: ADF Permanent and Reserve Forces, and APS Personnel, by Gender and Employment Category.....	411
Table 5.4: APS Personnel by Gender and Category as at 30 June 2003	412
Table 5.5: APS Senior Executive Service Staff as at 30 June 2003	412
Table 5.6: Star Ranked Officers as at 30 June 2003	413
Table 5.7: ADF – Permanent Force Enlistments 2001-02 and 2002-03.....	414
Table 5.8: ADF – Permanent Force Recruiting Activity 2001-02 and 2002-03.....	414
Chart 5.2: ADF – Permanent Force Recruiting Target versus Achievement 2001-02 and 2002-03.....	415
Table 5.9: ADF – Reserve Force Recruiting Activity 2001-02 and 2002-03.....	415
Chart 5.3: ADF – Reserve Force Recruiting Target versus Achievement 2001-02 and 2002-03	415
Table 5.10: ADF – Permanent Force Separations 2001-02 and 2002-03	416
Table 5.11: ADF Permanent Force Average Funded Strength.....	417
Table 5.12: ADF Reserve Funded Strength.....	417
Table 5.13: APS Average Funded Strength.....	418
Table 5.14: Breakdown of Average Funded Strengths by Service and Rank.....	419
Table 5.15: Graduate Intake Figures.....	427
Table 5.16: Non-Operational Training	429
Table 5.17: Diversity of all Defence Personnel as at 30 June 2002 and 2003	431
Chart 5.4: Comparison of Reported Unacceptable Behaviour Incidents 1999-2003 ...	433
Chart 5.5: Percentage of Reported Unacceptable Behaviour Incidents by Service for 2001-02 and 2002-03.....	434
Table 5.18: Incident Reporting.....	436
Table 5.19: Investigations by Comcare.....	437
Table 5.20: Comcare Notices	438
Table 5.21: Applications for Payment of Subsidy by Type of Assistance.....	441
Table 5.22: Comparison of Activities.....	441

APPENDIX

Location of Main ADF Bases in Australia.....	444
ADF Units and Establishments	445

CHAPTER GUIDE

Chapter One contains:

- a review of the year by the Secretary of the Department of Defence and the Chief of the Defence Force;
- a report on implementation of the *Defence White Paper 2000*;
- a summary of financial performance for the year; and
- accountability arrangements.

Chapter Two reports on the results to the Government as Defence's customer and contains:

- information on output delivery and prices;
- information covering ADF operations and exercises; and
- a summary of Defence cooperation activities.

Chapter Three reports on the results to the Government as Defence's owner and contains:

- Defence's financial statements, required under section 49 of the *Financial Management and Accountability Act 1997*, which were independently audited by the Australian National Audit Office;
- details of Defence's major capital equipment and facilities projects;
- information on a number of owner-support responsibilities and activities; and
- information required to be published under the *Freedom of Information Act 1982*.

Chapter Four contains information relating to Defence's enabling business processes:

- improvement initiatives;
- information on consultants engaged by Defence and contracts exempt from publication in the *Commonwealth Purchasing and Disposals Gazette*; and
- details of advertising and market research organisations used by Defence.

Chapter Five contains information on:

- people management; and
- the Annual Report on the Administration and Operation of the *Defence Force (Home Loans Assistance) Act 1990*.

The **Appendix** to the report includes a list of ADF units and establishments, a glossary, a list of acronyms and abbreviations, and an alphabetical index.

CORRECTIONS TO THE DEFENCE ANNUAL REPORT 2001-02

AUSTRALIAN DEFENCE FORCE EXERCISES

Exercise Day Anchor 02 was erroneously omitted from the table of ADF joint exercises (Table 2.7 at page 78). The exercise was conducted in February 2002 and involved Navy and Army components. The exercise objective was to confirm the Special Air Service Regiment's capability by practising special recovery operations. The exercise's objectives were achieved.

EXTERNAL CONSULTANTS

An error was made in summing total expenditure by Defence on consultants in 2001-02 published in Table 4.9 on page 268. The total should have been \$7,493,075.

In addition, an amount of \$30,000 paid to Allen Consulting Group Pty Ltd for a review of the Defence Materiel Organisation's public affairs requirements and resourcing was erroneously omitted from the report. The amount should have been included in Table 4.9 on page 268 and in Table 4.10, under Public Affairs and Corporate Communication, on page 273. Therefore, total expenditure by Defence on consultants in 2001-02 was \$7,523,075.

CONTRACTS EXEMPT FROM PUBLICATION IN THE PURCHASING AND DISPOSAL GAZETTE

Following publication of last year's report, the first year in which this information was required in the annual report, a data identification program was incorporated into Defence's financial management information system. As part of the program, a quality assurance exercise was run on the 2001-02 data and corrections arising from this are shown below.

TABLE 1: CORRECTIONS TO EXEMPT CONTRACTS FROM 2001-02

GROUP	NUMBER OF EXEMPTIONS	\$
Navy	0	Revised to nil
Air Force	1	271,904
Intelligence and Security Group	37	19,827,422 ⁽¹⁾
Chief Finance Officer ⁽²⁾	15	5,647,484
Defence Materiel Organisation	249	144,380,047
Total	302	170,126,857

NOTES

1. Figure revised to include GST.
2. Chief Finance Officer data includes the Secretary and the Chief of the Defence Force data.

ADVERTISING AND MARKET RESEARCH

MARKET RESEARCH ORGANISATIONS

The details of three professional service providers and one consultancy were omitted from last year's report, although the consultancy was listed in the External Consultants section. The details are shown in Table 2.

MEDIA ADVERTISING ORGANISATIONS

Seven amounts totalling \$807,266, shown under Public Affairs and Corporate Communication on page 279 of the report, were incorrectly attributed to 'Centenary of Federation promotional activities' in the 'Purpose' column. While the expenditure amounts and the payee information were correct, the purpose should have read 'Recruitment promotional material - ADF'. The details are shown in Table 2.

TABLE 2: CORRECTIONS TO ADVERTISING AND MARKET RESEARCH CONTRACTS FROM 2001-02

PAYEE	AMOUNT	PURPOSE
	\$	
Public Affairs and Corporate Communication		
<i>Market Research Organisations</i>		
Elliott Shanahan Research	76,532	Study of impact of Defence involvement in community events for the Centenary of Federation 2001
MediaScape	80,271	Media tracking and analysis
New Focus Research Pty Ltd	94,000	Conduct focus group testing and research for the Defence 'brand'
Worthington Di Marzio	112,682	Conduct research into community attitudes towards Defence and defence industry and recruitment-related issues
<i>Media Advertising Organisations</i>		
Eclipse Signs and Graphics	5,000	Recruitment promotional material - ADF
Hood Sailmakers (Aust) Pty Ltd	6,218	Recruitment promotional material - ADF
Mitchell and Partners Aust Pty Ltd	143,250	Recruitment promotional material - ADF
Paula M Promotions	91,233	Recruitment promotional material - ADF
Purple Elephant Promotional Product	306,529	Recruitment promotional material - ADF
Self Adhesive Systems	252,506	Recruitment promotional material - ADF
Sign A Rama	2,530	Recruitment promotional material - ADF

CHAPTER ONE

OVERVIEW

YEAR IN REVIEW

**REVIEW BY THE SECRETARY AND THE
CHIEF OF THE DEFENCE FORCE**

IMPLEMENTING THE WHITE PAPER

FINANCIAL OVERVIEW

ACCOUNTABILITY ARRANGEMENTS

CORPORATE GOVERNANCE

**INTERNAL AUDIT AND RISK MANAGEMENT
ARRANGEMENTS**

EXTERNAL SCRUTINY

**RESPONSIVENESS TO THE MINISTERS AND THE
PARLIAMENTARY SECRETARY**

**REPORT ON THE OPERATION OF THE DEFENCE
SERVICE CHARTER**

YEAR IN REVIEW

REVIEW BY THE SECRETARY AND THE CHIEF OF THE DEFENCE FORCE

In 2002-03, Defence continued to respond to the broad and complex demands created by a changed strategic environment. The high operational tempo of the last few years continued and the diversity of tasks confronting Defence expanded. Responding to the tragedy of the Bali bombing, the US-led operation in Iraq to enforce United Nations' Security Council resolutions, and the continuing commitment to the war on terror, demanded high levels of operational performance throughout the year. Financial management, acquisition reforms and improved business processes generally were given increased attention and will remain a major focus during the next 12 months and beyond.

THE CHANGED STRATEGIC ENVIRONMENT AND OPERATIONAL ACHIEVEMENTS

Changes in Australia's strategic environment were outlined in *Australia's National Security: A Defence Update 2003*, released by the Minister for Defence in February 2003. The *Defence Update* described Australia's changed strategic circumstances and identified the need for some rebalancing of capabilities and priorities to take account of the new strategic environment. The major changes to the strategic environment identified in the *Defence Update* were the emergence of new and more immediate threats from terrorism and increased concerns about the proliferation of weapons of mass destruction. The *Defence Update* also noted the continuing economic, political, governance and social challenges which countries in our region face – challenges intensified by the terrorist threat. The terrorist attacks in Bali demonstrated the reach of terrorism, and underscored the reality that Australia is not immune.

The *Defence Update* noted that, while Australia's involvement in coalition operations further afield was somewhat more likely, there may also be increased calls to undertake operations in Australia's immediate neighbourhood. Events of the following six months have borne this out. Australia's contribution to the war in Iraq, named Operation Falconer, involved the deployment of some 2,000 Australian Defence Force (ADF) personnel. Among the many ADF contributions that stood out were the close air support and defensive counter-air operations provided by RAAF F/A-18s, the naval gunfire support for troops ashore provided by HMAS *Anzac*, the mine clearing operations by Navy clearance diving teams and the deep reconnaissance patrols by the Army's Special Forces. The excellence and sophistication of ADF force elements were borne out by Operation Falconer which, fortunately, sustained no Australian military casualties.

Defence support to the rehabilitation of Iraq continued after the cessation of formal hostilities in May. About 800 Defence personnel remain in the Middle East area of operations under trying and difficult circumstances to contribute to Iraq's stability and reconstruction. Australia's post-war contribution included an air traffic control detachment at Baghdad International Airport, a security detachment to provide protection

and escort for Australian Government personnel, a RAAF C-130 detachment supporting operations in Iraq, a RAAF P-3 Orion detachment supporting both the rehabilitation operation in Iraq and the coalition operation against terrorism, and analysts and technical experts supporting the coalition effort to locate, identify, account for and subsequently destroy Iraq's weapons of mass destruction. A RAN ship also remains on patrol in the Gulf.

The success of ADF operations throughout the year, but particularly those in Afghanistan and Iraq, attested to the ability of Defence to develop, maintain and field world-class military capabilities. It also reaffirmed Defence's ability to deploy and maintain forces in distant theatres and in difficult environmental conditions.

Defence has conducted a review of its strategic-level involvement in the Iraq War with input from other Government departments and coalition partners, who were consistently positive in their evaluation of Defence's performance. The review produced a series of lessons learnt, identifying aspects of performance which need to be sustained, aspects which need to be improved and performance shortfalls which need to be addressed. A public version of the report will be released in late 2003.

While responding to operational requirements in Iraq and Afghanistan was challenging, responding to the terrorist attacks in Bali on 12 October 2002 was a singularly confronting experience for the ADF members involved. Operation Bali Assist involved a large mobilisation of emergency military support. Within 24 hours, the ADF had ferried medical personnel and supplies to Bali and begun the emergency evacuation of bomb victims to Australia. The tragedy hit hard back in Australia, with 88 Australians among the 202 fatalities.

Throughout this period of intense activity, Defence personnel continued their heavy engagement in the region. We have continued our major commitment of around 1,000 personnel to the United Nations Mission in Support of East Timor and our support to help train and develop the fledgling East Timor Defence Force. The deployment of an Army Reserve company to East Timor in November 2002 was particularly significant, as it was the first time that Reserves have been deployed overseas as a formed unit since World War II.

The year ended with the closure of one of Defence's longest running commitments in the region. The Peace Monitoring Group in Bougainville, which included both ADF members and civilians, ceased operations on 30 June 2003 after five years. With no fighting on the island since 1997 and substantial success in the weapons' reduction program, it was time to hand over responsibility to a civilian body - the Bougainville Transitional Team. Bougainville has been a success for all concerned.

Defence personnel also undertook a range of other important national tasks during the year. Under Operation Relex II, naval and air forces continued to be involved in a program to detect, intercept and deter vessels carrying unauthorised arrivals from entering Australia. Defence personnel also provided extensive assistance to civil authorities in battling the bushfires that raged throughout the Australian Capital Territory, Victoria and New South Wales last summer.

At the end of the year under review, Defence was heavily engaged in planning for its next major deployment to assist (under Operation Helpem Fren) the Solomon Islands



The Minister for Defence, Robert Hill, and United States Defense Secretary, Donald Rumsfeld, respond to questions from the press during their talks in the Middle East in April 2003.



The Minister for Defence talks with a group of Australian pilots during a tour of the F/A-18 detachment at a Middle East base in April 2003.



Minister Assisting the Minister for Defence, Danna Vale, visited East Timor in April 2003 with members of the Defence Reserve Support Council and civilian employers of Army Reservists serving on full-time deployment with A Company, 5th/7th Battalion, Royal Australian Regiment.



Parliamentary Secretary to the Minister of Defence, Fran Bailey, with a member of the new Tiwi Islands Army Cadet Platoon after a first aid lesson following the official launch of the platoon on 6 May 2003.

OPERATION BALI ASSIST

Operation Bali Assist was the ADF contribution to the Australian Government response to the tragic bombings in Bali that occurred late on the evening of 12 October 2002. The ADF priority throughout the operation was to provide medical assistance and aero-medical evacuation support to those injured in the bomb blasts.

The prime task throughout the medical evacuation was to get the seriously injured, once stabilised, from Bali to Darwin, and then from Darwin to southern cities for further medical treatment as quickly and as safely as possible.

Defence responded quickly to the call for assistance, with the first aero-medical evacuation team airborne less than six hours after being notified of the mission.

A total of five Hercules aircraft, 12 crews and five aero-medical evacuation teams deployed from RAAF Richmond in NSW to assist with the evacuation effort. Those aircraft transported urgently needed medical stores to Darwin and flew aero-medical shuttles between Bali and Darwin. The Air Force also transported two ambulances to Bali. One Orion aircraft also deployed to transport Australian Federal Police and additional Foreign Affairs consular staff from Canberra to Bali.



A burns patient is transported across the tarmac at Denpasar Airport, to an awaiting Hercules aircraft.



RAAF medical staff attend to patients on board a C-130 Hercules flight from Denpasar Airport to Darwin.

In total, there were 15 Hercules flights (including 1 Royal New Zealand Air Force flight and medical team) from Bali during the operation, with 70 casualties transported to Darwin.

Four RAAF aircraft were further tasked to move injured personnel to southern capital cities to relieve the strain on Darwin Hospital facilities. Altogether, 39 patients were flown to southern cities by those aircraft.

Defence was also involved in transporting three severely injured Indonesian citizens from Bali to Perth. During the flight, the aircraft had to be diverted to Darwin when the condition of one of the patients deteriorated. Sadly the patient passed away later at Darwin Hospital. The aircraft continued to Perth with the remaining two patients and their accompanying family members. This was the last aero-medical evacuation task for the Air Force.



The second phase of the operation – personnel at RAAF Darwin assist with the unloading of the RAAF Ambibus. Patients were loaded onto a Hercules aircraft and taken to southern airports where they were taken to burns units of major hospitals.

Defence also supported the Australian Federal Police in the transportation of stores and additional personnel to Bali to assist in the victim identification process.



A Hercules flight flew some victims to Melbourne.

A number of Defence personnel were deployed to Bali after the aero-medical evacuation operations were completed to assist with the management of the bombings' aftermath. These personnel included coordination and communication staff, chaplains, psychologists, Indonesian linguists, forensic medical and dental staff, electrical and refrigeration technicians and ambulance drivers.

Other Defence personnel serving in Jakarta travelled to Bali to coordinate the evacuation of injured Australians and other foreign nationals and they were joined by several ADF personnel who were on leave in Bali at the time of the bombings and came forward to offer assistance.

Government in restoring law and order and the institutions of government in coalition with a number of Pacific Island Forum countries. While this was to be primarily a police operation, Defence was to provide a major contribution with security and logistics support totalling some 1,500 ADF personnel.

DOMESTIC SECURITY

The Bali terrorist attacks of October 2002, terrorist strikes elsewhere and the activities of well-established extremist regional organisations, in particular Jemaah Islamiyah, underscore the threat that terrorism poses to Australia. These challenges require a whole-of-government response and, in this, Defence has a key role to play.

Domestic coordination was enhanced and rapid response capabilities increased. The Special Operations Command was established in May 2003 to improve Australia's ability to respond to terrorism at home and abroad.

The size of the Special Forces was increased and more troops trained for counter-terrorism capabilities. A second Tactical Assault Group was created, along with the expansion of the Incident Response Regiment to deal with nuclear, chemical and biological threats. The ability of the reserve force to support domestic security was also enhanced. In May, the Government announced the establishment of the Reserve Response Force comprising a company-sized group in each of the six reserve brigades, to be trained for short-notice response to domestic security incidents.

Some of these capabilities were demonstrated in the apprehension of the North Korean drug smuggling ship, *Pong Su*, when Special Operations troops worked with Navy and Air Force elements under the new command arrangements in assisting state and federal police and customs to apprehend the vessel and crew.

Planning and preparation are well advanced for whole-of-government security arrangements for the Rugby World Cup 2003, which will take place at venues across Australia in October and November. Defence is an active participant on the Major Events Commonwealth Coordination Group, led by the Department of Industry, Tourism and Resources, which has been established to coordinate government support for the World Cup. Defence is developing a range of support measures, including appropriate specialist counter-terrorism response options.

FORCE CAPABILITY

To ensure the future effectiveness of the ADF, Defence continued to work towards achieving the capability goals outlined in the Defence White Paper and adjusted in the *Defence Update*. Significant milestones were achieved in the early stages of major capital acquisition projects in the Defence Capability Plan, such as air-to-air refuelling and helicopter rationalisation. Other major projects, including airborne early warning and control aircraft and armed reconnaissance helicopters, remain on schedule and within budget.

In October 2002, Australia formally joined the system development and demonstration phase of the Joint Strike Fighter program. This represents a new approach to international participation in combat aircraft programs. Participating in this phase is a more

forward-thinking approach, one that reflects closer partnering with industry and improved responsiveness in the Defence capability acquisition process. These kinds of innovative approaches are needed if the ADF is to remain at the forefront of developments in technology. Several industry opportunities have already been identified for the future and the Government is seeking to secure an Australia-based regional support capability for Joint Strike Fighter aircraft.

Defence's investment program is on track to achieve the White Paper capability goals, with some 85 new projects having been approved since December 2000 with an all-up cost of around \$16b. There have been some delays in projects as the Government and Defence have worked to ensure that projects are subject to greater scrutiny in order to achieve better outcomes for the ADF.

Following on from the *Defence Update*, a full review of Australia's defence capabilities was commenced to take account of the changes to our strategic and security environment since the publication of the White Paper. This review will focus on the development of a more flexible and mobile force, with sufficient levels of readiness, sustainability and interoperability, to perform the increased range of tasks the ADF is likely to face in Australia's current strategic environment. The Government has already expanded the Special Forces to meet the most immediate security changes, but the capability review will identify what further rebalancing of capability and investment priorities might be required to meet the needs of our changed circumstances.

During the year, the Senate Foreign Affairs, Defence and Trade References Committee undertook an inquiry into *Materiel Acquisition and Management in Defence*. Overall, its report was positive about the creation of the Defence Materiel Organisation and the implementation of the materiel reform agenda. The committee expressed confidence that the organisational, structural and process reforms already implemented by the Defence Materiel Organisation were providing the disciplined basis necessary to deliver projects on time, within budget and that meet operational requirements.

A separate review of Defence procurement was initiated by the Government to identify further improvements in Defence project management. The review team, led by Mr Malcolm Kinnaird, was to report to the Government early in 2003-04¹.

Defence continued to work during the year to shed unwanted overheads arising from property ownership. Defence will continue to own properties that contribute directly to military capability and special purposes. Other properties that become surplus to requirements will be divested in accordance with Australian Government property disposals policy. In 2002-03, Defence sold properties to the value of \$616m. The Government decided not to proceed with the sale and lease-back of the Russell Offices in Canberra.

Maintaining ADF capability relies on our ability to attract, train and retain the right people. In 2000, the Australian National Audit Office (ANAO) conducted a performance audit on the retention of military personnel. A follow-up audit, tabled in March 2003, concluded that Defence had made progress in implementing the original audit recommendations and commended Defence for undertaking evaluation of measures designed to retain personnel.

¹ The Government announced on 18 September 2003 that it had agreed to broadly accept the recommendations of the Kinnaird review.

Recent initiatives include the identification and management of critical trades and key service separation points for the ADF and programs focused on ADF members' families, including Defence employer-sponsored child care and spouse employment, improved choice of accommodation for members without dependants and enhancement of housing standards for members with dependants.

FINANCIAL MANAGEMENT

FINANCIAL TRANSFORMATION

During 2002-03, Defence put in place a comprehensive financial transformation agenda that seeks to significantly improve its financial management capability. In particular, the strategy aims to embed lasting processes and understandings which will support more effective planning, estimation and reporting of Defence finances. Achievements in 2002-03 included:

- the most comprehensive budget statements ever delivered by Defence;
- the development of a ten-year view of the budget that was approved and released prior to the end of the financial year;
- the development of the financial management strategy and its alignment to financial activities;
- a rigorous and systematic Defence-wide approach to the financial statements process and controls;
- the upgrade of the Standard Defence Supply System, which records Defence's asset inventory;
- improvement initiatives surrounding data quality, particularly debtor and cash management; and
- development of the business model and internal business rules.

Despite these improvements, longstanding financial management issues still affect Defence's ability to control costs, ensure accountability, anticipate future costs and claims on the budget, measure performance and maintain funds control. Several years of further hard work are required to fully resolve the challenges facing Defence in these areas.

The size of the task cannot be underestimated. Defence is one of Australia's largest and most complex entities. It manages some \$50b worth of assets on behalf of the Government and has an annual operating budget of some \$16b. But the imperative for current and future capability plans to be linked both to strategic priorities and to sustainable and achievable resource levels is recognised. So is the need for Defence to be able to estimate reliably its future investment, operating and workforce requirements, and have visibility and accountability relating to capability budgets. Improving processes in all these areas remains a high priority for the organisation.

TACKLING THE FINANCIAL MANAGEMENT CHALLENGE

During the course of 2002-03, Defence made progress in tackling its financial management challenges. The Defence business model was strengthened, and the Defence Capability and Investment Committee's role broadened, to give more focus to the balance between current capability and future investment.

The 2003-13 Defence Management and Finance Plan was presented to the Government in February 2003. The plan provided Ministers with a much clearer oversight of Defence planning and resourcing strategies than they have had previously. This document, together with the 2003-04 Defence portfolio budget submission which was lodged in March 2003, enabled the Government to make important resourcing decisions in respect of the Defence portfolio.

In addition to providing the third annual tranche of White Paper funding, the Government announced new policy measures totalling \$2.1b over the period 2002-03 to 2006-07. These included funding for the net additional costs of current operations, including Defence's commitments in the Middle East area of operations.

During 2002-03, we took action to arrest, and then reduce from 2003-04 onwards, overhead costs in a number of areas. As part of the \$200m per annum program of administrative savings announced in the 2003-04 Budget, savings targets have been set for civilian personnel numbers, travel, use of professional service providers and the level of overseas representation. In support of these endeavours, we sought generally to encourage a 'culture of economy' in the organisation.

To give effect to these reforms, Defence's peak management body, the Defence Committee, agreed to a set of programming principles and business rules designed to strengthen the accountability of senior leaders in managing their budget allocations. More rigorous performance agreements were introduced for civilian SES staff, to take effect in 2003-04.

A new outcomes/output structure was developed for implementation in the 2003-04 Budget, and Defence introduced a new portfolio-wide budgeting system and initiated a rolling program of zero-based budget reviews to improve the overall quality and accuracy of the Defence Budget. Group Heads were provided with their 2003-04 and ten-year forward budget allocations on 2 June 2003.

Significant improvements were also made to Defence's preparedness management system which have enhanced performance reporting and also helped our work in better understanding and managing the linkage between preparedness levels and costs. In turn, our work on the decision-support project will, by 2003-04, enable us to accurately cost Force Element Groups.

Further improvements to the budgetary process are aimed at achieving a best practice budgeting system in line with the Australian National Audit Office's (ANAO) *Better Practice Guide for Internal Budgeting*. The benefits of these endeavours will be apparent in 2003-04 and beyond.

Overall, the budget outcome for 2002-03 was broadly in line with expectations.

FINANCIAL STATEMENTS IMPROVEMENT PLANS

To improve the quality of its financial statement reporting, Defence put in place financial statement improvement plans that focused attention on high-risk financial areas, including inventory and other asset areas that were the subject of the 2001-02 audit qualification. These plans were prepared in consultation with the ANAO and designed to ensure that all steps in the financial statement preparation process were undertaken, our quality assurance procedures were completed and that the required internal sign-offs and assurances were received.

This planning process also addressed the many audit findings raised by the ANAO in recent years. Much of this work was directed at improving the controls and business processes relating to Defence's major systems, including the financial reporting framework, the Standard Defence Supply System, the general ledger system and personnel systems. Many of the audit findings of the past year have been resolved, but ANAO audits and Defence's own continuous improvement programs and data-quality review processes continue to expose deficiencies. A process of identifying and addressing issues is in place, but a number of significant areas will require several more years to complete.

To ensure further improvement in the quality of our financial reporting, a number of data-quality 'tiger teams' were established to achieve permanent changes to business practices and to make the review and improvement of data a continuing process. These teams are focusing on capital expenditure programs, inventory management and reporting, the accuracy of employee entitlements and budgeting and financial structures.

The financial statement planning processes and data quality initiatives mean that our 2002-03 financial statements are of better quality than those of previous years. Although the 2002-03 financial statements have again been qualified by the ANAO in respect of inventory and repairable items, the extent of the qualification is reduced over that of 2001-02. A new qualification in respect of military leave provisions has highlighted the need for stronger leave processing arrangements and for improvements in the filing and storage of personnel data. Defence has a comprehensive data quality assurance program in place to address these issues.

It is important to note that the qualification is of an 'except for' nature, so all aspects of our financial statements were considered by the ANAO to be in accordance with the Finance Minister's Orders except for those aspects relating to certain inventory, a part of our specialist military equipment, military leave provisions and executive remuneration. Several more years may be required before Defence will see the elimination of the audit qualification.

DEFENCE RENEWAL

We fully support the path that our predecessors, Admiral Chris Barrie and Dr Allan Hawke, set us on in regard to 'Defence Renewal'. We need to do everything possible to sustain the pace and direction of necessary cultural change. At the same time, we are convinced that Renewal should proceed with a clear emphasis on deliverable reforms and outcomes. Our drive for culture change must be underpinned by recognition of the need to improve business processes and systems.

Renewal is shaped by, and contributes to, three key themes. First, building better alignment with the Government's strategic direction; second, building clearer accountability for results; and third, building a leadership culture. It also places a premium on values.

Renewal is also intrinsically linked to the practical application of the 'Results through People' philosophy in Defence, which puts the onus on leaders at all levels to recognise that individuals can and do make a difference, and that the alignment of workplace behaviour with a shared set of values helps people to be more innovative and effective in achieving results.

VALUES

Consistent with the *Public Service Act 1999*, Defence's corporate governance framework is characterised by a commitment to be a results-focused, values-based organisation. The six Defence values are professionalism, loyalty, integrity, courage, innovation and teamwork. The key challenges for Defence are in communicating these values as a basis for shared working styles and translating these values into evident behaviours.

ALIGNMENT

The 'Strategic Leadership for Australia' policy statement, released by the Prime Minister in November 2002, firmly grounded the priority afforded to national security, defence and counter-terrorism in the context of a range of other whole-of-Government priorities. This context brings into sharp focus what must be done in working with Cabinet, Ministers and government agencies to ensure that our work is in alignment with the Government's strategic direction.

ACCOUNTABILITY

With regard to accountability for results, new Australian Workplace Agreements have recently been introduced for civilian senior leaders (Senior Executive Service Band 1 and above). The new agreements focus on the achievement of more clearly defined and measurable outcomes, in line with the intent to continue to sharpen personal accountability. Individual accountabilities at lower levels across Defence will also become more rigorous and performance will be measured against specific targets.

LEADERSHIP

Our continuing program of senior leadership events provides for intentional communications with senior leaders across Defence in order to sustain the focus on priorities for improvement and discuss critical strategic issues. This is a very important strategic leadership process, not least for its value in developing alignment and cohesion across a diverse organisation. We must continue to emphasise core expectations with leaders at all levels in Defence. They include achieving better results faster, close attention to people initiatives, setting and managing priorities, and responsive, accurate advice.

This was a year which saw an unusual extent of leadership change, with ourselves assuming office in July 2002 (the Chief of the Defence Force) and November 2002 (the Secretary), and with new appointments to the positions of Vice Chief of the Defence Force, Chief of Army, Chief of Navy, Deputy Secretary Corporate Services and Deputy Secretary Strategic Policy in July 2002, and Deputy Secretary Intelligence and Security in August 2002. It reflects well on the commitment and professionalism of the men and women of Defence that, through this demanding year, they maintained an operational tempo unprecedented in modern times, and a renewed pace of organisational activity, change and improvement. We wish to recognise this, and to thank them for it.

R C Smith AO, PSM
Secretary
Department of Defence

P J Cosgrove AC, MC
General
Chief of the Defence Force

IMPLEMENTING THE WHITE PAPER

Released in December 2000, the Defence White Paper set the Government's long-term direction and capability enhancement framework for Defence.

In February 2003, in line with the Government's pledge to review Australia's defence periodically, the Minister for Defence released *Australia's National Security: A Defence Update 2003*. The major changes to the strategic environment identified in the review were the emergence of new and more immediate threats from terrorism and increased concerns about the proliferation of weapons of mass destruction.

The review canvassed the implications of an altered strategic environment for Australia's defence posture and concluded that the changed strategic environment called for an increased emphasis on readiness and mobility, interoperability, the development and enhancement of important new capabilities and, where sensible and prudent, a reduced emphasis on capabilities of less importance.

Partly as a consequence of the review, the Government directed that Defence review its capabilities and the Defence Capability Plan to ensure that the plan continued to reflect the requirements of the changed strategic environment. Defence was also directed to consider lessons learned from operations in this capability review.

OVERVIEW OF 2002-03

The year in review saw Defence continuing to implement the capability enhancements outlined in the White Paper, while managing a heavy operational tempo. The ADF's capabilities were enhanced not only through the acquisition of equipment but through investment in personnel, facilities, training, doctrine, command and management, organisational and materiel support. A list of the acquisition projects approved by the Government in 2002-03 is at Table 1.5 on pages 29-30.

FINANCIAL SUMMARY

Defence's departmental funding in 2002-03, and beyond, was based primarily on the allocations approved by the Government in the context of the Defence White Paper. This funding totalled \$23.5b in 2000-01 prices (and totals \$27.3b in 2003-04 prices) over ten years commencing 2001-02 and represented the most specific long-term funding commitment for Defence for more than 25 years.

The additional White Paper funding was to be applied to:

- a Defence Capability Plan containing a program of capital investment over the ten-year period in addition to the investment program already planned;
- provision for the operating costs of the capability enhancements in the Defence Capability Plan;
- provision for two per cent real per capita growth in personnel costs from 2004-05 onwards, reflecting more accurately the price of maintaining a highly skilled workforce in a sustainable way; and
- resolution of baseline cost pressures, including offsetting some of these cost pressures through administrative savings initiatives.

Table 1.1 provides a breakdown of the original funding levels approved in the Defence White Paper.

TABLE 1.1: ORIGINAL WHITE PAPER FUNDING ALLOCATION

	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	TOTAL
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Major Capital Investment											
Major Capital Equipment	500	1,000	1,375	1,378	1,464	1,926	1,981	1,857	2,234	2,688	16,404
Workforce											
Two per cent real personnel cost growth	-	-	-	214	324	436	550	667	786	908	3,884
Operating Costs											
Operating Costs for DCP projects	-	-	-	174	206	245	353	415	481	535	2,408
Operating Baseline adjustment	-	-	-	105	115	118	121	123	125	124	831
Total	500	1,000	1,375	1,870	2,109	2,725	3,005	3,063	3,626	4,255	23,526

Table 1.2 provides details of the White Paper funding allocations as they currently stand in 2003-04 prices. A description of the status of each element follows.

TABLE 1.2: ORIGINAL WHITE PAPER FUNDING ALLOCATION (UPDATED TO 2003-04 PRICES – OUTTURNED)

	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	TOTAL
	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M	\$M
Major Capital Investment											
Major Capital Equipment	510	1,050	1,475	1,509	1,633	2,193	2,302	2,200	2,698	3,312	18,882
Workforce											
Two per cent real personnel cost growth	-	-	-	233	361	496	638	790	948	1,158	4,624
Operating Costs											
Operating Costs for DCP projects	-	-	-	189	230	279	410	491	581	619	2,799
Operating Baseline Adjustment	-	-	-	114	128	134	140	146	152	153	967
Total	510	1,050	1,475	2,046	2,352	3,102	3,489	3,628	4,378	5,241	27,272

Major Capital Investment

Of the total additional funding of \$23.5b (2000-01 price basis) allocated in the White Paper, some \$16.4b (2000-01 price basis) was earmarked for unapproved major capital equipment. The major capital investment program consists of both capital equipment and capital facilities elements. These elements are described in Chapter Three. As projects are progressively approved, funding is transferred to the approved major capital equipment program and the major capital facilities program. The overall funding is made up of the components of the capital investment program, including minor capital and repairable items, as described in the Budget Papers (*Portfolio Budget Statements 2003-04*, page 133).

In the 2003-04 Budget, the Government decided to reprogram \$200m from the Defence Capability Plan to 2004-05 (subject to consideration in the 2004-05 budget) and to reschedule \$642m from the forward estimates, with this funding to be added back in later years when required.

Since the White Paper, some 85 new projects have been approved with an all-up cost of around \$16b.

Personnel Costs

The provision of \$4.6b for two per cent real per capita growth in personnel costs has been programmed in Defence's forward estimates commencing in 2004-05 for the purposes intended in the White Paper. Of this, \$1.2b has been allocated to partially cover the cost of the recent service allowance increase, the impact of which extends well beyond 2003-04, and for increases in housing, compensation and health costs, which are rising at substantially higher rates than the non-farm GDP deflator, the basis of Defence supplementation. An amount of \$3.4b remains unallocated and will be used to fund salary and allowance increases from 2004-05 onwards.

The ADF is on track to grow from 50,000 to about 54,000 full-time members as specified in the White Paper. In the 2003-04 Budget, the Government provided an additional \$103m over three years to accelerate the strength of the ADF towards this target in order to capitalise on better than planned ADF recruitment outcomes and lower separation rates, particularly in the Army and the Air Force.

Operating Costs for Defence Capability Plan Projects

The operating costs of new capability in the Defence Capability Plan are being progressively allocated as the new equipment enters service. The funding is to ensure that sufficient operating costs are available to operate the equipment on delivery. Given changed planning assumptions, revised costings and changes in the timing of projects, the operating costs provision is now estimated at \$2.8b over the decade.

Operating Costs

The \$967m included in the White Paper as an operating baseline adjustment was allocated to meet unavoidable cost pressures identified through the White Paper process. This included offsetting some shortfalls identified at the time through a \$200m per annum savings program. The savings program is now complete and is addressed in more detail later in this section.

Summary

White Paper funding will continue to be allocated on the following basis:

- Defence Capability Plan funds will be transferred from the major unapproved capital investment program to the major capital equipment program and the major capital facilities program once new projects are approved by the Government.
- Operating costs for Defence Capability Plan projects will be allocated as equipment enters service and the initial support costs that have been funded from the project ceases.
- Pay and allowances will be funded progressively, and other personnel increases will be funded as they occur.

INITIATIVES TO IMPROVE CAPABILITY

LAND FORCES GOAL

The flexibility and effectiveness of the current land force component of the ADF has been demonstrated over the past year by the range of operations in which it successfully participated. These operations ranged from peacekeeping and peace-monitoring activities in East Timor and Bougainville to the more intensive operations in the war on Iraq.

In 2002-03, a number of milestones were achieved to meet the capability goals outlined by the Government. Some of the most significant for the Army were the establishment of the Special Operations Command, the formation of a second Tactical Assault Group, the provision of a second deployable Joint Task Force Headquarters and the creation of an Incident Response Regiment. These enhancements also contributed significantly to the ADF's strike capabilities.

Under Project Bushranger, the infantry mobility vehicle underwent reliability qualification testing from October to December 2002. The vehicle passed the required reliability levels and the project has entered the low rate initial production stage of the contract. Planning to improve future land forces capability saw the approval of a number of acquisition proposals, including the M113 vehicle fleet upgrade, a direct fire weapon, another phase of the battlefield command support system, the provision of digital communication systems to selected force elements, enhanced combat bridging equipment and enhanced electronic warfare self protection systems for C-130H aircraft and Black Hawk helicopters.

AIR COMBAT GOAL

2002-03 saw continued progress in activities to enhance Australia's air combat capability. Upgrades to the F/A-18 Hornet fleet continued as planned, and the introduction into service of new beyond and within visual range air-to-air weapons is nearing completion. Combat operations as part of Operation Falconer highlighted the ability of the F/A-18 Hornets to undertake a range of roles, including air control and strike, and to operate effectively with coalition forces.

The project to acquire four airborne early warning and control aircraft continued to meet its project goals. Key milestones included delivery of the first aircraft for

modification and completion of a number of critical design review milestones. The construction of a squadron headquarters building to support the introduction of the aircraft commenced in May 2003 as part of the RAAF Williamstown redevelopment.

Planning to improve future air combat force capability saw the approval of a number of acquisition proposals, including air-to-air refuelling aircraft and further project activities in support of the new aerospace combat capability proposal to replace the air dominance and strike capabilities currently provided by the F/A-18 and F-111 aircraft fleets. The Government also approved Australia's participation in the system development and demonstration phase of the Joint Strike Fighter program.

MARITIME FORCES GOAL

The capabilities of the ADF's maritime forces were demonstrated in operations throughout the year, particularly through their support to coalition operations in the Persian Gulf.

The Anzac ship *Parramatta* was delivered in June 2003, while ship number nine in this class, *Toowoomba*, was launched in May. As part of the installation of evolved SeaSparrow missiles onto the Anzac-class and FFG-class frigates, the first Australian missile firing was successfully conducted from HMAS *Warramunga* in January.

All six Collins-class submarines have been delivered and provisionally accepted by the Navy. The sixth submarine, HMAS *Rankin*, was commissioned in March 2003 with the class shock trial completed in June. In March, Defence signed a memorandum of understanding with the US Navy to jointly develop, produce and support a replacement heavyweight torpedo for the Collins-class submarines.

Planning to improve future maritime forces capability saw the approval of a number of acquisition proposals, including the Nulka active missile decoy system, Anzac mine and obstacle avoidance sonar and CEA Technologies' phased array radar development.

STRIKE GOAL

Extensive work was conducted to maintain ADF strike capabilities through enhancing Australia's F-111 and F/A-18 aircraft. It included continuation of electronic warfare self-protection upgrades and the ongoing acquisition of an air-to-surface stand-off weapon system for the F-111s. These strike enhancements are in addition to the significant improvements to the Special Forces' abilities outlined under the land forces goal, and other enhancements to the ADF's ships and submarines.

INFORMATION GOAL

The two operational sites of the Jindalee Operational Radar Network commenced operations in May 2003, establishing a comprehensive early warning network across Australia's northern approaches. In June, the C1 communications satellite was successfully launched. Defence will commence operational use of the satellite in September 2003 following completion of post-launch test and evaluation.

In 2002-03, Defence appointed a coordinating capability manager to bring greater coherence to the management of Defence's information environment. Work on developing the ADF into a more network-centric force was highlighted by the release

of a concept paper *Enabling Multidimensional Manoeuvre*. Significant progress was also made in ensuring the timely provision of intelligence support to deployed ADF units and in developing new techniques and systems to comprehend and counter terrorist threats.

New enhancements to ADF information capabilities included the approval of a number of acquisition proposals including an enhanced geospatial information system, accredited secure intelligence facilities, space-based surveillance and project development activities to enhance the ADF global positioning system. Approval was also given for Defence to undertake a trial of a high frequency surface wave radar system in conjunction with Coastwatch.

PEOPLE GOAL

A strategic workforce planning review was completed in 2002-03 against a background of significant pressure on Defence, including increased operational commitments, a changing demographic and social environment and rising personnel costs. The report provided Defence with an approach to planning that addresses high priority workforce risks to capability in terms of skills, personnel numbers and costs over the next 10 to 20 years.

Other major people initiatives undertaken in 2002-03 focused on the importance of attracting, recruiting, developing and retaining the right people. The key initiatives outlined below are underpinned by the need for competitive remuneration, a challenging, diverse workplace and flexible working arrangements.

The Defence Force Remuneration Tribunal progressed ADF remuneration and service allowance issues. The tribunal's decisions, based on the 2003 Review of Service Allowance, included a 19.9 per cent increase in service allowance to ADF members below the rank of Lieutenant Colonel and equivalent. The Remuneration Reform Program, currently in progress, proposes a phased approach to rationalising some elements of existing allowances with the aim of developing a new pay structure for the ADF by the end of 2003-04.

Implementation of the principles-based *Defence Employees Certified Agreement 2002-03* progressed well. Positive feedback was received from staff during consultation workshops for the replacement agreement.

A more targeted approach was taken to education and training through initiatives which included the Defence business skilling review, the e-learning strategy and the negotiation of a new agreement between Defence and the University of New South Wales for the provision of educational services at the Australian Defence Force Academy.

A new military compensation and rehabilitation scheme was developed based on compensation principles that address current and future ADF needs. The new scheme combines traditional entitlements with modern compensation principles. The draft legislation for the new scheme has been released for consultation and is expected to be introduced into Parliament during 2003-04.

Continuous improvement was sought in the delivery of health services to the ADF, including implementing the ADF mental health strategy and pilot testing the Defence

injury prevention program. The program has already resulted in reductions in injury rates in the initial sample selected.

The 2002-03 budget also continued the Government's White Paper commitment to allocate \$100m per year for high-priority personnel initiatives totalling \$500m over five years. Spending on these initiatives has accelerated in the past two years in conjunction with improved financial management and reporting arrangements. Details are shown in Table 1.3.

TABLE 1.3: HIGH PRIORITY PEOPLE INITIATIVES

APPROVED PROGRAM	2001-02 RESULT \$'000	2002-03 RESULT \$'000	2003-04 ALLOCATIONS \$'000	TOTAL \$'000
Family support fund ⁽¹⁾	100	-	-	100
Childcare centres	1,025	808	4,870	6,703
Spouse induction program	169	49	-	218
Spouse professional fees and courses	14	50	98	162
Emergency childcare	7	5	172	184
Human resource career streaming	76	135	-	211
ADF alcohol management program	48	313	1,781	2,142
ADF mental health strategy	309	159	632	1,100
Defence school transition aides	-	1,388	1,517	2,905
E-learning	-	2,610	3,160	5,770
OH&S management system	-	348	870	1,218
Defence injury prevention program	-	14	543	557
Reserves enhancement	12,313	13,674	17,515	43,502
Cadets enhancement	3,030	7,676	6,900	17,606
ADF rental allowance for members without dependents	25,511	49,655	73,447	148,613
Improvements to living-in accommodation	-	39,167	5,270	44,437
Darwin air conditioning	-	603	3,166	3,769
Duntroon community centre	-	660	-	660
Defence library service portal	-	275	328	603
Services workforce access program for partners	-	-	1,235	1,235
Centre for Military and Veterans' Health	-	-	900	900
Total	42,602	117,589	122,404	282,595
Total allocation	100,000	100,000	100,000	300,000
Variation	-57,398	17,589	22,404	-17,405

NOTE

1. The family support fund was allocated \$100,000 in 2001-02 as a regenerating fund.

The recruitment and retention initiatives brought pleasing results, consistent with the Government's goals for Defence people as outlined in the White Paper. These achievements included:

- enhancements to the Reserves and Cadet schemes;
- improvements to accommodation arrangements for the ADF's single members with a view to improving retention;
- a range of health initiatives, including new mental health and injury prevention strategies and a new ADF alcohol management program; and
- improvements in family-related conditions for all ADF members, including better child care facilities, spouse support, employment assistance schemes and an improved ADF home ownership scheme.

INITIATIVES TO IMPROVE PROVISION OF ADVICE AND DECISION MAKING

TRANSPARENCY AND ACCOUNTABILITY

The Secretary and Chief of the Defence Force have been provided with new Ministerial Directives and new charters have been established between the Secretary and Chief of the Defence Force and all Group Heads. The Defence Capability and Investment Committee's role has been broadened to give more focus to the balance between current capability and future investment. The role of the Defence People Committee has been broadened to address strategic workforce planning and people issues including the cost of the total workforce. The 'Defence Matters' scorecard was improved and the Defence Committee is now provided with enhanced performance and financial information on a monthly basis.

After successfully trialing organisational performance agreements in the last budget cycle, new agreements have been established for 2003-04 covering the ten-year planning period. Customer supplier agreements have been established between enabling Groups and the six outcome capability managers. Further work remains to strengthen the customer supplier agreements between the Defence Materiel Organisation and the Services, particularly as these apply to the logistics support budget. This matter will be addressed as part of the implementation of the Defence Procurement Review.

In 2002-03, Defence made considerable progress in addressing several budget challenges facing the organisation. The timeliness and accuracy of Defence's budget estimates have been improved, whilst the quality of associated documents, including the Defence Management and Finance Plan and the Portfolio Budget Submission has been enhanced. These documents have enabled the Government to make important resourcing decisions in respect of the Defence portfolio. For future years, Defence's planning cycle has been changed so that the Defence Management and Finance Plan will be available for the Senior Ministers' Review in October each year.

Reforms to the budget process include: budgeting at the outcome, output and program level; the introduction of a rolling program of zero-based budget reviews

aimed to eliminate large-scale unforecasted variations; and timely release of budgets and ten-year forward allocations to all Defence Groups.

Underpinning these reforms are an agreed set of programming principles and business rules designed to strengthen the accountability of senior leaders in managing their budget allocations. The use of extended charters and organisational and individual performance agreements has also improved accountability. A culture of economy is now being established within the organisation.

Efforts to strengthen the management framework and business processes for managing an integrated workforce continue. The concept of a total workforce has been introduced to place more rigorous control over the management of the total workforce rather than the separate components of the permanent military forces, Reserves, civilian staff and professional service providers. Under the new business rules, managers are able to trade between elements of the workforce without exceeding overall strength and financial allocations.

INFORMATION SYSTEMS AND PERFORMANCE MANAGEMENT TOOLS

Despite recent improvements, longstanding financial management problems still affect Defence's ability to control costs, ensure accountability, anticipate future costs and claims on the budget, measure performance and maintain fund's control. Several years of further hard work are required to address the challenges facing Defence in these areas. Against this backdrop, Defence put in place a comprehensive financial transformation strategy that seeks to significantly improve its financial management capability. In particular, the strategy aims to embed lasting processes and understandings which will support more effective planning, estimation and reporting of Defence's finances.

The strategy maps improvement against a set of financial management goals and provides a set of metrics to track, monitor and report upon the success of initiatives. The five goals are:

- effective planning and prioritisation;
- efficient and effective budget process;
- best practice performance reporting;
- best practice business process; and
- unqualified financial accounts.

In 2001-02, the Defence management systems improvement project was initiated to improve management information systems and provide managers with tools to enable better decision making. This project is now complete and the final report has been provided to the Minister for Finance and Administration. In addition, notable progress was made in respect of:

- the implementation of the Standard Defence Supply System (SDSS) upgrade on 28 July 2003;

- scoping the requirements for the upgrade of Defence's financial system (ROMAN); and
- continued refinement of personnel data integrity and process issues in Defence's personnel system (PMKeyS).

Pivotal to the achievement of ongoing success was the establishment by the Chief Information Officer of an overarching architecture framework for the management information domain. The project will develop a high-level architecture and associated process maps, using best practice enterprise architecture as a starting point and diverging only where necessary to meet actual statutory and operational requirements. It will link strategic planning to the financial planning and reporting cycle, flowing from a whole-of-government requirement to portfolio and Group contributions. Complementing this work has been the development of data warehouses within the financial, materiel and personnel domains.

Significant improvements have also been made to Defence's preparedness management system which assisted in better understanding and management of the linkages between preparedness levels and costs. In turn, the work on the decision support systems project will, from early 2004, enable Defence to accurately cost Force Element Groups and this will facilitate a more comprehensive understanding of through-life costs.

In order to improve data quality, tiger teams have been established around the following key priority areas:

- capital investment, to overcome existing reporting deficiencies and provide expenditure information at project level, and by organisational entity;
- fixed asset reporting, to identify the real cost of capital and allow the cost of capability to be reported down to force element level;
- inventory data, to increase visibility of inventory transactions for consumption, purchase and stock-on-hand reporting purposes;
- employee data, to improve the quality of leave-data remediation. Significant work has been undertaken to introduce the 'AXIO' software application to address data anomalies in PMKeyS; and
- budgeting and financial structures, to align whole-of-government, portfolio and Group level budgets and reporting structures.

To improve the quality of its financial reporting processes, Defence initiated a comprehensive planning and management process, focusing attention on high-risk financial areas including inventory and other key asset areas that were the subject of the 2001-02 audit qualification. Detailed plans were established in consultation with the ANAO designed to ensure that all steps in the financial statement process were undertaken, quality assurance procedures completed, time frames clearly articulated and the required internal sign-offs and assurances received. The plans were supported by analytical review processes, internal audit, independent quality assurance programs and Service Chief/Group Head sign-off statements that assured substantial coverage and assurances across the key areas of the 2002-03 financial statements.

As was the case in 2001-02, the financial statement process included the completion of a financial business review diagnostic. This tool is designed to provide a detailed analysis of the composition of the assets, liabilities, equity, revenues and expenses that describe the financial performance and financial position of Defence in a fiscal year. A data-quality diagnostic was also embedded in the process to identify underlying data integrity issues at their source, be they process, policy or system driven.

The financial statement planning processes and the data-quality initiatives have meant that Defence's 2002-03 financial statements are of better quality than those of previous years, with the balance sheet in better shape than at any time previously reported. Defence has continued to leverage off the improvements made in 2001-02 with further improvement made in accounting for, and reporting of, approximately \$50b of assets.

Although the 2002-03 financial statements have again been qualified by the ANAO, the extent of the qualification is much reduced over that of 2001-02, demonstrating improvements in the management and accounting for inventory and repairable items. Defence was further qualified in the area of military leave provisions. Defence is addressing this issues through a comprehensive data quality assurance program.

ALIGNMENT OF BUDGET WITH STRATEGIC DIRECTION

Defence has implemented a strategy-focused planning framework which has as its keystone documents the Defence White Paper and *Australia's National Security: A Defence Update 2003*. This framework identifies key objectives and risks, and focuses on the means for achieving objectives. This strategic guidance is then reflected in the annual development of a Defence Management and Finance Plan, which sets out for Government consideration, Defence's planned performance and funding levels over a ten-year period.

The alignment of the Defence budget with the Government's strategic direction has been achieved through the introduction of an outcomes and outputs framework which focuses on the achievement of Defence outcomes and the delivery of Defence outputs to the Government, with regular reporting to the Government on financial and non-financial performance. A review of this framework was undertaken in 2002-03 and the results were reflected in the expanded outcomes and outputs presentation in the *Portfolio Budget Statements 2003-04*.

Defence has made notable progress in implementing the Government's Budget Estimates and Framework Review recommendations. It has successfully implemented an 'as-needed' cash draw-down arrangement, and was the first agency to achieve this milestone. A new program structure was implemented in the 2003-04 Budget and monthly forecasting and reporting of cash at program level has commenced on schedule. This has required significant staffing resources and investment in financial systems and business processes, particularly in Defence's portfolio Budgeting and Output Reporting Information System (BORIS). Defence staff continue to work closely with the Department of Finance and Administration implementation team.

INITIATIVES TO GET THE BEST VALUE FOR THE DEFENCE DOLLAR

ACQUISITION REFORMS

The Defence Materiel Organisation and industry have worked together to achieve a range of structural, policy and process reforms over the last three years. The restructure of the Defence Materiel Organisation and the establishment of System Program Offices brought significant improvements in performance, acquisition and through-life support; development of the 'ASDEFCON' suite of contracting templates and training has made it easier and more cost effective for industry to tender for Defence business and provides industry with greater input into the capability life-cycle management plan; and the 'Company ScoreCard' has improved Defence and industry relationships through a fair and consistent feedback mechanism on company and contract performance. At the 2003 Defence and Industry Conference in June 2003, seven awards were issued to companies for consistently good performance under the program.

A Defence procurement review undertaken in 2002-03 by a team led by Mr Malcolm Kinnaird will help to shape priorities for the next stages of acquisition reform.

EFFICIENCY SAVINGS

The White Paper required efficiency savings of \$50m in 2001-02, \$100m in 2002-03 and \$200m recurrent from 2003-04. In addition, Defence was required to find an additional \$97m in administrative savings as a one-off budget measure in 2002-03 as a contribution to the cost of operations in that year. The actual achievement of savings against both measures in 2001-02 and 2002-03 is shown in Table 1.4 as well as an estimate for 2003-04.

TABLE 1.4: WHITE PAPER SAVINGS

2001-02 ACTUAL		2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL	2003-04 ESTIMATE
\$M		\$M	\$M	\$M	\$M
36.2	Fringe benefits tax liability reduction	14.2	14.2	14.2	14.2
20.0	Qantas travel contract	20.0	20.0	20.0	20.0
1.9	Reduction in, and improved management of, the Defence commercial vehicle fleet	4.3	-	-	-
-	Re-basing of Group budget allocations	69.0	69.0	69.0	165.8
58.1	Sub-total	107.5	103.2	103.2	200.0
-	Reprioritisation of administrative spending to operational requirements ⁽¹⁾	97.0	97.0	97.0	-
58.1	Total savings	204.5	200.2	200.2	200.0

NOTE

1. This comprised one-off additional savings in 2002-03 to partially offset additional funding provided to meet operational requirements, through efficiencies within administrative expenditure such as travel, facilities maintenance, publishing and printing, advertising, consultants and contractors and other general services.

The fringe benefits tax and Qantas travel contract savings explained in the *Defence Annual Report 2001-02* are ongoing. The remaining savings were realised by re-baselining the non-capability-related element of Group budget allocations. This measure will achieve savings of \$165.8m per annum from 2003-04 to complete the savings requirements set out in the White Paper.

INITIATIVES TO ENHANCE STRATEGIC RELATIONSHIPS

Throughout the year, Defence supported an extensive range of strategic relationships through involvement in multilateral arrangements in the Asia Pacific region as well as bilateral defence and security relationships. In 2002-03, Defence strengthened Australia's international defence relationships through visits, exercises and operations. Notable achievements included:

- contributing to the war on terror and to international responses to the proliferation of weapons of mass destruction;
- further developing relationships in the Middle East in support of ADF deployments and our interests in the region;
- strengthening security relationships in the Asia Pacific region, for example through a revised Closer Defence Relations Statement with New Zealand and peace monitoring operations in Bougainville;
- continuing support for the Five Power Defence Arrangements;

- undertaking a range of defence cooperation activities in our region, including the Pacific patrol boat program and support for Papua New Guinea Defence Force reform; and
- contributing to United Nations' activities in East Timor and supporting the establishment of the East Timor Defence Force.

The completion of the Defence International Engagement Strategic Plan, and related plans, added improved definition and focus to Defence international engagement program objectives.

INITIATIVES TO MAKE THE BEST USE OF SCIENCE AND TECHNOLOGY AND AUSTRALIAN INDUSTRY

The Government seeks to exploit technological opportunities to enhance ADF capability. To achieve this, Defence is heavily reliant on the Defence Science and Technology Organisation and a competitive industry base to support a technologically advanced ADF.

In 2002-03, the Defence Science and Technology Organisation continued to provide support and advice within Defence and contributed to the Government's national research priorities², with a focus on the *Safeguarding Australia* priority. The organisation also developed its national research priorities implementation plan in response to the Government's 2001 innovation statement, *Backing Australia's Ability*. Further research was conducted in areas such as defence against terrorism, support to current ADF platforms, 'Revolution in Military Affairs' technologies and information networks. Five proposals were approved under the capability and technology demonstrator program. The technology base of the science and technology research program continued to be broadened by improved links with industry, universities and government research agencies, and improved industry access to innovative technologies.

Defence continued to develop and implement long-term strategies for sustaining key industry capabilities that support the ADF. In September 2002, Defence released for comment the Australian Naval Shipbuilding and Repair Sector Strategic Plan. The Australian Defence Aerospace Sector Strategic Plan and an exposure draft of the Defence Electronic Systems Sector Plan were released in June 2003. These plans were developed in close consultation with industry.

In addition to the Defence Company ScoreCard program, Defence has initiated the '360 Degree View ScoreCard' which allows companies to assess the performance of the Defence Materiel Organisation as the contract manager.

² National research priorities are coordinated by the Department of Education, Science and Training. Additional information is available at: <http://www.dest.gov.au/priorities/priorities.htm>

MAJOR CAPITAL EQUIPMENT PROJECTS APPROVED BY GOVERNMENT IN 2002-03

TABLE 1.5: LIST OF MAJOR CAPITAL EQUIPMENT PROJECTS APPROVED BY GOVERNMENT IN 2002-03⁽¹⁾

PROJECT NUMBER	PHASE	PROJECT OR ACTIVITY TITLE	PROJECT COST BAND \$M	STATUS AT 30 JUNE 2003 ⁽²⁾
AIR 5398	1	Air-to-Surface Stand-off Weapon System (2 nd Tranche)	100-150	Various
AIR 5402		Air-to-Air Refuelling Capability	2,000-2,500	3
AIR 5416	2	Electronic Warfare Self Protection for Tactical Aircraft	250-350	4
AIR 5999	0	Joint Strike Fighter Design Phase	250-350	1
AIR 6000	1	New Aerospace Combat Capability - Options Determination	30-50	Various
JP 199	1	Special Operations Command	75-100	4
JP 2044	2A	Space Based Surveillance	10-20	1
JP 2044	2B	Space Based Surveillance	150-200	US FMS ⁽³⁾ purchase
JP 2064	2	Geospatial Information Infrastructure and Services	10-20	4
JP 2072	1	Battlespace Communications Systems (Land)	75-100	4
JP 2077	1A	Improved Logistics Information Systems	<10	1
JP 2084	1	High Frequency Surface Wave Radar	10-20	1
JP 2087	1	Incident Response Regiment	10-20	Various
JP 2088	1	2 nd Counter Terrorist Tactical Assault Group	50-75	Various
JP 5408	1B	ADF Global Positioning System Enhancement - Memorandum of Understanding	<10	3
JP 5408	2A	ADF Global Positioning System Enhancement - Risk Study	<10	3
JP 8001	3C.2	Accredited Secure Intelligence Facilities	10-20	1
LAND 40	1	Direct Fire Weapon	150-200	3 (FMS purchase)
LAND 75	3.3B	Battlefield Command Support System	20-30	1
LAND 106	2	M113 Vehicle Fleet Upgrade	450-600	1
LAND 139	1	Enhanced Combat Support Bridging capabilities	10-20	2

PROJECT NUMBER	PHASE	PROJECT OR ACTIVITY TITLE	PROJECT COST BAND \$M	STATUS AT 30 JUNE 2003 ⁽²⁾
SEA 1229	4	Nulka - Active Missile Decoy	30-50	Various
SEA 1439	4A	Collins-class Submarines Replacement Combat System	350-450	Various
SEA 1444	1	Patrol Boat Replacement	350-450	2
SEA 1348	3C	Anzac Undersea and Surface Warfighting Upgrade Program - Mine and Obstacle Avoidance Sonar	50-75	4
SEA 4000	1A	Air Warfare Destroyer - Non-Design Related Studies	<10	1
SEA 4000	5A	CEA Technologies Phased Array Radar Development	<10	Sole source

NOTES

1. This list excludes a number of highly classified projects. In addition to new major equipment projects, several activities that support the development of the new major equipment program were also approved in 2002-03 (the Capability and Technology Demonstrator Program and the Project Development Fund) as well as a number of real cost increases to approved projects.
2. Project Status Categories: 1 - project under way (contract signed), 2. tender closed, 3 - out to tender, 4 - yet to go to tender.
3. Foreign Military Sales.

An initial tranche of \$21m approved for explosive ordnance warstocks was funded from the operating budget.

FINANCIAL OVERVIEW

RESOURCING OF DEFENCE

2002-03 FUNDING

Total funding for Defence in 2002-03 was \$22,389m (see Table 1.6, serial 9). This comprised funding from the Government for outputs of \$18,230m, an equity injection of \$995m, own-source revenue of \$387m, net capital receipts of \$182m, as well as \$2,595m in administered appropriations.

The actual result for 2002-03 was \$487m higher than the projected result, comprising \$129m in total departmental funding and \$358m in the administered appropriation. Table 1.6 summarises the actual result for Defence in 2002-03 compared with the projected result which was published in the *Portfolio Budget Statements 2003-04*.

TABLE 1.6: DEFENCE RESOURCING SUMMARY – 2002-03

SERIAL	2001-02		2002-03				
	RESULT		BUDGET ESTIMATE	REVISED ESTIMATE	PROJECTED RESULT	RESULT	VIATION ⁽¹⁾
	\$'000		\$'000	\$'000	\$'000	\$'000	\$'000
Departmental							
1	17,843,477	Revenue from Government for Price of Outputs	18,235,351	18,337,625	18,230,325	18,230,325	-
2	754,175	Equity Injection	1,090,415	1,215,201	995,201	995,201	-
3	18,597,652	Total Revenue from Government (1+2)	19,325,766	19,552,826	19,225,526	19,225,526	-
4	430,043	Own-Source Revenue ⁽²⁾	287,105	305,774	330,316	387,481	57,165
5	120,093	Net Capital Receipts ⁽³⁾	40,266	63,162	109,482	181,517	72,035
6	550,136	Sub-Total (4+5)	327,371	368,936	439,798	568,998	129,200
7	19,147,788	Total Departmental Funding (3+6)	19,653,137	19,921,762	19,665,324	19,794,524	129,200
Administered							
8	2,289,635	Administered appropriation	2,205,881	2,236,481	2,236,481	2,594,657	358,176
9	21,437,423	Total Defence Resourcing (7+8)	21,859,018	22,158,243	21,901,805	22,389,181	487,376

NOTES

- Variation is based on projected and actual result.
- To provide a better reflection of the resourcing of Defence's activities, this calculation includes resources received free of charge and excludes revenues recognising adjustments to the value of existing non-financial assets.
- Revenues from sales of assets are included in Net Capital Receipts.

ADMINISTERED APPROPRIATION (+\$358M)

Administered items are those assets, liabilities, revenues and expenses controlled by the Government and managed or overseen by Defence on behalf of the Government. Details of administered activities and the comparison of actual financial results to budget projections are discussed later in this section.

Military superannuation benefits accounted for \$277m of the total variation in the administered appropriation of \$358m. This was as a result of the Australian Government Actuary's most recent assessment of military superannuation liability compared with previous estimates.

OPERATING PERFORMANCE – 2002-03 (–\$632M)

Defence had a \$896m operating loss in 2002-03 of which \$263.9m was authorised by the Government. The remaining loss relates mainly to technical accounting adjustments which have no impact on the cash balance. Table 1.7 provides details.

TABLE 1.7: OPERATING PERFORMANCE 2002-03

	2002-03				
	BUDGET	REVISED	PROJECTED	RESULT	VIATION
	ESTIMATE	ESTIMATE	RESULT		(1)
	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUE					
Revenues from ordinary activities					
Revenue from Government ⁽²⁾	18,235,351	18,337,625	18,230,325	18,232,438	2,113
Sales of goods and services	249,368	244,334	244,334	230,545	-13,789
Interest	20,000	20,000	20,000	19,332	-668
Revenue from sale of assets	-	-	-	685,537	685,537
Net foreign exchange gains	-	-	-	17,101	17,101
Assets now recognised	-	415,000	415,000	866,295	451,295
Other	17,737	41,440	65,982	118,390	52,408
Revenue from ordinary activities	18,522,456	19,058,399	18,975,641	20,169,637	1,193,997
EXPENSE					
Expenses from ordinary activities (excluding borrowing cost expense)					
Employees	5,874,644	5,922,582	6,100,622	6,194,572	93,950
Suppliers	4,675,891	4,748,896	4,752,018	5,349,874	597,856
Grants	1,370	1,370	1,370	2,544	1,174
Depreciation and amortisation	2,782,814	2,677,814	2,677,814	2,863,416	185,602
Value of assets sold	-	-	-	640,549	640,549
Write down of assets	100,000	620,000	620,000	586,475	-33,525
Other	-	-	-	345,596	345,596
Expenses from ordinary activities (excluding borrowing cost expense)	13,434,719	13,970,662	14,151,824	15,983,026	1,831,202
Borrowing cost expense	31,643	31,643	31,643	26,755	-4,888
Net surplus	5,056,094	5,056,094	4,792,174	4,159,856	-632,318
Capital use charge ⁽³⁾	5,056,094	5,056,094	5,056,094	5,056,094	-
Net accumulated result (Loss)	-	-	(263,920)	(896,238)	-632,318

NOTES

1. Variation is between estimated outcome and actual result.
2. Revenues from the Government include resources received free of charge (\$2.113m in 2002-03).
3. Defence's capital use charge to the Government was budgeted at \$5,056m in 2002-03, representing an 11 per cent return to the Government on its investment in Defence (as represented by Defence's estimated closing net assets balance). The Government decided to discontinue the charge from 1 July 2003. As a result, Defence's 2002-03 capital use charge payments were made in accordance with the level of capital use charge funding appropriated for 2002-03 without further adjustment.

EXPLANATION OF MAJOR VARIATIONS**REVENUE (+\$1,194M)**

The higher level of revenue of \$1,194m was due to predominantly:

- a change in the disclosure of sale of assets (\$686m). Previously, Defence was required to disclose only the net gain or loss on sale of assets. A change in the Finance Minister's Orders for 2002-03 required Defence to separately disclose the revenue proceeds (and the value of assets sold – see below) from asset sales;
- an increase in assets now recognised of \$451m representing the take-up of inventories recorded on the Army's Q Store system, AUTO Q, into the Standard Defence Supply System and additional inventory price adjustments (\$203m). A further increase of \$248m was a result of the booking of the Standard Defence Supply System to the Resource and Output Management Accounting Network reconciliation and other miscellaneous adjustments;
- a change in the accounting treatment of fuel excise refunds as revenue as opposed to being netted off against expenses, resulted in an increase of \$43m; and
- other variations (\$14m).

EXPENSES (+\$1,831M)

Expenses were \$1,831m higher than planned. The main factors are discussed below.

- Changes in accounting treatments (\$962m), including:
 - a change in the Finance Minister's Orders for 2002-03 which required Defence to separately disclose the value of assets sold during the financial year (\$641m);
 - an imbalance in the capital/operating mix in the budget estimates which was corrected in 2003-04 but not reflected in the 2002-03 projected result. Accordingly, expenses were higher than planned by \$278m; and
 - an accounting policy change in relation to the recognition of fuel excise costs to be recognised as separate expense and revenue amounts (\$43m).
- A net increase in non-cash items of approximately \$152m, including:
 - an increase in depreciation and amortisation expenses of \$186m. The higher level of depreciation expense was due mainly to the different treatments applied at budget and in the actual results associated with disposal of APG-65 radars from the F/A-18 aircraft. The radars were 're-lifed' to the net selling price prior to disposal instead of adjusting the

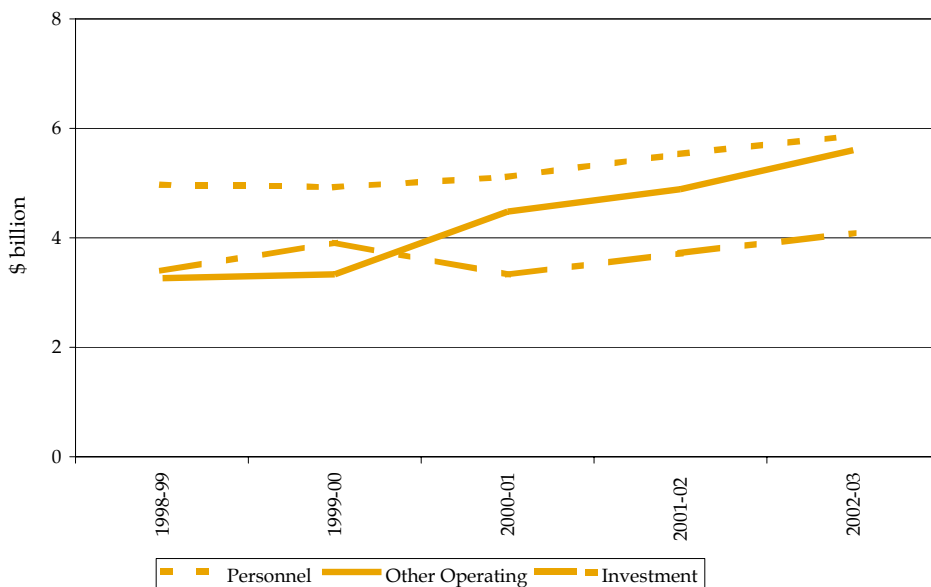
loss through the asset revaluation reserve. This resulted in an increased depreciation expense of \$155m; and

- an overestimate of assets expenses (-\$34m).
- Other variations totalling \$717m, including:
 - an increase from the projected result of \$346m in other expenses. This was due largely to the recognition of Defence’s potential liability for compensation claims arising from asbestos exposure identified in a recent whole-of-government actuarial report (\$344m).
 - an increase of \$94m was a result of recruiting and operational activities and adjustments to superannuation, compensation and fringe benefit expenses. Civilian employee expenses were higher due to higher than planned strength and growth in per capita costs;
 - an increase in inventory consumption relating to high operational tempo and higher consumption rates of general stores items and fuel;
 - costs totaling \$41m associated with the property sale program; and
 - other variations of \$24m.

TRENDS IN DEFENCE EXPENDITURE

The trend in the major categories of Defence’s budget since 1998-99, including the 2002-03 result, is shown in Chart 1.1.

CHART 1.1: MAJOR CATEGORIES OF DEFENCE SPENDING (ACTUAL)



DEFENCE'S FINANCIAL POSITION

Defence had net assets of \$46.2b as at 30 June 2003. This comprised \$51.4b in total assets less \$5.2b in liabilities. The net asset position was \$330m higher than the projected result as published in the *Portfolio Budget Statements 2003-04*. Table 1.8 provides details.

TABLE 1.8: STATEMENT OF FINANCIAL POSITION

	2002-03 BUDGET ESTIMATE \$'000	2002-03 REVISED ESTIMATE \$'000	2002-03 PROJECTED RESULT \$'000	2002-03 ACTUAL RESULT \$'000	VARIATION ⁽¹⁾ \$'000
Assets					
Cash	609,807	968,415	100,000	99,557	-443
Receivables	433,808	513,392	1,219,467	1,152,542	-66,925
Total Financial Assets	1,043,615	1,481,807	1,319,467	1,252,099	-67,368
Non Financial Assets					
Land and Buildings	7,458,837	8,210,166	8,349,846	9,282,868	933,022
Specialist military equipment	32,814,178	31,904,356	31,500,856	31,383,274	-117,582
Infrastructure, plant and equipment	4,196,372	4,774,453	4,774,453	4,748,730	-25,723
Intangibles	100,360	119,731	119,731	173,709	53,978
Heritage and Cultural	-	-	-	19,047	19,047
Inventories	3,127,706	3,554,269	3,682,509	3,832,343	149,834
Other	482,963	564,424	564,424	718,549	154,125
Total Non-Financial Assets	48,180,416	49,127,399	48,991,819	50,158,519	1,166,700
TOTAL ASSETS	49,224,031	50,609,206	50,311,286	51,410,618	1,099,332
LIABILITIES					
Debt					
Leases	369,386	348,676	348,676	343,738	-4,938
Other interest bearing liabilities	213	-	-	-	-
Total Debt	369,599	348,676	348,676	343,738	-4,938
Provisions and Payables					
Employees and other provisions	2,956,058	3,068,933	3,068,933	3,661,311	592,378
Suppliers payables	416,326	1,033,744	1,033,744	1,200,066	166,322
Other payables	72,159	15,052	15,052	30,130	15,078
Total Provisions and Payables	3,444,543	4,117,729	4,117,729	4,891,507	773,778
TOTAL LIABILITIES	3,814,142	4,466,405	4,466,405	5,235,244	768,839
NET ASSETS	45,409,889	46,142,801	45,844,881	46,175,373	330,492

NOTE

1. Variation is between projected and actual result.

EXPLANATION OF MAJOR VARIATIONS

The following section provides an overview of the major variation in assets and liabilities.

ASSETS (+\$1,099M)

Assets were \$1,099m higher than planned. The main factors are discussed below.

- **Receivables** – In total, receivables were \$67m less than projected. The appropriation receivable was \$164m higher than planned (see Table 1.10). Other receivables were some \$230m less than projected due to the progressive collection of debts from capital projects, overseas debtors including the United Nations and the foreign exchange rate fluctuation impact on the ‘advance Foreign Military Sales’ account in the United States. Defence has also undertaken a rigorous quality assurance of the receivables balance which has resulted in the write-back of a number of receivables.
- **Land and buildings** – The land and buildings balance was \$933m higher than planned due to revaluations of assets held and the reclassification of Defence Housing Authority houses under finance lease (\$373m).
- **Specialist military equipment** – The net decrease of \$118m was due largely to the accelerated depreciation on APG-65 radars from the F/A-18 aircraft to reflect their revised withdrawal date.
- **Infrastructure, plant and equipment** – Infrastructure, plant and equipment was \$26m lower than the projected result. The main movements were due to the reclassification of Defence Housing Authority houses under finance lease from the infrastructure balance to land and buildings (\$373m), offset by increases due to new acquisitions and revaluations of existing assets.
- **Inventories** – The increase in inventory holdings of \$150m partly related to inventory first found including \$203m for the taking on of inventories recorded on the Army’s ‘Q’ Store system to the Standard Defence Supply System offset by inventory write down (-\$250m), and an increase in the provision for obsolescence (\$67m). Other additions related to the replenishment of inventory used in current operations and initiatives to replenish inventory holdings through additional logistics funding.
- **Other** – The increase of \$154m was due primarily to an increase in non-capital prepayments (\$145m) relating to explosive ordnance and munitions production, software licences and a range of other support contracts.

LIABILITIES (+\$769M)

Liabilities were \$769m higher than planned. The main factors are discussed below.

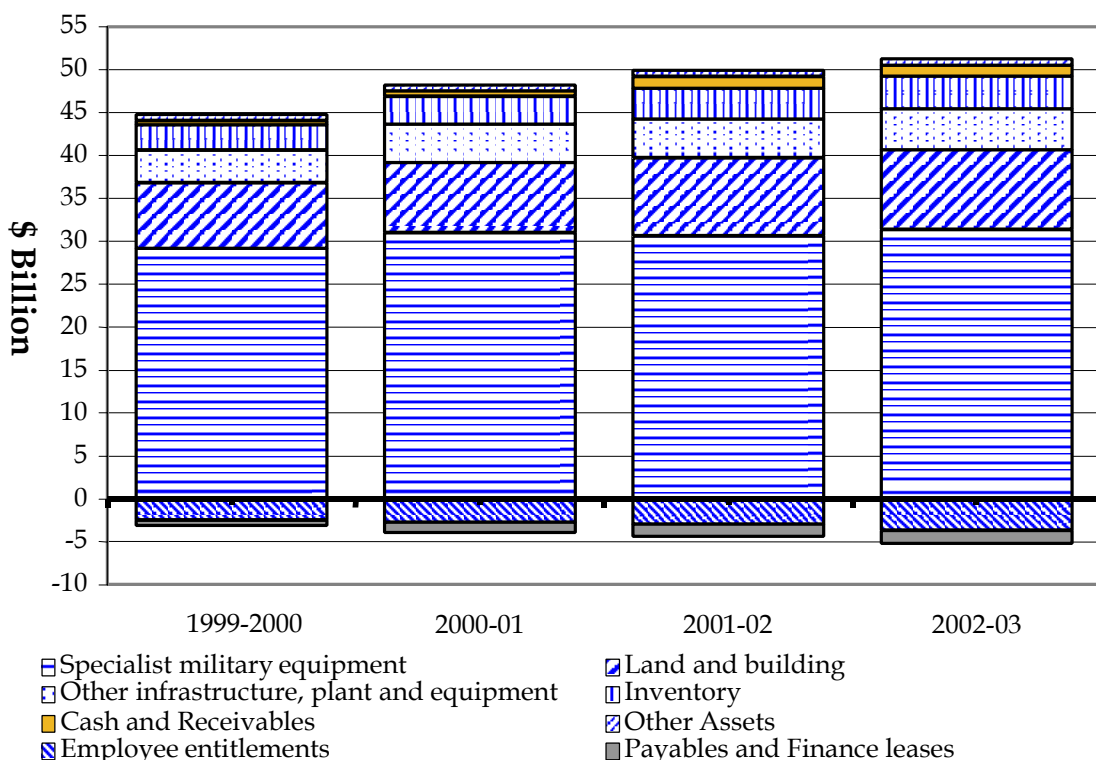
- **Employee and other provisions** – Accrued entitlements were \$592m higher than planned due mainly to increases in the workers’ compensation provision, including the recognition of common law asbestos-related liabilities, which is based on an actuarial assessment. Salary increases also affected accrued leave entitlements.

- Suppliers payables** – The increase of \$166m was due mainly to an increase in trade creditors (\$178m), including a payment of \$105m for the airborne early warning and control project, and to the high level of activity towards the end of the financial year, both in terms of current operations and exercise commitments occurring late in the financial year.

TRENDS IN DEFENCE ASSETS AND LIABILITIES

Chart 1.2 shows the actual movement of major categories of assets and liabilities since 1999-2000, including the 2002-03 result.

CHART 1.2: HISTORICAL TREND DEFENCE'S ASSETS AND LIABILITIES



DEFENCE'S CASH POSITION

OVERVIEW

Defence sources its cash primarily from appropriations, own source revenue, capital receipts and cash reserves. The allocations are subject to Government approval as part of the annual budget process. Once funds are appropriated for Defence purposes, if not fully used in the budget year, they are held as an appropriation receivable and remain available for use in future years, subject to Government approval.

Defence planned to progressively increase its cash reserves to \$500m in 2002-03, in part in response to criticism by the Auditor-General of the low level of Defence's cash balances in 2000-01 and to ensure it had sufficient cash to meet its liabilities. The level of cash carried forward into 2002-03 was \$335m higher than planned, due to the

lateness of the 2001-02 Additional Estimates, some slippage in the capital program and an increase in Defence's payables.

Under the 'as needed' cash drawdown arrangements introduced earlier this year as part of the Government's Budget Estimates and Framework Review, Defence is now carrying a working cash balance of about \$100m and draws down, on a daily basis, sufficient cash to meet payments falling due the next day. The balance of Defence's cash reserves is held as a cash receivable in the Official Public Account and is available to meet liabilities as they fall due, including employee liabilities.

USE OF CASH IN 2002-03

Defence had \$21,921m in available cash in 2002-03, including \$835m carried forward from 2001-02, against which it used \$20,951m, leaving it with a cash balance, at 30 June 2003, of \$970m. This was \$164m higher than the \$806m estimated in the *Portfolio Budget Statements 2003-04* (page 29). Table 1.9 shows the actual movement of cash in 2002-03.

TABLE 1.9: DETAILS OF CASH MOVEMENT IN 2002-03

DESCRIPTION	2002-03 \$M
Available cash	
2001-02 available cash reserve	835
Appropriation Bill No 1 (inc capital use charge)	18,230
Appropriation Bill No. 2 - equity injection	995
Own source revenue (inc proceeds from asset sales and interest)	1,160
GST refund from Australian Taxation Office	670
Effect of exchange rate movements	31
Total	21,921
Cash used	
Employee payments	5,867
Suppliers	4,722
GST expenses	742
Other operating expenses	31
Capital use charge payment	4,918
Purchase of land and buildings, specialist military equipment, property, plant and equipment and Inventory	4,186
Transfer of property sales receipts to Government	474
Transfer of residual 2001-02 interest receipts to Government	1
Repayment of finance lease loan	10
Total	20,951
Cash Balances as at 30 June 2003	970
Cash Balance comprises:	
Cash at bank	100
Appropriation receivable	870
Total	970

REASONS FOR INCREASE IN CASH RESERVE AT 30 JUNE 2003

Defence used all of its 2002-03 appropriations, its own source revenue, and part of its cash reserves in 2002-03 (with the approval of the Government), leaving \$970m in cash balances at 30 June 2003. Of this amount, \$100m was held in Defence's bank accounts and \$870m in the Official Public Account as an appropriation receivable. Table 1.10 summarises the variance between the planned cash reserves at the time of the 2003-04 Budget and the actual outcome.

TABLE 1.10: PLANNED VS ACTUAL CASH BALANCES

	PLANNED \$M	ACTUAL \$M	VARIATION \$M
2002-03 Additional estimates forecast cash position	968	968	0
Use of cash reserves to meet logistics requirements (includes \$50m in capital)	-150	-150	0
Cash holdings retained after moving to just-in-time draw downs	-100	-100	0
Return of cash reserves to receivables held in the Official Public Account	718	718	0
Use of cash for Bastille/Falconer and returned from Budget in 2003-04	-249	-113	136
Use of cash reserve for Bougainville and returned from Budget in 2003-04	-10	-15	-5
\$200m Defence Capability Plan reprogramming	200	200	0
Retention of property sales proceeds to be used in 2003-04	46	104	58
Conversion of capital use charge receivable into an Appropriation Receivable due to the discontinuation of capital use charge	-	138	138
Other employee and suppliers costs	-	-163	-163
Appropriation receivable at 30 June 2003	706	870	164
Bank balance at 30 June 2003	100	100	0
Total Cash Reserves	806	970	164

The variations between the planned (\$806m) and actual cash position at 30 June 2003 (\$970m) are explained as follows:

Current Operations (+\$136m)

- The Government determined that the estimated net additional costs of the 2002-03 portion of Operations Bastille/Falconer in Iraq (\$249m) would be funded from Defence's cash reserves, with reimbursement in 2003-04. In the event, an amount of \$113m was spent in 2002-03 supporting these operations, leaving \$136m in cash reserves for use in 2003-04 to cover remaining costs for Operations Bastille/Falconer and Operation Catalyst.

Bougainville – Operation Bel Isi (-\$5m)

- The Government agreed that additional costs for Operation Bel Isi would be funded from Defence's cash reserves in 2002-03 and reimbursed in 2003-04. Actual expenditure was \$5m higher than estimated.

Increase in Retention of Property Sales Receipts (+\$58m)

- The Government agreed that Defence would retain additional property receipts in 2002-03 over and above the revised target of \$474m, excluding Russell Offices. The estimate at the time of the 2003-04 Budget was \$46m, but Defence achieved revenues of \$104m in property sales receipts, which was \$58m higher than planned.

Capital Use Charge Receivable (+\$138m)

- Following the cessation of the capital use charge, the Department of Finance and Administration agreed to discharge the capital use charge receivable of \$138m remaining in Defence's accounts, contributing to the increase in the appropriation receivable at 30 June.

Higher Than Expected Personnel and Operating Costs (-\$163m)

- Defence was required to spend more than it had planned in 2002-03 due to a higher than expected level of payables, mainly in suppliers. This was due in part to additional purchases in the logistics budget (both suppliers and inventory purchases), and higher than expected costs in the military and civilian employees' budget, as well as a number of other costs primarily in relation to Defence Reform Program contracts and the housing and accommodation budget. The higher level of expenses was funded through the use of the capital use charge receivable (\$138m) and higher than projected receipts including from the sale of specialist military equipment and commercial vehicles.

STATUS OF THE APPROPRIATION RECEIVABLE

When the cash receivable is replenished for the reimbursement of Operations Bastille/Falconer (\$113m) and Bougainville (\$15m), the revised level of \$998m will be \$80m more than the minimum level of receivables approved by the Government, as follows:

Employee entitlements	\$718m
Reprogramming of the Defence Capability Plan	<u>\$200m</u>
Total	\$918m

EXPLANATION OF EMPLOYEE LIABILITIES CASH RECEIVABLE (+\$718M)

In 2001-02, Defence was criticised by the Australian National Audit Office for having insufficient liquidity to meet its liabilities. In view of this and the ongoing build-up in its employee liabilities, Defence made a conscious effort in 2001-02 to increase the cash that it had put aside to meet liabilities. The circumstances in 2001-02, including the delayed Additional Estimates process, which provided additional funding late in the financial year, and some slippage in the capital program, provided the opportunity for Defence to set aside funds to address the employee liabilities problem. The Government agreed in the 2003-04 Budget that Defence should retain \$718m, the maximum cash then expected to be available, to partially meet the cost in future years of existing employee liabilities.

Accrued employee liabilities have grown from \$2,364m at 30 June 1999 (when accrual budgeting was introduced) to \$3,661m at 30 June 2003, as shown in Table 1.11.

TABLE 1.11: GROWTH IN EMPLOYEE LIABILITIES

EMPLOYEE LIABILITY	30 JUNE 1999	30 JUNE 2000	30 JUNE 2001	30 JUNE 2002	30 JUNE 2003	VARIATION FROM 30 JUNE 2002	GROWTH
	\$M	\$M	\$M	\$M	\$M	\$M	%
Military							
Outstanding claims liability	-	-	-	-	1,463.6	-	-
Administrative Costs	-	-	-	-	131.8	-	-
Total workers compensation	1,070.4	1,031.0	1,196.0	1,342.4	1,595.4	253.0	18.8
Annual leave	337.6	374.7	394.7	452.4	480.8	28.4	6.3
Long service leave	529.4	599.7	585.7	588.6	591.6	3.0	0.5
Other	62.9	126.9	223.1	185.8	201.4	15.6	8.4
Sub-total Military	2,000.3	2,132.3	2,399.5	2,569.2	2,869.2	300.0	11.7
Civilian							
Annual leave	103.0	115.6	128.3	146.0	180.7	34.7	23.8
Long service leave	231.4	187.5	177.9	207.6	222.5	14.9	7.2
Other	29.2	24.1	27.2	31.8	45.3	13.5	42.4
Sub-total Civilian	363.6	327.2	333.4	385.4	448.5	63.1	16.4
Total Employee Liabilities	2,363.9	2,459.5	2,732.9	2,954.6	3,317.7	363.1	12.3

EXPLANATION OF SIGNIFICANT ITEM MOVEMENTS

During 2002-03, employee liabilities increased by \$363.1m or 12.3 per cent. Significant variations are explained below.

Workers Compensation: The accrued liability to 30 June 2003, estimated at \$1,595.4m, comprises two elements. The first is outstanding claims liability of \$1,463.6m. The second element, which has been included for the first time in Defence's financial statements, is for administrative costs of \$131.8m which covers future costs expected to be incurred in processing these claims. This latter element brings Defence in line with the normal accounting practice for general insurers.

Military Annual Leave Provision: The key drivers for the increase in this provision are the increase in personnel numbers, the three per cent pay rise in November 2002 for non-star ranked officers, and the increasing average leave balances due to the heightened operational tempo.

Military Worker's Compensation Provision: Increases in the provision are based on an assessment by the Australian Government Actuary. The actuarial assessments are based on historical data, with the increase attributable primarily to the impact of past workers' compensation claims.

Other Military Employee Provisions: This includes accrued salaries and wages, redundancies provision and employee tax payable. The reduction of \$19m in 2002-03 is a net impact of the rise in accrued salaries and wages provision, and a reduction in other employee provisions due to the running down of the completion bonus provision as the program nears its end.

Civilian Annual Leave and Long Service Leave Provisions: The key drivers for the increase in these provisions include increases in the number of civilian personnel and the average civilian salary.

EXPLANATION OF THE DEFENCE CAPABILITY PLAN CASH RECEIVABLE (+\$200M)

The Government also agreed in the 2003-04 Budget that Defence should retain \$200m of Defence Capability Plan funds to be reprogrammed to 2004-05, subject to review in the 2004-05 Budget. This will quarantine the \$200m specifically for the Defence Capability Plan to ensure that the investment program can be fully delivered in accordance with the Government's commitments.

PLANNED RUNDOWN IN CASH LEVELS

Table 1.12 shows how Defence intends to progressively reduce its cash reserves over the Forward Estimates in accordance with the schedule agreed by the Government, noting that some adjustments may be proposed for Government consideration in the 2003-04 Additional Estimates.

TABLE 1.12: USE OF CASH (APPROPRIATION RECEIVABLE) OVER THE FORWARD ESTIMATES

2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
\$M	\$M	\$M	\$M	\$M	\$M
-	870	994	902	849	774
718	-	-	-	-	-
-113	113	-	-	-	-
-15	15	-	-	-	-
-	43	143	-	-	-
-	-47	-35	-53	-75	-97
200	-	-200	-	-	-
105	-	-	-	-	-
138	-	-	-	-	-
-163	-	-	-	-	-
870	994	902	849	774	677

NOTES

1. Defence has been given approval to retain \$718m in cash reserves to contribute to meeting existing employee liabilities in future years, commencing in 2003-04.
2. Defence will retain \$200m in Defence Capability Plan reprogramming funds in the cash reserve. Its usage in 2004-05 is subject to Government consideration in the 2004-05 Budget.

ADF OPERATIONS

The 2002-03 Budget allocations included \$539.6m for the net additional costs of current operations. Details of individual operations are shown in Table 1.13. The allocations were subsequently increased in the 2002-03 Additional Estimates and in the 2003-04 Budget (projected result of \$875.3m, including \$421m in respect of Operation Bastille/Falconer). Details of the total Bastille/Falconer funding commitment were shown in the *Portfolio Budget Statements 2003-04* (Table 1.6 on page 25).

TABLE 1.13: COST OF OPERATIONS 2002-03⁽¹⁾

OPERATION	2002-03				
	BUDGET	REVISED ESTIMATE	PROJECTED RESULT	RESULT	VARIATION
	\$M	\$M	\$M	\$M	\$M
Citadel	277.2	181.8	181.8	172.4	-9.4
Slipper	199.0	199.0	199.0	176.0	-23.0
Relex II	22.3	22.3	22.3	27.8	5.5
Bel Isi	-	-	10.1	14.6	4.5
Safebase	41.1	41.1	41.1	34.5	-6.6
Sub Total	539.6	444.2	454.3	425.3	-29.0
Bastille/Falconer	-	123.8	421.0	285.3	-135.7
Total	539.6	568	875.3	710.6	-164.7

NOTE

1. Does not include force generation funding (see also Table 1.14).

EXPLANATION OF VARIATIONS**OPERATION CITADEL (–\$9.4M)**

Operation Citadel was established to replace Operation Tanager following East Timor's independence in May 2002. Its objective is to contribute to the United Nations' support to East Timor. Since September 1999, the Government has funded the net additional costs of the East Timor deployment on a 'no win, no loss' basis with funding arrangements scheduled to continue through to the end of 2003-04. Defence returned an amount of \$95.4m to the Government in 2002-03 as a result of a revised operational drawdown strategy including a reduced number of deployed ADF personnel in East Timor compared with the numbers upon which the estimates were based.

The actual result for Operation Citadel was \$9.4m less than the projected result due to a reduced requirement for inventory and specialist military equipment purchases.

OPERATION SLIPPER (WAR ON TERROR) (–\$23.0M)

Operation Slipper is the ADF contribution to the war on terror. Forces deployed included a Special Forces task group deployed to Afghanistan, a naval task group and Air Force P-3C Orion detachment supporting the Multinational Interception Force implementing United Nations Security Council resolutions in the Persian Gulf and a detachment of B707 air-to-air refuelling tankers and F/A 18 aircraft in support of coalition operations. Air Force C-130 Hercules aircraft provided air transport for deployed Australian forces.

The actual result for Operation Slipper was \$23m less than the projected result due to the purchase of specialist military equipment being less than estimated.

OPERATION RELEX II (+\$5.5M)

Operation Relex involves the conduct of air and surface surveillance and interception operations to protect Australia's northern and western borders from unauthorised boat

arrivals. The actual result for Operation Relex was \$5.5m greater than the projected result due to inventory and specialist military equipment purchases being greater than estimated.

OPERATION BEL ISI (+\$4.5M)

Operation Bel Isi commenced in 1998 with the objective of supporting the regional Peace Monitoring Group which monitored and reported on the maintenance of the cease-fire on Bougainville. The ADF provided medical, logistic, communications, and transport capabilities. The Government extended the Peace Monitoring Group to the end of June 2003 and agreed that Defence should meet the net additional costs of \$10.1m by drawing down on its cash reserves in 2002-03, with reimbursement in 2003-04. The actual result in 2002-03 exceeded the projected result by \$4.5m due to logistic support costs being higher than anticipated.

OPERATION SAFEBASE (-\$6.6M)

Operation Safebase provides enhanced protective security measures for Defence personnel and facilities. The reduced level of expenditure was due in part to delays relating to the awarding of contracts for facilities upgrades.

OPERATION BASTILLE/FALCONER (-\$135.7M)

Total funding of \$421m was provided for operations in Iraq in 2002-03. Of this amount, \$123.8m was contained in the 2002-03 Additional Estimates for equipment for contingency planning purposes. In addition, \$48.6m was funded in 2002-03 from Defence's cash reserves for the first six months deployment of the P-3 aircraft (\$36.1m), which were also involved in the war on terror, and the purchase of further essential items of inventory and specialist military equipment as part of pre-deployment planning activities (\$12.5m). A further \$248.6m in expenditure was planned to be incurred in 2002-03 from Defence's cash reserves, to be reimbursed in 2003-04.

In the event, only \$113m of the \$248.6m was needed to meet Defence's commitments in 2002-03 due to the earlier than anticipated return home of assigned forces, the cancellation of some inventory and specialist military equipment purchases and the carryover of expenditure of inventory and specialist military equipment purchases to 2003-04. Unused funds of \$135.6m are held in the cash receivable and will be used to meet the cost of these operations and Operation Catalyst in 2003-04.

SUMMARY OF CONTENT AND PLANNED EXPENDITURE

Table 1.14 provides a summary of actual and planned expenditure for the net additional costs associated with the main operations covering the period 1999-00 to 2004-05.

TABLE 1.14: SUMMARY OF OPERATIONS FUNDING (NET ADDITIONAL COSTS)

SERIAL	OPERATION	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
		ACTUAL RESULT	ACTUAL RESULT	ACTUAL RESULT	ACTUAL RESULT	BUDGET ESTIMATE ⁽¹⁾	FORWARD ESTIMATE ⁽¹⁾
		\$M	\$M	\$M	\$M	\$M	\$M
1	Citadel (East Timor)						
	Deployment	429.7	335.9	187.5	172.4	233.0	-
	Force Generation	168.4	462.6	445.4	406.9	410.6	448.9
	Capital Use Charge	9.4	16.6	32.0	-	-	-
	Sub Total	607.5	815.2	664.9	579.3	643.6	448.9
2	Slipper	-	-	320.0	176.0	-5.0	-
3	Bastille/Falconer ⁽²⁾	-	-	0.0	285.3	197.9	25.8
4	Relax II	-	-	22.2	27.8	17.8	-
5	Bel Isi - Bougainville	-	20.0	10.1	14.6	-	-
6	Safebase	-	-	27.0	34.5	34.6	36.1
	Total	607.5	835.2	1044.2	1,117.5	888.9	510.8

NOTES

- These estimates are as published in the *Portfolio Budget Statements 2003-04*. They will be revised as part of the *Portfolio Additional Estimates Statements 2003-04*.
- Defence spent \$285.3m of the \$421m available on Operation Bastille/Falconer in 2002-03. Only \$113m was spent from Defence's cash reserves, compared with the planned \$248.6m. An amount of \$135.6m of unused funds will be held in the cash receivable and will be used to meet the cost of these operations and Operation Catalyst in 2003-04.

ADMINISTERED ITEMS

ADMINISTERED REVENUE

The revenues administered on behalf of the Government are the dividend from the Defence Housing Authority, military employee superannuation contributions and other non-taxation revenues including reimbursement from the United Nations for costs associated with East Timor. Once collected by Defence, all of these revenues are returned to the Government through the Official Public Account.

ADMINISTERED EXPENSES – SPECIAL APPROPRIATION

These expenses, administered on behalf of the Government, are comprised as follows:

- Administered superannuation expenses representing members' accrual expenses and interest expenses for the two military superannuation schemes (Defence Force Retirement and Death Benefits and Military Superannuation and Benefits Schemes). The cash payments of benefits paid under these schemes are subject to biannual indexation of benefits, similar to the Australian Public Service superannuation schemes.
- The Defence Home Owner Scheme, which provides assistance to current and retired Defence personnel. This scheme provides a subsidy on the interest payable on a home loan for members of the ADF under the *Defence Force (Home Loans Assistance) Act 1990*.
- The retention benefit, which is a lump sum of one times salary paid directly to military personnel who, on completion of 15 years service, undertake to complete a further five years service. It is not a superannuation benefit, but is an incentive payment made via the administered accounts.

SYDNEY HARBOUR FEDERATION TRUST

Defence was transferred a number of properties from the Defence Housing Authority. These assets, valued at \$84m, have now been passed on to the Sydney Harbour Federation Trust, at the Government's direction, from the administered accounts in 2002-03 (gazetted in April 2003).

FINANCIAL RESULTS

Recent years' achievement and the comparison of 2002-03 financial results in comparison to the projected outcome are shown in Table 1.15.

TABLE 1.15: REVENUES AND EXPENSES ADMINISTERED ON BEHALF OF GOVERNMENT

	1999-2000	2000-01	2001-02	2002-03			
	RESULT	RESULT	RESULT	REVISED ESTIMATE	PROJECTED RESULT	RESULT	VARIATION
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenues Administered on Behalf of Government							
Interest	2,665	661	8,604	-	-	1,114	1,114
Housing dividends	21,984	24,000	88,636	361,900	361,900	373,525	11,625
Military superannuation contributions	584,918	557,423	607,195	606,497	606,497	551,849	-54,648
Foreign government and United Nations reimbursement for East Timor	79,520	127,361	123,364	76,000	76,000	59,285	-16,715
Assets now recognised - retention benefit prepayment	-	-	-	-	-	56,918	56,918
Other	1,766	1,322	22,450	-	-	-	-
Total revenues administered on behalf of Government	690,853	710,767	850,249	1,044,397	1,044,397	1,042,691	-1,706
Expenses Administered on Behalf of Government							
Military superannuation benefits	2,614,386	2,657,356	2,240,395	2,200,000	2,200,000	2,477,497	277,497
Retention benefits	18,865	22,013	30,560	30,600	30,600	21,162	-9,438
Housing subsidies	4,625	6,555	6,411	5,700	5,700	7,394	1,694
Other	3,498	-	12,269	181	181	88,604	88,423
Total expenses from ordinary activities	2,641,374	2,685,924	2,289,635	2,236,481	2,236,481	2,594,657	358,176

Significant variations, compared with the 2002-03 projected result, include:

- Retention benefit payments (+\$57m) from 1 July 2002 are recorded as prepayments instead of expenses. The change has been made to recognise the nature of these payments;
- United Nations reimbursements (-\$17m) arising from the phasing down of activity in East Timor and more accurate recognition of revenues anticipated from the United Nations;
- Military superannuation benefits (+\$277m) reflecting the more recent Australian Government Actuary's assessment of superannuation liability than was available at the time of projected outcome development. The revised actuarial assessment reflects higher consumer price index and wage growth than was anticipated in the previous actuarial report; and
- Other expenses (+\$88m) predominantly due to the downward revision of the United Nations receivable account to correctly reflect the amount outstanding from the United Nations.

ACCOUNTABILITY ARRANGEMENTS

CORPORATE GOVERNANCE

ORGANISATIONAL CHANGES

Several administrative changes occurred in 2002-03. These changes reflected refinement of the operation of the Defence business model following development of internal customer-supplier arrangements.

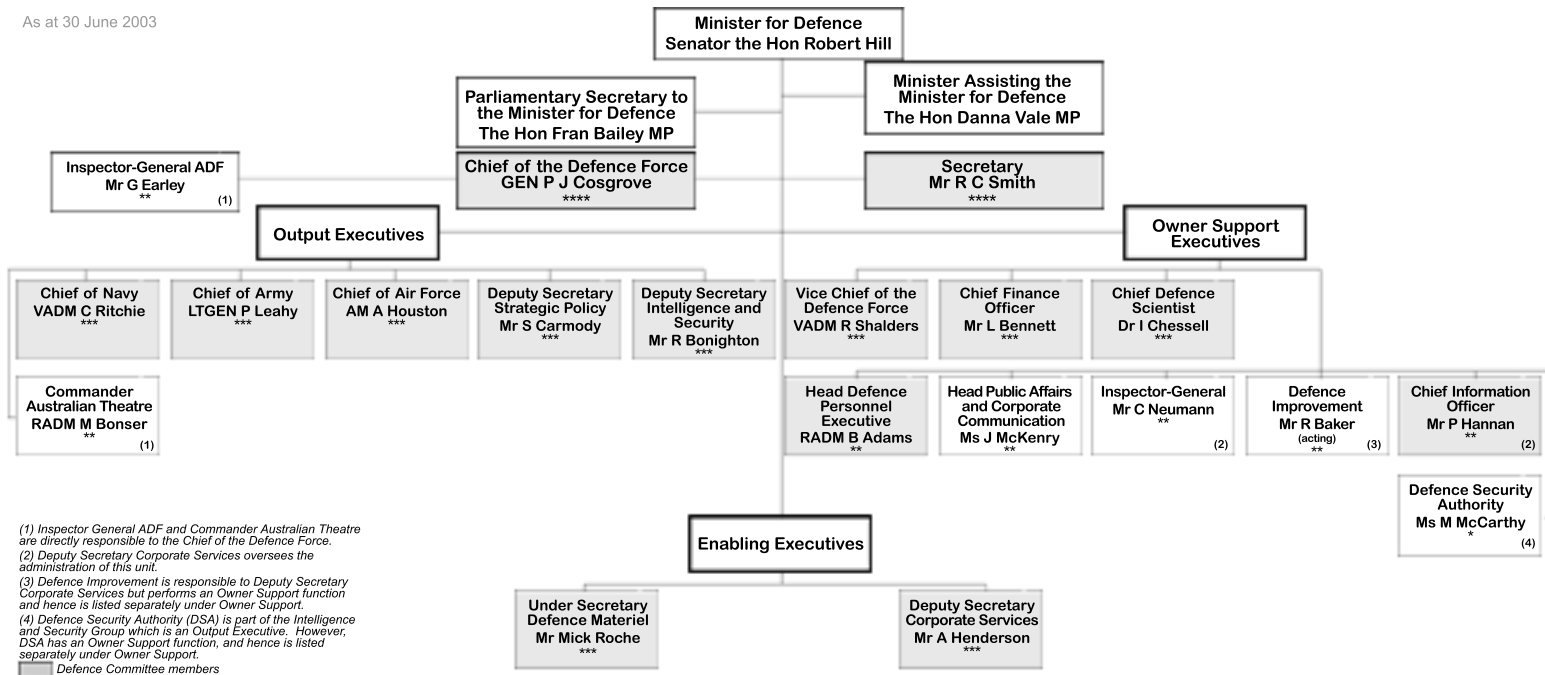
- Defence Improvement Division was established in August 2002 as a separate (non-Group) owner support entity. It is responsible for managing change through Defence's 'Renewal' work, promoting the provision of quality advice and support to the Ministers and the Parliamentary Secretary, fostering Defence's governance arrangements, and evaluating Defence's outputs on behalf of the Minister for Defence.
- Capability, Investment and Resources Division moved to the Strategic Policy Group from the Chief Finance Officer Group in February 2003, to better meet Government capability planning requirements. This has strengthened links in the capability development chain.
- The move of Special Operations Division from the Strategic Policy Group to the Vice Chief of the Defence Force Group, in February 2003, was in recognition of the Division's specialised operational planning and direction functions on behalf of the Chief of the Defence Force.

ORGANISATIONAL CHART

The following chart depicts the structure of the organisation as at 30 June 2003.

ORGANISATIONAL CHART

As at 30 June 2003



SENIOR EXECUTIVES

CHANGES

Admiral Chris Barrie, Chief of the Defence Force, retired in July 2002 and was replaced by General Peter Cosgrove, formerly Chief of Army.

Mr Richard Smith took up the position of the Secretary of the Department of Defence in November 2002. Dr Allan Hawke vacated the position of Secretary in October 2002.

Lieutenant General Des Mueller, Vice Chief of the Defence Force, retired in July 2002 and was replaced by Vice Admiral Russ Shalders, formerly Head Defence Personnel Executive. Rear Admiral Brian Adams, formerly Deputy Chief of Navy, took up the position of Head Defence Personnel Executive in August 2002.

Vice Admiral David Shackleton, Chief of Navy, retired in July 2002 and was replaced by Vice Admiral Chris Ritchie who vacated the position of Commander Australian Theatre. Rear Admiral Mark Bonser became the new Commander Australian Theatre in late June 2002.

In July 2002, Dr Richard Brabin-Smith vacated the position of Deputy Secretary Strategic Policy, to head the Annual Strategic Review. Dr Brabin-Smith retired from Defence in January 2003.

The position of Deputy Secretary Strategic Policy was filled in July 2002 by Mr Shane Carmody, who transferred from Deputy Secretary Corporate Services. Mr Alan Henderson took up the position of Deputy Secretary Corporate Services in July 2002.

Mr Ron Bonighton was promoted from Director Defence Signals Directorate to Deputy Secretary Intelligence and Security in August 2002.

Mr Geoff Earley was appointed as the Inspector-General of the ADF in January 2003. This appointment implements one of the principal recommendations arising from the report of the *Military Justice Audit*.

REMUNERATION FOR PERIOD IN OFFICE

Remuneration for key Defence Executives included in Table 1.16 below includes salary, superannuation, redundancy payments (if any), accrued leave, car parking, vehicle expenses and fringe benefit tax. In addition, for the ADF it includes the value of health and housing assistance.

TABLE 1.16: SENIOR EXECUTIVE REMUNERATION 2002-03

POSITION AND NAME	REMUNERATION \$
Secretary	
Mr Richard Smith (from 18 November 2002)	200,000 to 209,999
Dr Allan Hawke (until 10 November 2002) ⁽¹⁾	240,000 to 249,999
Chief of the Defence Force	
General Peter Cosgrove (from 3 July 2002)	400,000 to 409,999
Admiral Chris Barrie (to 3 July 2002)	10,000 to 19,999
Under Secretary Defence Materiel	
Mr Mick Roche	390,000 to 399,999
Vice Chief of the Defence Force	
Vice Admiral Russ Shalders (from 16 July 2002)	360,000 to 369,999
Lieutenant General Des Muller (to 15 July 2002)	90,000 to 99,999
Chief of Navy	
Vice Admiral Chris Ritchie (from 3 July 2002)	370,000 to 379,999
Vice Admiral David Shackleton (to 2 July 2002)	10,000 to 19,999
Chief of Army	
Lieutenant General Peter Leahy	280,000 to 289,999
Chief of Air Force	
Air Marshal Angus Houston	260,000 to 269,000

NOTE

1. Dr Allan Hawke continued to receive remuneration from Defence while working at the Aboriginal and Torres Strait Islander Commission (ATSIC). It is understood that the Commission will reimburse Defence in 2003-04.

STUDY OF PARLIAMENTARY PROCESS

Defence is committed to ensuring that Senior Executive Service and star ranking officers attend parliamentary principles and process training. Training was conducted during 2002-03 by the Department of the Senate through its seminar - *Parliament, Privilege and Accountability*. A videotape was produced of one of these sessions, and circulated to members of the target group who were unable to attend the seminar in person, due to their location or to other commitments. Through these means, a further 52 Senior Executive Service and military-equivalent officers participated in the seminar during 2002-03.

As at 30 June 2003, almost all officers in the target group have undertaken the seminar, the exceptions generally being those who have been recently appointed. Arrangements are currently under development to incorporate the seminar into the induction process for new appointees.

SENIOR COMMITTEES**OVERVIEW**

There were a number of achievements relating to corporate and individual accountability across Defence during the year. In August 2002, to elevate and strengthen independent review and scrutiny of investment and capability issues, a

two-phased committee process was introduced. The previous Defence Capability and Investment Committee was renamed the Defence Capability Committee. Chaired by the Vice Chief of the Defence Force, this committee considers and develops options for current and future capability. A new, more senior Defence Capability and Investment Committee, chaired by the Secretary, was formed to focus particularly on investment and to ensure consistency with Defence's strategic priorities and resourcing strategy.

In the same month, the Defence Committee revised its governance principles, clarifying its role and the accountability of its members. The other senior Defence committees subsequently revised their governance principles to align with those of the Defence Committee. Consequently, business rules for all the senior committees have been streamlined and improved.

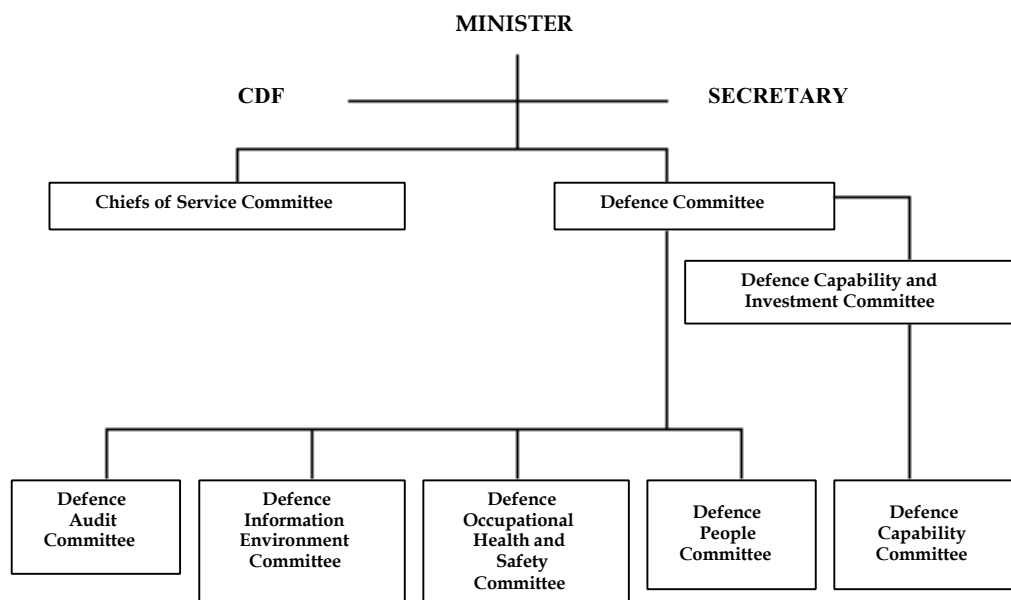
In September 2002, charters and organisational performance agreements were signed by the Secretary and the Chief of the Defence Force with each Group Head and Service Chief. These documents provide clear direction on the results expected from each individual and guidance to achieve those results. The underlying principles for the Charters were drawn from the Ministerial Directive to the Secretary and Chief of the Defence Force, which was signed by Minister Hill in November 2001. With the change of Secretary in November 2002, a new directive was drawn up and signed by the Minister in May 2003. That Directive provides clear guidance on the Government's expectations for Defence, and the manner in which results should be achieved.

The charters and organisational performance agreements will be revised to reflect the changing operating environment and to align with the May 2003 Ministerial Directive and the 2004-14 Defence Management and Finance Plan.

In January 2003, the Defence Audit Committee conducted the first evaluation of its performance. Acting on the results of the evaluation, the committee is now actively addressing perceived areas for improvement.

In June 2003, the inaugural meeting of the Defence Occupational Health and Safety Committee was held. The committee, chaired by Head Defence Personnel Executive, is responsible for reporting to the Defence Committee on the development and the implementation of the Defence Occupational Health and Safety Strategic Plan and for assessing Defence's performance against it.

The senior Defence committees are one of the key elements of Defence's governance framework. There were eight senior Defence committees in 2002-03:



DEFENCE COMMITTEE

In 2002-03, members were the Secretary (chair), Chief of the Defence Force, Under Secretary Defence Materiel, Vice Chief of the Defence Force, Chief of Navy, Chief of Army, Chief of Air Force, Chief Defence Scientist, Chief Finance Officer, Deputy Secretary Corporate Services, Deputy Secretary Intelligence and Security, Deputy Secretary Strategic Policy, Chief Information Officer and Head Defence Personnel Executive.

The Defence Committee's role is to make decisions that assist in achieving the results specified in the Ministerial Directive to the Secretary and the Chief of the Defence Force. These include successful joint conduct of military operations, the Chief of the Defence Force retaining sole command authority; provision of capability to enable our armed forces to defend Australia and its national interests; timely and responsive advice; proper stewardship of people and of financial and other resources, including operating within budgeted financial performance; and appropriate evaluation and reporting documents, including an annual Defence Management and Finance Plan, the Defence Capability Plan, and periodic strategic reviews and white paper reports, incorporating the above.

The Defence Committee gives direction and assesses performance in delivering those results, with a focus on the longer term. The Defence Committee held ten scheduled business meetings in 2002-03 (July, August, September, October, November, December, February, April, May and June) and three extraordinary meetings (July and March), including a restricted membership meeting (April). Attendance was as follows:

POSITION AND NAME	MEETINGS HELD	MEETINGS ATTENDED
Secretary	13	
(Dr Allan Hawke - until 18 October 2002)	5	3/2 ⁽¹⁾
(Mr Richard Smith - from 18 November 2002)	8	8
Chief of the Defence Force (General Peter Cosgrove)	13	11/2 ⁽¹⁾
Under Secretary Defence Materiel (Mr Michael Roche)	13	9/4 ⁽¹⁾
Vice Chief of the Defence Force (Vice Admiral Russ Shalders)	13	13
Chief of Navy (Vice Admiral Chris Ritchie)	13	13
Chief of Army (Lieutenant General Peter Leahy)	13	9/4 ⁽¹⁾
Chief of Air Force (Air Marshal Angus Houston)	13	12/1 ⁽¹⁾
Chief Defence Scientist (Dr Ian Chessell)	12	10/2 ⁽¹⁾
Chief Finance Officer (Mr Lloyd Bennett)	13	13
Deputy Secretary Corporate Services (Mr Alan Henderson)	13	13
Deputy Secretary Intelligence and Security (Mr Ron Bonighton)	12	
(acting until 5 August 2002)	1	1
(confirmed from 6 August 2002)	11	11
Deputy Secretary Strategic Policy (Mr Shane Carmody)	13	11/2 ⁽¹⁾
Chief Information Officer (Mr Patrick Hannan)	12	12
Head Defence Personnel Executive	12	
(Air Commodore Roxley McLennan - acting from 16 July to 25 August 2002)	2	2
(Rear Admiral Brian Adams - from 26 August 2002)	10	9/1 ⁽¹⁾

NOTE

1. Substitute attended in place of member.

CHIEFS OF SERVICE COMMITTEE

In 2002-03, members were the Chief of the Defence Force (chair), Secretary, Vice Chief of the Defence Force, Chief of Navy, Chief of Army and Chief of Air Force. Deputy Secretary Strategic Policy is a permanently invited member.

The Chiefs of Service Committee provides military advice to the Chief of the Defence Force to assist him in discharging his responsibilities in command of the Defence Force and as principal military adviser to the Government.

The Chiefs of Service Committee met 16 times in 2002-03 (twice in July, August, September, October, twice in November, twice in December, February, March, twice in April, May and twice in June). Attendance was as follows:

POSITION AND NAME	MEETINGS HELD	MEETINGS ATTENDED
Chief of the Defence Force (General Peter Cosgrove)	16	16
Secretary	16	
(Dr Allan Hawke - until 18 October 2002)	6	4/2 ⁽¹⁾
(Mr Richard Smith - from 18 November 2002)	10	10
Vice Chief of the Defence Force (Vice Admiral Russ Shalders)	16	14/2 ⁽¹⁾
Chief of Navy (Vice Admiral Chris Ritchie)	16	13/3 ⁽¹⁾
Chief of Army (Lieutenant General Peter Leahy)	16	12/4 ⁽¹⁾
Chief of Air Force (Air Marshal Angus Houston)	16	15/1 ⁽¹⁾
Deputy Secretary Strategic Policy (Mr Shane Carmody)	16	12/4 ⁽¹⁾

NOTE

1. Substitute attended in place of member.

DEFENCE CAPABILITY AND INVESTMENT COMMITTEE

This Committee was established in August 2002. In 2002-03, members were the Secretary (chair), Chief of the Defence Force, Under Secretary Defence Materiel, Chief of Navy, Chief of Army and Chief of Air Force.

Vice Chief of the Defence Force, Chief Defence Scientist, Chief Finance Officer and Deputy Secretary Strategic Policy attended as advisers.

The Committee's role is to strengthen independent review by seeking to ensure that resourcing, including capital investment and operating costs, is consistent with Defence's strategic priorities and resourcing strategy. It focuses on:

- the overall shape of capability/balance of resource allocation/ten year Defence Plan;
- force structure, including Service plans;
- the balance between the different organisational performance agreements;
- force disposition;
- the broad new major investment program;
- operating/capital mix; and
- other issues with a significant impact on capability.

The Defence Capability and Investment Committee met 14 times in 2002-03 (August, three times in September, October, November, January, February, March, April, three times in May and June). Attendance was as follows:

POSITION AND NAME	MEETINGS HELD	MEETINGS ATTENDED
Secretary	14	
(Dr Allan Hawke - until 18 October 2002)	5	2/2 ⁽¹⁾
(Mr Richard Smith - from 18 November 2002)	9	9
Chief of the Defence Force (General Peter Cosgrove)	14	13/1 ⁽¹⁾
Under Secretary Defence Materiel (Mr Michael Roche)	14	12/2 ⁽¹⁾
Chief of Navy (Vice Admiral Chris Ritchie)	14	14
Chief of Army (Lieutenant General Peter Leahy)	14	12/2 ⁽¹⁾
Chief of Air Force (Air Marshal Angus Houston)	14	12/2 ⁽¹⁾
Vice Chief of the Defence Force (Vice Admiral Russ Shalders)	14	11/3 ⁽¹⁾
Chief Defence Scientist (Dr Ian Chessell)	10	8/1 ⁽¹⁾
Chief Finance Officer (Mr Lloyd Bennett)	14	14
Deputy Secretary Strategic Policy (Mr Shane Carmody)	14	11/2 ⁽¹⁾

NOTE

1. Substitute attended in place of member/adviser.

DEFENCE CAPABILITY COMMITTEE

In 2002-03, members were the Vice Chief of the Defence Force (chair), Deputy Secretary Strategic Policy (deputy chair), Under Secretary Defence Materiel representative, Chief Defence Scientist, Chief Finance Officer, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, First Assistant Secretary Capability, Investment and Resources, Head Capability Systems, Head Defence Personnel Executive and Deputy Chief Information Officer.

Deputy Secretary Intelligence and Security, Deputy Secretary Corporate Services representative and Department of Finance and Administration representative attend as permanently invited members.

The role of the Committee is to consider and develop options for current and future capability. It focuses on individual major capital investment projects to ensure consistency with the Defence White Paper and the Defence Capability Plan; a whole-of-life and whole-of-capability perspective; an acceptable return on capital expenditure; there are no unmanageable strategic, technical, schedule or financial risks; and rigorous, independent scrutiny of capability, cost, schedule and risk.

The Defence Capability Committee held 15 scheduled meetings in 2002-03 (July, August, twice in September, October, November, twice in December, January, February, March, twice in April, May and June), and two restricted membership meetings (November and May). Attendance was as follows:

POSITION AND NAME	MEETINGS HELD	MEETINGS ATTENDED
Vice Chief of the Defence Force (Vice Admiral Russ Shalders)	17	17
Deputy Secretary Strategic Policy (Mr Shane Carmody)	16	7/8 ⁽¹⁾
Under Secretary Defence Materiel representatives:	16	
Rear Admiral Kevin Scarce	2	2
Dr Ian Williams	13	13
Ms Shireane McKinnie	1	1
Chief Defence Scientist (Dr Ian Chessell)	15	11/4 ⁽¹⁾
Chief Finance Officer (Mr Lloyd Bennett)	16	15/1 ⁽¹⁾
Deputy Secretary Corporate Services representative (Mr Mike Scrafton)	15	12/2 ⁽¹⁾
Deputy Secretary Intelligence and Security (Mr Ron Bonighton)	15	1
(acting until 5 August 2002)	14	8/3 ⁽¹⁾
(confirmed from 6 August 2002)		
Deputy Chief of Navy	17	
(Rear Admiral Brian Adams - until 4 August 2002)	1	1
(Rear Admiral Rowan Moffitt - from 5 August 2002)	16	12/4 ⁽¹⁾
Deputy Chief of Army (Major General Frank Roberts)	16	13/3 ⁽¹⁾
Deputy Chief of Air Force (Air Vice Marshal Chris Spence)	16	15/1 ⁽¹⁾
First Assistant Secretary Capability, Investment and Resources (Dr Ralph Neumann)	17	17
Head Capability Systems	17	
(Major General David Hurley - until 5 December 2002)	8	7/1 ⁽¹⁾
(Air Vice Marshal Kerry Clarke - from 6 December 2002)	9	4/5 ⁽¹⁾
Head Defence Personnel Executive	16	
(Air Commodore Roxley McLennan - acting from 16 July to 25 August 2002)	2	2
(Rear Admiral Brian Adams - from 26 August 2002)	14	9/4 ⁽¹⁾
Deputy Chief Information Officer (Rear Admiral Peter Clarke)	15	10/5 ⁽¹⁾
Department of Finance and Administration representative	14	14

NOTE

1. Substitute attended in place of member.

DEFENCE AUDIT COMMITTEE

In 2002-03, members were Mr Paul McGrath (chair) and Mr Will Laurie (deputy chair), both independent, external members of the committee, and Mr Mark Cunliffe, Mr Peter Dunn, Mr Frank Lewincamp, Ms Shireane McKinnie and Brigadier Mike

Silverstone. The Chief Finance Officer and Inspector-General attended as advisers. The Auditor-General, or a representative, attended as an observer. Defence members of the Defence Audit Committee attend meetings in their capacities as senior officers of Defence, not as representatives of their part of the organisation and, thus, substitutes are not permitted.

The committee is responsible for:

- reviewing the preparation and audit of the Defence financial statements and providing advice to the Secretary on the adequacy of these statements, and the adequacy of accounting policies, procedures and systems;
- approving Defence annual internal audit plans, medium term audit strategy, and evaluation programs and activity;
- reviewing internal and external audit reports and providing advice to the Secretary on action to be taken;
- monitoring, and providing advice to the Secretary on risk management policies and practices, including Defence enterprise risk management;
- reviewing the Defence fraud control plan and monitoring the implementation of Group/Service fraud control plans; and
- monitoring the conduct of ethics awareness activities within Defence.

The Defence Audit Committee held 11 scheduled business meetings in 2002-03 (July, August, September, October, November, December, February, March, April, May and June) and three extraordinary meetings (August, September and June). Attendance was as follows:

NAME	MEETINGS HELD	MEETINGS ATTENDED
Mr Paul McGrath	14	13
Mr Will Laurie	14	12
Mr Mark Cunliffe (from 2 September 2002)	11	9
Mr Peter Dunn	14	12
Mr Frank Lewincamp (until 19 August 2002)	3	2
Ms Shireane McKinnie	14	11
Brigadier Mike Silverstone (from 3 October 2002)	9	8
Mr Lloyd Bennett (Adviser)	14	13
Mr Claude Neumann (Adviser)	14	13

DEFENCE INFORMATION ENVIRONMENT COMMITTEE

In 2002-03, members were the Chief Information Officer (Chair), Chief Finance Officer, Commander Australian Theatre, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Director Information Science Laboratory, Head Capability Systems, Head Defence Personnel Executive, Head Electronic Systems, Head Information Systems, Head Management Information Systems, Deputy Chief Information Officer and Assistant Secretary Information Technology.

The Defence Information Environment Committee provides advice to the Chief Information Officer on the governance of the Defence information environment to meet Defence requirements. The role of the committee is to advise the Chief Information Officer as the coordinating capability manager for the Defence information environment, on monitoring the development and sustainment of the current information environment, and guiding the design and development of the information environment that will support future decision making in Defence, including future joint command decision-making. The policy and strategic plans approved by the Committee will inform enterprise-wide policy and planning for Defence.

The Defence Information Environment Committee held seven scheduled business meetings in 2002-03 (July, September, November, December, February, April and May). Attendance was as follows:

POSITION AND NAME	MEETINGS HELD	MEETINGS ATTENDED
Chief Information Officer (Mr Patrick Hannan)	7	7
Chief Finance Officer (Mr Lloyd Bennett)	7	3/3 ⁽¹⁾
Commander Australian Theatre (Rear Admiral Mark Bonser)	7	0/7 ⁽¹⁾
Deputy Chief of Navy (Rear Admiral Brian Adams - until 4 August 2002)	7 1	 0/1 ⁽¹⁾
(Rear Admiral Rowan Moffitt - from 5 August 2002)	6	0/6 ⁽¹⁾
Deputy Chief of Army (Major General Frank Roberts)	7	0/7 ⁽¹⁾
Deputy Chief of Air Force (Air Vice Marshal Chris Spence)	7	0/7 ⁽¹⁾
Director Information Sciences Laboratory (Mr Neil Bryans)	7	5/2 ⁽¹⁾
Head Capability Systems (Major General David Hurley - until 5 December 2002)	7 4	 0/4 ⁽¹⁾
(Air Vice Marshal Kerry Clarke - from 6 December 2002)	3	2/1 ⁽¹⁾
Head Defence Personnel Executive (Rear Admiral Brian Adams)	6	1/5 ⁽¹⁾
Head Electronic Systems (Ms Shireane McKinnie)	7	6/1 ⁽¹⁾
Head Information Systems (Mr David Kenny)	7	5/2 ⁽¹⁾
Head Management Information Systems (Mr Peter Dunn)	7	4/3 ⁽¹⁾
Deputy Chief Information Officer (Rear Admiral Peter Clarke)	7	5/2 ⁽¹⁾
Assistant Secretary Information Technology (Mr Michael Mitchell - from 13 May 2002 to 16 July 2002)	7 1	 0/1 ⁽¹⁾
(Mr Stewart Skelt - from 17 July 2002 to 25 August 2002)	0	0
(Mr Jeff Latimer - acting from 26 August 2002 to 25 September 2002)	1	1
(Ms Liz Milne - acting from 26 September 2002 to 19 January 2003)	2	2
(Mr John McCarthy - from 20 January 2003)	3	2/1 ⁽¹⁾

NOTE

1. Substitute attended in place of member.

DEFENCE OCCUPATIONAL HEALTH AND SAFETY COMMITTEE

In 2002-03, members were the Head Defence Personnel Executive (chair), Vice Chief of the Defence Force, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Head Airborne Surveillance and Control (Defence Materiel Organisation representative) and Head National Operations Division (Corporate Services and Infrastructure Group representative).

The purpose of the committee is to oversee the Defence Occupational Health and Safety Strategic Plan, assess Defence's occupational health and safety performance, monitor risks to people's wellbeing, evaluate Defence-wide compliance with occupational health and safety requirements and oversee the progression and management of Defence-wide initiatives and improvements in occupational health and safety performance.

The Defence Occupational Health and Safety Committee was established in June 2003 and met once in 2002-03. Attendance was as follows:

POSITION AND NAME	MEETINGS HELD	MEETINGS ATTENDED
Head Defence Personnel Executive (Rear Admiral Brian Adams)	1	1
Vice Chief of the Defence Force (Vice Admiral Russ Shalders)	1	1
Deputy Chief of Navy (Rear Admiral Rowan Moffitt)	1	1
Deputy Chief of Army (Major General Frank Roberts)	1	1
Deputy Chief of Air Force (Air Vice Marshal Chris Spence)	1	1
Head Airborne Surveillance and Control (Air Vice Marshal Norm Gray)	1	1
Head National Operations Division (Mr Ken Moore)	1	1

DEFENCE PEOPLE COMMITTEE

In 2002-03, members were the Head Defence Personnel Executive (chair), Vice Chief of the Defence Force, Deputy Secretary Corporate Services, Chief Finance Officer representative, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, First Assistant Secretary Personnel (known as Deputy Head Defence Personnel Executive until 25 August 2002) and Ms Noela L' Estrange, an independent, external member.

The purpose of the committee is to provide a strategic focus on, and to be an advocate for, the important place of people in supporting Defence capability. The committee supports the Defence Committee by ensuring that Defence takes a more strategic approach to people, and is responsible for providing advice, and making recommendations, on strategic people issues to the Defence Committee and Defence Capability and Investment Committee. The Committee is also responsible for recommending to the Minister Assisting the Minister for Defence the allocation, and monitoring the expenditure, of the \$100m annual provision until 2005-06, for people improvement initiatives.

Chapter One

The Defence People Committee met 12 times in 2002-03 (July, August, September, October, November, December, twice in February, March, April, May and June). Attendance was as follows:

POSITION AND NAME	MEETINGS HELD	MEETINGS ATTENDED
Head Defence Personnel Executive	12	
(Air Commodore Roxley McLennan - acting from 16 July to 25 August 2002)	1	1
(Rear Admiral Brian Adams - from 26 August 2002)	11	10
Vice Chief of the Defence Force (Vice Admiral Russ Shalders)	12	10
Deputy Secretary Corporate Services (Mr Alan Henderson)	12	11/1 ⁽¹⁾
First Assistant Secretary Capability, Investment and Resources Dr Ralph Neumann (Chief Finance Officer representative until February 2003)	8	7
First Assistant Secretary Budgets and Financial Planning Mr George Veitch (Chief Finance Officer representative from March 2003)	4	4
Deputy Chief of Navy (Rear Admiral Brian Adams - until 4 August 2002)	1	1
(Rear Admiral Rowan Moffitt - from 5 August 2002)	11	7/4 ⁽¹⁾
Deputy Chief of Army (Major General Frank Roberts)	12	9/3 ⁽¹⁾
Deputy Chief of Air Force (Air Vice Marshal Chris Spence)	12	10/2 ⁽¹⁾
Deputy Head Defence Personnel Executive Mr Felix Bleeser (acting to 25 August 2002)	2	2
First Assistant Secretary Personnel Mr Peter Sharp (from 26 August 2002)	9	7/2 ⁽¹⁾
Ms Noela L'Estrange (independent member)	12	12

NOTE

1. Substitute attended in place of member.

INTERNAL AUDIT AND RISK MANAGEMENT ARRANGEMENTS

INTERNAL AUDIT

Management Audit Branch, within the Inspector General's Division, undertook internal auditing in accord with a Defence Audit Committee-approved annual audit work plan and conducted other investigative tasks as required. This work provided managers with assurance, assisted them in performance improvement, and advised on the efficiency and effectiveness of Defence's resource management and corporate governance.

A risk-based (likelihood/consequence) approach was used to allocate internal audit resources to where they would be of most assistance. This mainly involved consideration of business and resource management risks over the medium term (three years). The medium-term analysis took account of Defence enterprise-level risks, Joint Committee of Public Accounts and Audit, Australian National Audit Office and Management Audit Branch reports, the views of Group Heads and advice from the Defence Audit Committee.

Within the medium-term framework, the annual audit work program was developed to take account of emerging risks, changed risk impacts and priorities. Throughout the year, Management Audit Branch reported against the program to the Defence Audit Committee.

ETHICS AWARENESS AND FRAUD CONTROL

Defence has a well-developed program of ethics awareness, which includes material such as videos, newsletters and a dedicated intranet site providing information and advice. During 2002-03, the Hon Danna Vale, Minister Assisting the Minister for Defence, launched a new ethics handbook for Defence, which was distributed widely throughout the organisation. Around 200 separate ethics awareness presentations were delivered to approximately 8,200 Defence personnel across Australia.

In line with the Commonwealth Fraud Control Guidelines, Defence undertook a new Defence-wide fraud risk assessment during 2002-03. This assessment provides the basis for developing the next *Defence Fraud Control Plan (No 5)* during 2003-04.

During 2002-03, 544 fraud investigations were registered within Defence and 399 investigations were completed. During the period, approximately one quarter of all outcomes from completed fraud cases involved criminal, disciplinary or administrative action. Of these, approximately half related to action under the *Defence Force Discipline Act 1982*.

The determined fraud loss for completed cases in 2002-03 was some \$1.1m and, during the year, monies awarded and recovered amounted to around \$0.8m. Over the last eight fiscal years, detected fraud in Defence has averaged an estimated \$1.9m per year, within a range of \$1.1m to \$3.1m per annum.

PORTFOLIO EVALUATIONS

PORTFOLIO EVALUATION STRATEGY

The Defence Portfolio Evaluation Strategy is promulgated as a Defence Instruction (General). In accordance with the strategy, the Defence Committee authorised a schedule of portfolio evaluations covering 2002-03 and 2003-04. In calendar year 2002, the principal evaluation topics were:

- responsibilities for doctrinal development;
- management of accrual accounting in Defence; and
- corporate governance of the Defence information environment (Phase 1).

The principal evaluation topics for calendar year 2003, in order of priority, are:

- review of Defence leave policy and administration;
- corporate governance of the Defence information environment (Phase 2); and
- adventurous training in the ADF.

Topics foreshadowed for 2004 in the *Portfolio Budget Statements 2003-04*, in order of priority, are:

- effectiveness of the Defence strategic workforce planning outcomes;
- implementation of the customer-supplier model; and
- effectiveness of the risk management framework.

SCHEDULE OF PORTFOLIO-LEVEL EVALUATIONS FOR 2002-03

The following evaluation activities were completed in 2002-03:

Corporate Governance of the Defence Information Environment (Phase 1). This evaluation, which was to determine the methodology and measures to be used in Phase 2, was completed in September 2002.

Management of Accrual Accounting in Defence. The evaluation was endorsed by the Secretary and the Chief of the Defence Force in May 2003. The report found that:

- managers are uncomfortable about making decisions based on the financial data available to them, which is perceived to be poor and, therefore, accrual accounting has had limited impact on changing management practices;
- the perceived emphasis of accrual accounting is on meeting statutory reporting requirements rather than using accounting information to assist management decision-making; and
- because Defence controls a significant investment in assets, the balance sheet should be used as a key tool to assist decision-making.

Responsibilities for Doctrinal Development. The evaluation was presented to the Secretary and the Chief of the Defence Force in July 2003 and is presently under consideration.

OUTPUT EVALUATION PROGRAM 2002-03

A rolling program of evaluation is conducted to provide the Minister for Defence with independent assurance of the effectiveness and efficiency of capability delivery by outputs and sub-outputs and that planned activities are aligned with Government and higher Defence guidance. The evaluations completed during 2002-03 were:

SUB-OUTPUT	REPORT FORWARDED TO MINISTER
Special Forces	October 2002
Maritime Patrol	October 2002
Command of Operations	November 2002
Defence Signals Directorate	December 2002
Strategic Operations	January 2003
Army Aviation	March 2003
Airlift	May 2003

ENTERPRISE RISK MANAGEMENT

Development of risk management continued under the *Defence Risk Management Implementation Plan 2002-03*. The plan seeks to strengthen the commitment to sound risk management as part of governance at all levels throughout Defence.

To support the implementation plan, an extensive communications strategy was launched in October 2002. The focus of the strategy was promulgating information on Defence risk management through chains of command/line management and involved the Secretary and the Chief of the Defence Force writing to each SES and star-ranked military officer.

In addition, each Group reviewed its strategic risk assessments in 2002-03. The risk assessments and the development of management responses were then embedded into business planning as part of the development of organisational performance agreements for each group.

The enterprise risk management framework is to be reviewed in 2003-04.

EXTERNAL SCRUTINY

PARLIAMENTARY COMMITTEES

Defence interacted with a number of parliamentary committees throughout 2002-03. This segment reports on the status of inquiries or other action by parliamentary committees in relation to Defence. The information below is correct as at 30 June 2003.

Information on parliamentary reports, inquiries and hearings can be accessed through the Australian Parliament House website at: <http://www.aph.gov.au>

JOINT STATUTORY COMMITTEES

Public Accounts and Audit

Report No. 396, October 2003 - Review of Auditor-General's Reports, 2002-03, First, Second and Third Quarters

This report considered ANAO Report No. 3, 2002-03: *Facilities Management at HMAS Cerberus*.

Defence lodged submissions and Defence officers attended a public hearing on 28 March 2003.

Report No. 396, October 2003 - Review of Auditor-General's Reports, 2002-03, First, Second and Third Quarters

This report considered ANAO Report No. 18, 2002-03: *Management of Trust Monies*, and ANAO Report No. 25, 2002-03: *Financial Statements of Commonwealth Entities for 2001-02*.

Defence lodged submissions and Defence officers attended a public hearing on 30 April 2003.

Report No. 368, May 2000 - Review of Auditor-General's Report 34, 1997-98: New Submarine Project.

Defence officers provided a brief on 28 May 2002 on an incident on board HMAS *Dechaineux* earlier in the year where a flexible hose failure caused flooding. An oral briefing was provided on 4 June 2003.

Management and Integrity of Electronic Information in the Commonwealth (current inquiry)

Defence lodged three submissions and Defence officers attended a public hearing on 16 June 2003.

Update on the Jindalee Operational Radar Network Project

A verbal brief was provided to the committee on 25 September 2002.

Public Works

Report No. 2/2002, September 2002 - RAAF Base Williamtown Redevelopment Stage 1 and Facilities for Early Airborne Warning and Control Aircraft

The project was considered by the committee at a public hearing in August 2002 and approved by Parliament on 17 September 2002. Construction is expected to be completed by the end of 2006.

Report No. 4/2003, June 2003 - ACT Multi-User Depot at HMAS Harman

The project was considered by the committee at a public hearing in May 2003 and approved by Parliament on 25 June 2003. Construction is expected to be completed by August 2004.

JOINT STANDING COMMITTEES

Foreign Affairs, Defence and Trade

Inquiry into the Suitability of the Australian Army for Peacetime, Peacekeeping and War

The Government response was tabled on 3 June 2003.

Watching Brief on the War on Terror

In July 2002, some committee members travelled to Kuwait, the Persian Gulf, Kyrgyzstan and Afghanistan to visit the ADF deployed to the international coalition against terrorism.

Review of Australia's relations with the United Nations

Defence submissions to the inquiry were lodged on 9 August and 4 October 2002.

Review of Defence's 2000-01 Annual Report

The committee tabled its report on 23 September 2002. The Government response was tabled on 27 March 2003.

Review of Defence's 2001-02 Annual Report

Defence witnesses appeared before the sub-committee on 27 February 2003. Responses to nine questions arising from the February hearing were forwarded to the committee on 2 April 2003.

Review of Australia's Relations with Indonesia

A Defence submission was lodged on 22 April 2003 and Defence witness appeared at a public hearing on 23 June 2003.

Inquiry into the Role of Maritime Strategy in Australia's Defence Policy

Defence witnesses appeared at public hearings on 25 February and 24 March 2003. A Defence submission was lodged on 12 March 2003 and supplementary submissions were lodged on 16 and 30 April 2003.

As part of the inquiry, committee members visited the Australian Defence College, Weston Creek, ACT on 3 March 2003 and the Special Air Service Regiment at HMAS Stirling, Garden Island, WA on 1 April 2003.

Inquiry into Human Rights and Good Governance Education in the Asia Pacific Region

A Defence submission was lodged on 7 May 2003.

Private Briefings

Foreign Affairs, Defence and Trade – Defence Sub-Committee

The Chief of the Defence Force and the Service Chiefs provided a series of private briefings throughout 2002. Responses to questions taken on notice during the private briefings were lodged on 3 January 2003.

Defence officers provided a private briefing on 17 June 2003 on issues concerning the use of night vision goggles.

Treaties

Review of Agreement between the Government of Australia and the Government of the United States of America concerning Security Measures for the Reciprocal Protection of Classified Information, at Canberra on 25 June 2002

Defence witnesses appeared at a public hearing on 10 October 2002.

SENATE STANDING COMMITTEES

Finance and Public Administration References Committee

Inquiry into APS Recruitment and Training

A Defence submission was lodged on 5 July 2002. Defence witnesses appeared at a public hearing on 14 August 2002.

Inquiry into the Order of the Senate for Department and Agency Contracts (amended 27 September 2001)

A Defence submission was lodged on 28 August 2002.

Inquiry into Aspects of the Veterans' Entitlement Act 1986 and the Military Compensation Scheme

Defence witnesses appeared before the committee on 16 and 23 June 2003.

Foreign Affairs, Defence and Trade Legislation Committee

2002-03 Budget Estimates Supplementary Hearing 21 November 2002

Responses to 41 questions taken on notice at the hearing were lodged with the committee on 10 February 2003.

2003-03 Additional Estimates Hearing 12 February 2003

Responses to 63 questions taken on notice at the hearing were lodged with the committee on 2 April 2003.

2003-04 Budget Estimates Hearing 4-5 June 2003

Responses to 58 questions taken on notice at the hearing were lodged with the committee on 30 July 2003.

Foreign Affairs, Defence and Trade References Committee

Inquiry into Recruitment and Retention of Australian Defence Force Personnel

The Government response was tabled on 13 May 2003.

Inquiry into Materiel Acquisition and Management in the Department of Defence

Defence witnesses appeared before the committee on 9 October, 8 and 15 November 2002 and 7 February 2003. The report of the inquiry was tabled on 27 March 2003.

Inquiry into Australia's Relationship with Papua New Guinea and Other Pacific Island Countries

A Defence submission to the inquiry was lodged on 25 July 2002.

Inquiry into the Assessment of Threats to the Security of Australians in South-East Asia

Defence witnesses appeared at a public hearing on 20 June 2003.

Regulations and Ordinances Committee

Defence Determination 2002 (Employer Support Payments)

A Defence submission was lodged on 10 September 2002.

Inquiry into the Rate of Additional Vehicle Allowance

A Defence submission was lodged on 5 December 2002.

Amendments to the Defence Force Regulations

A Defence submission was lodged on 9 May 2003.

Defence Determination 2003/3, Section 58 of the Defence Act 1903 – Logistic Officers Retention Bonus

A Defence submission was lodged on 12 May 2003.

Senate Select Committee

Certain Maritime Incident

Defence witnesses appeared at two further public hearings on 11 and 30 July 2002. Responses to 95 questions on notice were lodged with the committee on 25 June 2003 and a further 31 responses were lodged on 20 September 2003.

Parliamentary Joint Committee on ASIO, ASIS and DSD

The committee visited DSD facilities at Geraldton on 20 September 2002.

AUDITOR-GENERAL'S REPORTS

Seven Auditor-General's reports relating specifically to Defence were tabled during the year. The key findings and recommendations of each report were referred to relevant areas within Defence for implementation.

Australian National Audit Office (ANAO) reports and general information on the audit office's operations, including its audit timetable, can be accessed through the ANAO website at: <http://www.anao.gov.au>.

Audit Report No. 3, 31 July 2002 – *Facilities Management at HMAS Cerberus*

HMAS Cerberus is a Navy base situated south-east of Melbourne, Victoria. Initial recruit training and specialist category training in areas such as communications and engineering are conducted at the base. The ADF schools of catering and physical training are situated at the base, as is a major health centre for operational and training needs. The health centre and various other facilities at the base were redeveloped several years ago. In August 2001, the then Minister for Defence announced that, in response to continuing concern over facilities management at HMAS Cerberus, he had asked the ANAO to conduct an independent investigation. The ANAO agreed to review these matters. The objective of the audit was to examine facilities management issues at HMAS Cerberus with a view to clarifying those of concern and ensuring that lessons would be learned to assist Defence facilities management generally.

The ANAO made three recommendations – all of which Defence agreed or agreed with qualification.

Audit Report No. 30, 27 February 2003 – *Defence Ordnance Safety and Suitability for Service*

The Chiefs of the Navy, Army and Air Force are accountable to the Chief of the Defence Force for the way equipment is used by their Service and also account for the safety, fitness for service and environmental compliance of the equipment. The audit report dealt with the way Service Chiefs are assured of the safety and suitability for service of the ADF's ordnance systems. Ordnance systems include munitions such as missiles, shells and mines, and the auxiliary material necessary to aim, launch and guide munitions.

The ANAO made four recommendations – all of which Defence agreed in principle.

Audit Report No. 31, 5 March 2003 – *Retention of Military Personnel Follow-up Audit*

The audit followed up the ANAO's Audit Report No. 35 1999-2000, *Retention of Military Personnel*, which focused on examining whether ADF personnel management practices to retain personnel were commensurate with the cost of recruiting and training new personnel, or whether more cost-effective steps could be taken to reduce the separation rates of desirable personnel. The objective of the follow-up audit was to assess Defence's implementation of recommendations made in the original audit report and to assess the effectiveness of the recommendations in helping Defence control the flow of trained personnel from the Services.

Defence agreed with the ANAO's findings about the current implementation status of the original audit recommendations.

Audit Report No. 39, 17 April 2003 – *Navy Operational Readiness*

The audit examined the systems that the Navy uses to manage readiness: readiness organisation and management structures (as well as the interface between these

systems and Defence enabling operations); management and maintenance of operational readiness (covering personnel, collective training and other components of operational readiness); and readiness performance information processes. The objective of the audit was to provide assurance to Parliament concerning the progress that the Navy has made in the development of operational readiness management and evaluation systems and to identify areas for improvement in these systems.

The ANAO made six recommendations – all of which Defence agreed.

Audit Report No. 46, 6 June 2003 – Australian Industry Involvement Program

The audit examined Defence's management of its Australian Industry Involvement program. This is the major program through which Defence gives effect to Government policy on Australian industry. The objective of the audit was to assess the extent to which the program had achieved its two policy objectives:

- to develop and sustain strategically important capabilities in Australian industry to support ADF operations and Defence capability development; and
- to maximise Australian industry involvement in Defence's procurement of goods and services, consistent with the government procurement policy objective of achieving best value for money to the Commonwealth.

The ANAO made six recommendations – all of which Defence agreed.

Audit Report No. 51, 19 June 2003 – Defence Housing and Relocation Services

Defence has long provided housing assistance for members of the ADF and their families. In 1988, this function passed to the Defence Housing Authority, which was established to provide suitable housing to meet Defence's operational needs. In 2000, Defence and the Authority signed a services agreement valued at \$3.5b over ten years. The objective of the audit was to assess whether Defence's management of its housing and relocation services provided for ADF members met specified requirements, and to make practical recommendations for more efficient, effective and economical use of public resources provided for this purpose.

The ANAO made five recommendations – all of which Defence agreed or agreed with qualification.

Audit Report No. 56, 25 June 2003 – Management of Specialist Information System Skills

In June 2001, the Joint Committee of Public Accounts and Audit, after reviewing the ANAO's Audit Report No. 11, *Knowledge System Equipment Acquisition Projects in Defence*, commented that its major concern about Defence's ability to develop a knowledge edge with adequate coherence centred on Defence's ability to recruit, develop and retain skilled individuals needed in all parts of the Defence information environment. The committee recommended that the ANAO conduct an audit of Defence's strategies for recruiting, developing and retaining skilled information technology personnel.

The objective of the audit was to report to Parliament on the progress Defence has made, since June 2001, in implementing appropriate strategies for recruiting,

developing and retaining skilled information technology personnel. The audit focused on management of specialist information system skills and did not examine skills needed by users of information systems.

The ANAO made four recommendations – all of which Defence agreed.

Cross-Portfolio Reports

Defence also participated in, or contributed to, the following cross-portfolio Auditor-General's reports:

Audit Report No. 4 19 August 2002	<i>Audit Activity Report: January to June 2002</i>
Audit Report No. 8 18 September 2002	<i>Senate Order for Department and Agency Contracts (September 2002)</i>
Audit Report No. 10 27 November 2002	<i>Management of Trust Monies</i>
Audit Report No. 13 23 October 2002	<i>Benchmarking the Internal Audit Function Follow-up Report</i>
Audit Report No. 20 10 December 2002	<i>Employee Entitlement Support Schemes</i>
Audit Report No. 24 20 December 2002	<i>Energy Efficiency in Commonwealth Operations - Follow-up Audit</i>
Audit Report No. 27 1 January 2003	<i>Management of Commonwealth Guarantees, Warranties and Letters of Comfort</i>
Audit Report No. 29 7 February 2003	<i>Audit Activity Report: July to December 2002</i>
Audit Report No. 38 10 April 2003	<i>Referrals, Assessment and Approvals Under the Environment Protection and Biodiversity Conservation Act 1999</i>
Audit Report No. 41 7 May 2003	<i>Annual Reporting on Ecologically Sustainable Development</i>
Audit Report No. 45 6 June 2003	<i>Reporting of Financial Statements and Audit Reports in Annual Reports</i>
Audit Report No. 52 20 June 2003	<i>Absence Management in the Australian Public Service</i>
Audit Report No. 60 27 June 2003	<i>Closing the Books</i>

DEFENCE FORCE OMBUDSMAN

There were no formal reports to the Chief of the Defence Force pursuant to section 15 of the *Ombudsman Act 1976*, nor were any reports raised under sections 16, 17, or 19 of the Act relating to the operations of the ADF during the period under report.

DECISIONS OF COURTS AND TRIBUNALS

During 2002-03, there were no decisions of a court or tribunal in relation to matters handled by the Defence Legal Service which resulted in a significant change to the law.

Litigation continued in relation to common law claims for damages for personal injury against the Commonwealth by crew members of the former HMAS *Melbourne*.

Generally, the plaintiffs claimed post-traumatic stress disorder arising out of the 1964 HMAS *Melbourne*/HMAS *Voyager* collision. One claim for like injuries from an unrelated incident is currently awaiting court decisions. All continuing claims for damages are being resolved on a case-by-case basis.

The State Coroner of Western Australia conducted an extensive inquest into the death of four crew members of HMAS *Westralia* after an onboard fire on 5 May 1998. The inquest is nearing completion and the State Coroner is expected to hand down his finding in late 2003. Proceedings, initiated in the Federal Court of Australia by the Commonwealth against ADI Limited, Parker Enzed Technologies Limited, Jetrock Pty Ltd (in liquidation) and Todd Hydraulics Pty Ltd for damages relating to the fire on HMAS *Westralia*, are continuing with a confidential mediation of the claim now under way.

RESPONSIVENESS TO THE MINISTERS AND THE PARLIAMENTARY SECRETARY

An important focus for Defence is the provision of timely and quality support to the Ministers and the Parliamentary Secretary.

To ensure that the advice provided by Defence to the Ministers and Parliamentary Secretary meets their requirements, Defence continued to provide:

- dedicated staff information sessions that provide an overview of Defence's responsibilities to the Ministers, Parliamentary Secretary, Cabinet and Parliament and how these should be fulfilled;
- monthly three-day, ministerial correspondence writing courses, primarily for staff who regularly deal with ministerial or parliamentary matters; and
- ad hoc sessions to small groups across Defence covering similar areas to the information sessions and writing courses.

An innovation this year was a number of seminars dealing with the responsibilities of Ministerial Support and Defence Governance Branch. The branch covers the areas of ministerial and parliamentary liaison, statutory reporting and accountability (through parliamentary committees and published reports), Defence governance and the senior committees. The seminars were aimed at informing staff of the roles and responsibilities of the areas involved and the processes that are in place to undertake them. Feedback was positive, with staff reporting that they were extremely useful in increasing their understanding of the issues, the processes and where to seek advice.

The Defence Committee continues to receive a monthly report on Defence's performance in meeting the requirements of the Ministers and Parliamentary Secretary in terms of timeliness and quality. In addition, processes were further refined to ensure that any feedback and comments were passed both to the appropriate senior executive/star-ranked officer and to the Secretary for any necessary follow-up.

During 2002-03, Defence provided its Ministers and Parliamentary Secretary with 4,366 submissions. Defence also provided the Minister and Parliamentary Secretary with 75 briefs relating to visits to various Defence facilities across Australia and 117 meeting briefs, and responded to 66 speech requests.

Defence also received 12,820 items of correspondence during the year for the attention of the Ministers and the Parliamentary Secretary. Some 40 per cent of correspondence related to three issues: the sale of Defence-managed Commonwealth property at Point Nepean in Victoria and the former Artillery Barracks in Fremantle, Western Australia, and the possible exposure of ADF personnel to depleted uranium in weapons. The remainder covered a wide range of issues that included Defence's property disposal program, honours and awards and a number of matters relating to the war in Iraq (see the next section on the Defence Service Charter for more information on ministerial correspondence).

Defence received 267 parliamentary questions on notice, of which 106 were from the House of Representatives and 161 from the Senate. During 2002-03, 200 responses were published in Hansard – 74 for the House of Representatives and 126 for the Senate. In addition, ten questions – five each from the House of Representatives and the Senate – were transferred to other portfolios.

The average time taken to lodge responses to parliamentary questions on notice was 42 days for the House of Representatives and 33 days for the Senate.

THE DEFENCE SERVICE CHARTER

The Defence Service Charter is a short, plain-language document that sets out the quality of service customers can expect to receive from Defence. It assists Defence in focusing on the needs of its customers, the level of service it is committed to provide in its interactions with the public, and what it will do if it does not meet those goals. The underlying concept of the Service Charter is to ensure quality service to the community, though it also sets the standards that Defence people should adhere to when interacting with others within the organisation, and other agencies in our daily work.

The term 'customer' in the context of the charter refers to the people whom the organisation is seeking to serve, bearing in mind that Defence is not a traditional 'service provider' with a well-defined customer base. The charter also outlines avenues for taking up complaints, the means of commenting on the charter, and the way the charter is kept up to date.

By monitoring compliance with the charter and reviewing its requirements regularly, Defence aims to keep the charter current and challenging, so as to ensure that the quality of service provided is of the highest standard possible.

Defence reports annually to the Minister for Defence on the extent to which it is meeting the performance standards relating to the charter. The following is a full reprint of the report to the Minister.

PERFORMANCE STANDARDS

The key performance standards in the Defence Service Charter are:

- dealings with customers will be handled in a professional and courteous manner;
- privacy and confidentiality will be observed;
- responses to any questions or complaints will be open and accurate;
- all telephone inquiries will be answered promptly during normal business hours;
- if Defence cannot answer a query immediately, officers will take customer contact details and ensure that a response is provided within two working days; and
- if a customer writes to Defence, a response will be sent, in writing, within 15 working days and will contain a contact name and telephone number.

If Defence does not meet these standards, officers will explain what has happened and try to rectify the situation. Defence will not hesitate to apologise if it is wrong.

PERFORMANCE MONITORING

Groups within Defence have systems in place to track compliments and complaints. The following procedures have been put in place in relation to the type and extent of information collected:

- Monitoring and reporting, under Australian Standard 4269 on Complaints Handling, is targeted at external complaints/compliments (ie from members of the public) rather than at internal complaints. Complaints are reported only if they relate to services provided (ie the process), not to decisions made.
- Written complaints referred to first assistant secretary and military equivalents or above are recorded.
- Where a complaint is resolved either by the desk officer or within the regional office without recourse to senior levels, no information is recorded for service charter purposes.
- Information on feedback and compliments is collected by individual Groups from a variety of sources including surveys, conferences, orally to regional offices or bases, contact with customers or the general public.

PERFORMANCE IN 2002-03

During 2002-03, the Defence Service Charter was updated, providing a simplified charter that outlines the quality of service customers can expect to receive from Defence. The revised charter replaces the original Defence Service Charter issued in 1998.

AWARENESS OF CHARTER

The Defence Service Charter is available electronically on the internal and external Defence websites (see back cover for address). In 2002-03, a pamphlet and a poster were produced to reinvigorate awareness of the charter.

Copies of the new Defence Service Charter and poster were disseminated to those areas that deal directly with members of the public, including the Defence Community Organisation, Defence Force Recruiting offices, and civilian recruitment areas.

CUSTOMER FEEDBACK AND COMPLAINTS

The avenues open to customers to complain or to provide feedback, together with contact details, are stated in the charter in a step-by-step format. They include phoning or writing to the particular area concerned, the supervisor of the area, or through the Ministers or Parliamentary Secretary, or the complainant's local Member of Parliament or Senator. There is also a dedicated email address defence.servicecharter@defence.gov.au. In addition, customers can contact the Commonwealth Defence Force Ombudsman.

TABLE 1.17: COMPLAINTS MADE TO DEFENCE 1998-99 – 2002-03

1998-99 1999-2000 2000-01 2001-02 2002-03

Number of complaints	375	307	745	691	490
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The average time taken to resolve complaints varied across Defence, but most complaints were resolved within the stated performance standard of 15 working days. Groups report that, as in 2001-02, the most common complaints related to recruitment processes, honours and awards, and aircraft noise.

The most common compliments Groups received were for the overall level of Defence assistance to the civil community, especially in relation to ADF personnel attendance and displays at public events. The satisfaction rate for 2002-03, which is a measure of Defence's complaint handling procedures, was approximately 95 per cent. This is measured primarily by there being no repeat complaints.

RESPONSIVENESS TO MINISTERIAL CORRESPONDENCE

Defence placed a high priority on improving its performance in preparing material to enable the Ministers and the Parliamentary Secretary to reply to correspondence.

The increase in volume of written correspondence (an increase of 34 per cent from 2001-02), coupled with the reduction of the response time to ten working days, caused many Groups to improve their internal processes to deal with the increased workload, and led to an 82 per cent success rate in meeting the mandated deadlines. The increase in written correspondence has been driven primarily by a number of letter writing campaigns, mainly concerning the Defence property disposal program.

TABLE 1.18: PERCENTAGE OF DEPARTMENTAL RESPONSE TIMES AGAINST STANDARD REQUIREMENT OF 10 DAYS

1998-99 1999-2000 2000-01 2001-02 2002-03

Number of letters received	8,428	9,421	9,657	9,580	12,820
Average per cent of responses that met 10 working day standard requirement ⁽¹⁾	50	75	86	76	82

NOTES

1. Prior to 2002-03, the requirement was 15 days.

PAYMENT OF ACCOUNTS

Another customer service measure is that of payment of accounts. Defence's account payment benchmark is the payment of 95 per cent of all accounts within the nominated trading term, which is generally 30 days from receipt of a correctly rendered invoice and receipt of the goods and services.

During the year, a number of initiatives were taken to improve simple procurement. The initiatives included a performance management framework designed to monitor and report on processing efficiency and related issues, and improving awareness of the need to pay accounts promptly. In addition, a dedicated unit was formed to monitor and report on creditor management issues, with the aim of encouraging compliance with processing standards and making suggestions for improvements.

The accounts paid by the due date figure of 83.9 per cent was an improvement on the previous year, but still well short of Defence’s payment benchmark. Further improvements planned for more efficient transaction processing are the adoption of imaging technology and e-commerce systems for procurement and payment.

TABLE 1.19: PERCENTAGE OF ACCOUNTS PAID BY DUE DATE

FINANCIAL YEAR	NUMBER OF ACCOUNTS PAID	ACCOUNTS PAID BY DUE DATE	PERCENTAGE OF ACCOUNTS PAID BY DUE DATE
2002-03	1,223,733	1,026,383	83.9
2001-02	1,122,962	928,843	82.7
2000-01	1,068,434	837,360	78.4
1999-2000	1,126,057	924,579	82.1

CHAPTER TWO

RESULTS FOR GOVERNMENT AS DEFENCE'S CUSTOMER

PRICE TO GOVERNMENT OF DEFENCE'S OUTPUTS

- OUTPUT ONE: DEFENCE OPERATIONS**
- AUSTRALIAN DEFENCE FORCE
OPERATIONS**
- AUSTRALIAN DEFENCE FORCE
EXERCISES**
- OUTPUT TWO: NAVY CAPABILITIES**
- OUTPUT THREE: ARMY CAPABILITIES**
- OUTPUT FOUR: AIR FORCE CAPABILITIES**
- OUTPUT FIVE: STRATEGIC POLICY**
- DEFENCE COOPERATION**
- OUTPUT SIX: INTELLIGENCE**

PRICE TO GOVERNMENT OF DEFENCE'S OUTPUTS

TABLE 2.1: OVERALL OUTPUT PRICE TO GOVERNMENT⁽¹⁾

	ADJUSTED BUDGET ESTIMATE ⁽²⁾	REVISED ESTIMATE	PROJECTED RESULT ⁽³⁾	ACTUAL RESULT	VARIATION
	2002-03	2002-03	2002-03	2002-03	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Expenses					
Employees – Military	4,916,500	4,791,259	4,836,926	4,958,820	121,894
Employees – Civilian	958,144	1,131,453	1,199,282	1,235,752	36,470
Sub-total Employees	5,874,644	5,922,712	6,036,208	6,194,572	158,364
Suppliers – Non- inventory	3,809,003	3,853,425	3,671,223	4,275,196	603,973
Suppliers – Inventory	866,888	895,341	881,291	1,074,678	193,387
Sub-total Suppliers	4,675,891	4,748,766	4,552,514	5,349,874	797,360
Depreciation and amortisation	2,782,814	2,677,813	2,677,814	2,863,416	185,602
Value of assets sold				640,549	640,549
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	100,000	620,000	620,000	586,475	-33,525
Other expenses (includes borrowing cost expense and grants)	33,013	33,014	33,011	374,895	341,884
Total Operating Expenses From Ordinary Activities	13,466,362	14,002,305	13,919,547	16,009,781	2,090,234
Revenues					
Assets now recognised	-30,000	-397,542	-415,000	-866,295	-451,295
Revenue from sale of assets		-17,458		-685,537	-685,537
Other	-257,105	-305,774	-330,316	-385,368	-55,052
Total Own Source Revenues	-287,105	-720,774	-745,316	-1,937,200	-1,191,884
Price to Government	13,179,257	13,281,531	13,174,231	14,072,581	898,350

NOTES

- Figures are net of capital use charge.
- The published budget estimate figures were adjusted in the *Portfolio Additional Estimates Statements 2002-03* (see page 19) to reflect the result of an improved costing methodology that was implemented after the 2002-03 Budget.
- The projected result was the estimate that was published in the *Portfolio Budget Statements 2003-04* (see page 37).

OUTPUT ONE: DEFENCE OPERATIONS

The conduct of Defence operations was principally the responsibility of the Commander Australian Theatre, under the authority of the Chief of the Defence Force. Theatre Command, including maritime, land, air and special operations components, provided the operational-level command capability and the capacity to assess joint force preparedness.

Defence conducted a range of activities to satisfy the Government's strategic interests and objectives. These activities included the conduct of military campaigns and operations, the provision of emergency and non-emergency support to the Government and the Australian community, overseas deployments and representations, and various joint and combined exercises involving the three Services and allied or regional military forces.

Defence maintained its command capability through the Headquarters Australian Theatre and component headquarters, with the capacity and communications capability to develop and implement strategic plans and provide operational-level guidance to forces assigned to the Commander Australian Theatre under theatre command. Maritime, land and air force capabilities maintained by the three Services were combined to provide joint forces. Joint force preparedness was developed in accordance with ADF preparedness requirements and evaluated through operational outcomes and the exercise program.

PERFORMANCE SUMMARY

The Government's highest priorities were met during 2002-03, with the ADF involved in a range of operations across a wide geographic area. Significant ADF commitment for these operations was required and sustained over an extended period. This high rate of effort placed pressure upon the availability of Defence personnel and assets, and is unlikely to be relieved in the near future as the demands of the high operational and personnel tempo and competing priorities continue. Some lower priority operations and international engagement activities will remain dormant, and joint and combined exercises will continue to be reviewed and modified in response to changing priorities, world events and to meet specific training deficiencies.

Over 2002-03, ADF commitment was particularly focused upon Operations Slipper (war on terror), Bastille (deployment of forces to the Middle East), Falconer (the ADF contribution to US coalition operations in Iraq), Citadel (East Timor), Bel Isi II (Peace Monitoring Group in Bougainville) and Relex II (protecting Australia's northern borders). These commitments placed operational pressure upon a number of capabilities such as frigates and amphibious ships, strategic air transport, maritime

patrol aircraft and some specialised trade skills and personnel, particularly officers for headquarters duties.

The demands of high operational tempo, coupled with requirements for equipment upgrades and maintenance, have drawn some assets away from training functions. This has impacted upon the operational readiness of ADF elements in some warfighting skills and resulted in reduced availability of assets for some unscheduled surveillance and unscheduled or late notice response operations, international engagement and exercise activities.

ADF joint and combined exercises are regularly monitored and reviewed in the program of major service activities to coordinate ADF effort and training requirements and to carefully manage capability and personnel availability. Throughout the year, ADF preparedness and concurrency were carefully monitored. Commercial contracts were also put in place to ensure continued operational sustainment while retaining an ability to react to short notice contingencies.

Areas that came under pressure included:

- **Strategic airlift.** Concurrent and sustained high operational tempo placed pressure on the availability of aircraft for operations and exercises. To alleviate this demand and meet operational requirements, commercial charters continued to be used to support some operations and exercises.
- **Amphibious sealift.** Amphibious ships committed to operations were unavailable to conduct some scheduled training activities, resulting in a short-term reduction in some amphibious warfighting skills. A full amphibious capability is being actively pursued as operational commitments permit. Additionally, amphibious sealift was not available to support some operations and exercises but this was alleviated by commercial sealift.
- **Maritime patrol aircraft.** The combination of the use of P-3s in civil surveillance operations, the upgrade to the AP-3 configuration and the necessity to recover skills in areas other than surveillance, all affected the availability of maritime patrol aircraft assets. Some lower priority surveillance operations remained dormant or were conducted with limited patrols over 2002-03, to ensure that higher priority operational demands were met. Limited availability also affected the ability to meet some joint and combined exercise objectives as originally planned.
- **Frigates.** Concurrent operations and a high rate of activity continued to place additional demands on ships and crews, with sea-time being well above the optimum level. The lack of ability to concentrate forces for the full range of high-end warfighting training, coupled with forces operating in remote areas, affected the ability to maintain high end warfighting skills at the optimum level.
- **Hydrographic ships.** Hydrographic ships were diverted from their specialist role of hydrographic survey to support surveillance operations and relieve the commitment of frigates and patrol boats. Support to operations was maintained until March 2003, when the ships recommenced their primary role.

- **Patrol boats.** Patrol boat effort remained primarily focused on Operation Relex II, with 1,192 days expended on maritime surveillance/response of Australia's northern approaches, and 781 days achieved for the civil surveillance program. The age of the Fremantle-class patrol boats resulted in increased defects and extended periods of maintenance.
- **Strategic communications equipment.** Concurrent deployments increased the demand for strategic communications support to deployed forces. Communications capacity had to be carefully managed to ensure availability for operational requirements and to meet possible short notice contingencies.
- **Headquarters personnel.** The deployment of forces to several operational areas concurrently placed a strain on available qualified headquarters personnel. The numbers of personnel deployed on operations reduced the availability of staff officers to augment headquarters to meet the increases in operational tempo.
- **Health practitioners.** The ADF uses specialist practitioners in the surgical team to deploy on operations. The reduced availability of specialist practitioners (most of whom are Reservists with limited ability for long-term leave from employment) necessitated short-term deployments. This required careful management of available personnel supporting operations deployments and reduced the ADF's ability to concurrently deploy surgical capabilities.
- **ADF personnel and families.** The additional numbers of operational activities over a long period of time continued to place demands on ADF personnel and their families. The National Welfare Coordination Centre provided support and assistance to families during deployments and ensured that families had access to reliable information regarding deployed personnel.

While the focus remained upon high priority operational commitments, the ADF conducted other operations and activities over the year as follows:

- Operation Bali Assist provided aeromedical evacuation, logistic and personnel support for Australians and approved foreign nationals in the aftermath of the Bali bombing.
- Operation Tartan provided support to Coastwatch to track, intercept, board and apprehend the Korean-flagged merchant vessel *Pong Su*, the subject of a combined Australian Federal Police and Australian Customs Service operation.
- Emergency assistance was provided to civil firefighting for bushfires in the Australian Capital Territory, Victoria and New South Wales from October 2002 to February 2003.
- Aeromedical evacuation and search and rescue tasks were provided when necessary.
- Assistance was also provided to State authorities/agencies under Defence Assistance to the Civil Community guidelines.

CAPABILITY PERFORMANCE INFORMATION

PERFORMANCE TARGETS

COMMAND OF OPERATIONS

Commander Australian Theatre is responsible for the planning and conduct of ADF campaigns, operations and other activities as directed by the Chief of the Defence Force, with forces assigned under theatre command.

Planning includes maintenance of situational awareness, preparation of operational concepts and plans, assessment of ADF joint preparedness against the military response options that may be made available to the Government, and the development of other plans as directed by the Chief of the Defence Force. Conduct includes maintenance of situational awareness, and sustainment.

Effective command relies on clear command arrangements supported by timely and reliable communications and information systems.

PERFORMANCE TARGETS	PERFORMANCE
Australian operational concepts are developed to support ADF planning against credible contingencies.	Achieved. Ongoing development of extant and new Australian operational concepts.
The Australian Theatre operational preparedness requirement provides guidance for joint force preparedness in accordance with the Chief of the Defence Force’s direction.	Achieved. The Australian Theatre operational preparedness requirement was monitored and reported monthly.
Theatre command of ADF forces is effective and the Government’s strategic objectives for operations are achieved.	Achieved.

ADF MILITARY OPERATIONS AND EXERCISES

The ADF is required to undertake a range of military operations at Government direction to ensure the defence of Australia and Australia’s national interests. Military operations, exercises and other ADF activities contribute to the achievement of the Government’s strategic objectives, defined in the Defence White Paper as defending Australia, contributing to the security of the immediate neighbourhood and supporting wider interests. The following tables list ADF operations conducted over the year against these strategic objectives.

ADF joint and combined exercises are included in the Program of Major Service Activities. Exercise objectives include training in warfighting and related skills, confirmation of interoperability and joint capability and effective engagement with allies and regional partners.

Performance is summarised below, with additional information in the supporting tables.

PERFORMANCE TARGETS	PERFORMANCE
Quality: ADF operations meet Government direction.	Achieved. 15 current and four completed operations met Government direction in 2002-03.
Forces identified in the Australian Theatre Operational Preparedness Requirement for operational tasks maintain required preparedness levels.	Achieved. Preparedness levels were continuously monitored against the Australian Theatre Operational Preparedness Requirement.
ADF forces are effectively deployed, sustained and redeployed to Australia.	Achieved. ADF forces continued to be effectively deployed and sustained and redeployed.
The Program of Major Service Activities is reviewed regularly and modified as required.	Achieved. The Program of Major Service Activities was regularly reviewed and modified in response to changing priorities, world events and to meet identified training deficiencies.
Quantity: Number of current ADF operations	15 current ADF operations including: <ul style="list-style-type: none"> • 3 contributing to the security of the immediate neighbourhood; • 7 supporting wider interests; and • 5 peacetime national tasks.
Number of dormant ADF operations	7 dormant peacetime national task operations.
Number of completed ADF operations	4 completed ADF operations including: <ul style="list-style-type: none"> • 1 contributing to the security of the immediate neighbourhood; • 2 supporting wider interests; and • 1 peacetime national task.
Number of conducted ADF exercises	59 exercises conducted; <ul style="list-style-type: none"> • 53 achieved all required objectives; • 4 partially achieved required objectives; and • 2 substantially achieved required objectives.
Number of cancelled ADF exercises	27 cancelled exercises.
Number of ADF exercises in progress	1 exercise in progress.
Total number of exercises programmed over 2002-03	87 ADF exercises programmed in the Program of Major Service Activities.

NATIONAL SUPPORT TASKS

The ADF may be called upon to provide emergency and non-emergency assistance to the Government and the Australian community in non-combat related roles. Tasks the ADF may be requested to undertake include emergency assistance, search and rescue, disaster recovery, surveillance and security or non-emergency law enforcement roles, categorised as Defence Assistance to the Civil Community. The ADF may also be requested to undertake law enforcement related tasks where the use of force by Defence personnel may be required. These tasks are categorised as Defence Force Aid to Civilian Authorities and are authorised by the Governor-General in Council.

The ADF also contributes to the civil surveillance program, providing maritime surveillance that is tasked routinely in accordance with Government direction.

Peacetime national tasks undertaken by the ADF may include support to other Government departments/agencies in providing security of the Australian coastline from illegal immigration, smuggling, quarantine evasion and other intrusions to Australian sovereignty, counter-measures (including chemical, biological, radiological responses) and counter-terrorism responses, search and rescue and natural disaster relief.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality: The ADF contribution to peacetime national tasks meets Government direction.</p>	<p>Achieved. Five current ADF operations and one completed operation met Government direction for peacetime national tasks in 2002-03. There are currently seven dormant ADF peacetime national task operations, which are likely to remain dormant due to the high operational tempo. The ADF met all Government priorities for peacetime national tasks in 2002-03.</p>
<p>Forces identified in the Australian Theatre Operational Preparedness Requirement for Defence Assistance to the Civil Community, Defence Force Aid to Civilian Authorities and search and rescue, maintain required preparedness levels.</p>	<p>Achieved. Preparedness levels were continuously monitored against the Australian Theatre Operational Preparedness Requirement.</p>
<p>ADF forces are effectively deployed, sustained and redeployed.</p>	<p>Achieved. ADF forces continued to be effectively deployed, sustained and redeployed.</p>
<p>The ADF response to requests for search and rescue and emergency assistance tasks are effective.</p>	<p>Achieved.</p>

<p>ADF support to the civil surveillance program, in consultation with Coastwatch, was provided at the following resource levels:</p>	<p>Achieved. ADF support to the civil surveillance program was conducted at a lower rate of effort due to priority of effort being focused on Operation Relex II. Some patrols in support of Operation Relex II were conducted in the civil surveillance program area of operation and met both requirements. The rate of effort for these activities over 2002-03 was:</p>
<ul style="list-style-type: none"> • 250 flying hours of aerial surveillance provided by P-3C aircraft. • 1,800 Fremantle-class patrol boats days. 	<ul style="list-style-type: none"> • 106 P-3 flying hours in support of civil surveillance program and 2,530 P-3 flying hours in support of Operation Relex II. A total of 2,636 P-3 flying hours. • 781 Fremantle-class patrol boat days in support of civil surveillance program and 1,192 Fremantle-class patrol boat days in support of Operation Relex II. A total of 1,973 Fremantle-class patrol boat days. <p>These figures are similar to the rate of effort achieved in 2001-02, which was influenced by Operation Relex II.</p>
<p>The ADF continues to conduct minor emergency and non-emergency assistance tasks from local military resources within guidelines.</p>	<p>Achieved.</p>
<p>National support tasks undertaken by the ADF as significant emergency assistance, public events of significance and non-emergency law enforcement are effectively undertaken and reported.</p>	<p>Achieved.</p>
<p>National support tasks undertaken by the ADF as Defence Force Aid to Civilian Authorities are effective.</p>	<p>Achieved. The ADF continued to provide consequence management (biological and radiological) and counter-terrorism capabilities.</p>
<p>Quantity: Defence Assistance to the Civil Community:</p>	<p>Tasks were completed under the following categories⁽¹⁾:</p>
<ul style="list-style-type: none"> • Local emergency assistance. • General emergency assistance. 	<p>Category 1: The ADF were actively involved in the local community and provided local emergency assistance within resources.</p> <p>Category 2: 12</p>

<ul style="list-style-type: none"> • Civil emergency or disaster recovery. 	Category 3: 1
<ul style="list-style-type: none"> • General non-emergency assistance. 	Category 4: The ADF supported 16 public events of significance during the year as approved by Government.
<ul style="list-style-type: none"> • Minor non-emergency assistance. 	Category 5: The ADF provided non-emergency assistance within local resources.
Non-emergency law enforcement related tasks.	Category 6: 7
Defence Force Aid to Civilian Authorities.	There were no requests for Defence Force Aid to Civilian Authorities.
Search and rescue tasks undertaken involving ADF assistance.	Nine search and rescue tasks were undertaken.
Specified Army/Aboriginal and Torres Strait Islander Commission Community Assistance Program (AACAP) milestones were met.	<p>The Army coordinate and manage the AACAP. AACAP 2002 was the largest project completed to date. The project consisted of \$11.7m of works in seven communities, centred on the Beagle Bay and Lombadina/Djarindjin communities on the Dampier Peninsula, and Pandanas Park (South of Derby WA). The project was managed by 19 Chief Engineer Works, with a significant proportion of the scope of works constructed by 21 Construction Squadron and 23 Support Squadron of 1 Combat Engineer Regiment. More than 250 personnel were deployed to the region during 2002 for an average period of four months. Army, Navy and Air Force strategic lift assets were employed in the deployment and redeployment of the engineer units.</p> <p>AACAP 2003 is currently under way on Palm Island, North Queensland, with 17 Construction Squadron and 3 Combat Engineer Regiment being the primary Army construction assets deployed. The project budget for AACAP 2003 is \$8.38m, excluding Army's contribution. The scope of works includes:</p> <ul style="list-style-type: none"> • 21 new houses (seven by 17 Construction Squadron, 14 by civil contractors); • upgraded island access roads (17 Construction Squadron and 3 Combat Engineer Regiment); • road repair and street lighting (civil contractors); • repairs to the effluent irrigation system and fencing;

- renovations to the aged respite centre and general access in the community for disabled community members;
 - Certificate 1 in General Construction training for 25 Palm Island trainees, contributing to the Queensland Government's Community Renewal Program;
 - training in construction and health care, as well as education and informal training in a variety of vocational skills; and
 - medical, dental, veterinary and environmental health support.
-

NOTE

1. Defence Assistance to the Civil Community comprises six categories:

Counter Disaster and Emergency Assistance

Category 1. Emergency assistance for a specific task provided by a local commander or administrator, from within his or her own resources, in localised emergency situations when immediate action is necessary to save human life, alleviate suffering, prevent extensive loss of animal life or prevent widespread loss or damage to property.

Category 2. Emergency assistance in a more extensive or continuing disaster where action is necessary to save human life or alleviate suffering, prevent extensive loss of animal life or prevent loss or damage to property and when state or territory resources are inadequate.

Category 3. Assistance associated with a civil emergency or disaster recovery, which is not directly related to the saving of life or property.

Non-emergency Assistance

Category 4. Non-emergency assistance provided to other government departments or authorities, to the states or territories, local government or other authorities or organisations, commercial enterprises, non-profit organisations or individuals or bodies in the general community.

Category 5. Non-emergency assistance of a minor nature, excluding flying tasks, provided to local organisations and which is within the capacity of a local commander or administrator's resources and authority.

Category 6. Support to civil authorities in the performance of non-emergency law enforcement related tasks where there is no likelihood that Defence personnel will be required to use force.

PRICE TO GOVERNMENT

TABLE 2.2: PRICE OF OUTPUT ONE: DEFENCE OPERATIONS

	ADJUSTED BUDGET ESTIMATE	REVISED ESTIMATE	PROJECTED RESULT	ACTUAL RESULT	VARIATION
	2002-03	2002-03	2002-03	2002-03	
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Expenses					
Employees – military	236,851	228,557	159,410	309,204	149,794
Employees – civilian	77,339	82,602	82,567	69,103	-13,464
Sub-total Employees	314,190	311,159	241,976	378,307	136,331
Suppliers – non-inventory	261,543	236,329	231,564	423,828	192,264
Suppliers – inventory	98,321	129,958	90,276	96,314	6,038
Sub-total Suppliers	359,863	366,287	321,839	520,142	198,303
Depreciation and amortisation	65,599	35,687	30,720	66,251	35,531
Value of assets sold				18,275	18,275
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	8,032	15,259	23,027	36,702	13,675
Other expenses (includes borrowing cost expense and grants)	749	738	736	22,673	21,937
Total Operating Expenses from Ordinary Activities	748,433	729,130	618,298	1,042,350	424,052
Revenues					
Assets now recognised	2,216	-22,367	-23,743	-45,141	-21,398
Revenue from sale of assets		-494		-22,096	-22,096
Other revenue	-36,948	-37,002	-48,373	-106,000	-57,627
Total Own Source Revenues	-34,733	-59,863	-72,116	-173,237	-101,121
Price to Government for Output One	713,700	669,267	546,183	869,113	322,930

EXPLANATION OF SIGNIFICANT VARIATION

The overall price of Output One was \$323m higher than the 2002-03 projected result, representing an increase of 59 per cent. This overall result reflects the high level of operational tempo with net additional costs for current operations attributed to Output One. The major variations were due to:

- a net increase in military employee expenses (+\$150m) attributed to Output One associated with a higher level of operational involvement of the ADF, including Operation Bastille/Falconer, together with a refinement of attribution rules;
- a decrease in civilian employee expenses (-\$13m) due to a variation in the number of civilian staff attributed to Output One by Defence Groups;
- an increase in suppliers non-inventory (+\$192m) and suppliers inventory (+\$6m) expenses due to:
 - the need to meet logistic and operational requirements, including Operation Bastille/Falconer which was partially funded out of Defence's cash reserves pending reimbursement in 2003-04 (+\$175m);
 - a change in the accounting treatment between the capital and operating mix in the major capital equipment program (+\$16m); and
 - an accounting adjustment due to a correction of data reported in 2001-02 (+\$1m);
- a net increase in depreciation expenses (+\$36m) due to a refinement of attribution rules to reflect a move from a generic to a more output-specific attribution of costs;
- an increase in the value of assets sold (+\$18m) due to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds;
- a net increase in write down of assets expenses (+\$14m) due to ongoing work to refine Defence's asset holdings and valuations;
- an increase in other expenses (+\$22m) due to the recognition of Defence's potential liability for compensation claims arising from asbestos exposure that was identified in a recent whole-of-government actuarial report;
- an increase in assets now recognised revenue (-\$21m) due to inventory price adjustments and other variations predominantly due to the booking of the SDSS to ROMAN reconciliation;
- an increase in revenue from sale of assets (-\$22m) due predominantly to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds (-\$18m); and
- an increase in other revenue (-\$58m) due to a variation in the revenue attributed to Output One by Defence Groups, which has been corrected for future years.

AUSTRALIAN DEFENCE FORCE OPERATIONS

The following tables list ADF operations conducted in 2002-03, against the Government's strategic objectives contributing to the security of the immediate neighbourhood, supporting the wider interests and peacetime national tasks.

TABLE 2.3: CONTRIBUTING TO THE SECURITY OF THE IMMEDIATE NEIGHBOURHOOD

OPERATION	OBJECTIVE AND STATUS
Bali Assist October 2002 – November 2002 <u>Forces</u> ADF	<p>Objective: To provide aeromedical evacuation and logistic and personal support for Australian and approved foreign nationals following the bombings in Bali.</p> <p>Status: Ceased on 8 November 2002.</p> <p>Contribution: The ADF conducted five aeromedical evacuation missions from Bali to Darwin and four aeromedical evacuation missions from Darwin to other Australian destinations. ADF personnel were provided for disaster victim identification and two psychological support teams and professional linguists also provided assistance.</p>
Citadel May 2002 – continuing <u>Forces</u> ADF	<p>Objective: To contribute to the United Nations Mission of Support in East Timor (UNMISSET).</p> <p>Status: Current.</p> <p>Contribution: Support to UNMISSET continued, with approximately 990 personnel, helicopters and a health facility deployed. It is planned to reduce the ADF contribution over the latter half of 2003, in line with United Nations planning to cease operations in May 2004.</p>
Bel Isi II April 1998 – August 2003 <u>Forces</u> ADF	<p>Objective: To support the United Nations Peace Monitoring Group to monitor and report on the maintenance of the cease-fire in Bougainville by contributing specialist medical, logistic, communications and transport capabilities.</p> <p>Status: Ceased on 26 August 2003.</p> <p>Contribution: The ADF provided support to the United Nations Peace Monitoring Group in Bougainville. Support included 35 ADF personnel and a RAN landing craft supported by a weekly RAAF C-130 air logistic support service and commercial shipping from Townsville. The Peace Monitoring Group in Bougainville ceased operations on 30 June 2003. Operation Bel Isi II ceased on 26 August 2003 following completion of the hand-over to the civilian Bougainville Transition Team.</p>

OPERATION	OBJECTIVE AND STATUS
Gateway 1981 – continuing <u>Forces</u> Air Force	Objective: To conduct northern Indian Ocean and South China Sea maritime surveillance patrols. Status: Current. Contribution: Operation Gateway continued to be conducted at a reduced rate of effort due to assets being assigned to Operations Relex II and Slipper/Falconer, and the AP-3 aircraft upgrade program.

SUPPORTING WIDER INTERESTS

The ADF was involved with and continues to contribute to international coalitions of forces, beyond the immediate neighbourhood. These operations ranged from peacekeeping to high-intensity conflict.

TABLE 2.4: SUPPORTING WIDER INTERESTS

OPERATION	OBJECTIVE AND STATUS
Palate April 2003 - continuing <u>Forces</u> Army	Objective: To contribute to the United Nations assistance mission in Afghanistan. Status: Current. Contribution: One military member is currently deployed to the United Nations assistance mission. This contribution is expected to cease in 2004.
Falconer March 2003 – July 2003 <u>Forces</u> ADF	Objective: To contribute to the United States-led coalition operation against Iraq. Status: Ceased on 24 July - Operation Falconer transitioned to Operation Catalyst. Contribution: The ADF contribution included: <ul style="list-style-type: none"> • Australian National Headquarters element; • a Special Operations element; • a maritime element, including two frigates, an amphibious landing ship, a clearance diving team and two P-3 maritime patrol aircraft; and • an aviation element, including 14 F/A-18 aircraft, two C-130 aircraft and three Chinook heavy lift helicopters. ADF operations in Iraq transitioned to assisting in the rehabilitation of Iraq and the removal of the Iraqi weapons of mass destruction threat under Operation Catalyst, which commenced on 16 July 2003.

Bastille ⁽¹⁾ January 2003 – March 2003 <u>Forces</u> ADF	Objective: The pre-deployment to the Middle East area of operations in support of potential future operations. Status: Ceased on 21 March 2003. Contribution: The ADF deployment to the Middle East area of operations, in support of future operations included: <ul style="list-style-type: none">• an Australian National Headquarters element;• a Special Operations element;• a maritime element, including two frigates, an amphibious landing ship, a clearance diving team and two P-3 maritime patrol aircraft; and• an aviation element, including 14 F/A-18 aircraft, two C-130 aircraft and three Chinook heavy lift helicopters.
Husky January 2001 – February 2003 <u>Forces</u> Army	Objective: To contribute effectively to the nation-building efforts in Sierra Leone via the International Military Advisory and Training Team (IMATT). Status: Ceased on 28 February 2003. Contribution: The ADF contributed two personnel to IMATT to train and advise the Sierra Leone Armed Forces.
Slipper October 2001 – continuing <u>Forces</u> ADF	Objective: To contribute to the United States-led operation against international terrorism. Status: Current. Contribution: The ADF contribution deployed to the Middle East area of operations included: <ul style="list-style-type: none">• a Special Forces element deployed to Afghanistan;• a B707 refueller aircraft based at Manas in Kyrgyzstan;• an Australian National Headquarters element; and• a maritime element including two frigates, a clearance diving detachment and two P-3 maritime patrol aircraft. Forces deployed under Operation Slipper also formed part of the Operation Falconer.
Pomelo January 2001 – continuing <u>Forces</u> Army	Objective: To contribute to United Nations peacekeeping efforts in Africa as part of the United Nations Mission in Ethiopia/Eritrea. Status: Current. Contribution: Two military personnel continue to contribute to United Nations peacekeeping efforts. This contribution is expected to cease in 2004.
Osier March 1997 – continuing <u>Forces</u> Army and Air Force	Objective: To deploy ADF personnel as part of the Stabilisation Force in Bosnia-Herzegovina and Croatia, and the Kosovo Force in Kosovo. In both cases, personnel serve as individuals attached to United Kingdom forces. Status: Current. Contribution: Eight military personnel are currently deployed in Bosnia-Herzegovina with the Multi National Division South West and Kosovo Force in specialist appointments.

<p>Mazurka⁽²⁾ September 1992 – continuing <u>Forces</u> ADF</p>	<p>Objective: To provide personnel to the Multinational Force and Observers to monitor the security arrangements in the Sinai.</p> <p>Status: Current.</p> <p>Contribution: A contribution of 25 military personnel to the Multinational Force and Observers continue to monitor security arrangements.</p>
<p>Paladin June 1956 - continuing <u>Forces</u> Army</p>	<p>Objective: To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervises, observes and reports on the various cease-fire arrangements, truces and peace treaties that have been negotiated between Israel and neighbouring Arab nations since 1948.</p> <p>Status: Current.</p> <p>Contribution: Eleven military observers are currently deployed with the United Nations Truce Supervisory Organisation.</p>

NOTES

1. Operation Falconer replaced Operation Bastille, which involved the pre-deployment of forces to the Middle East, with commencement of hostilities in Iraq.
2. Operation Mazurka was erroneously omitted from the *Defence Annual Report 2001-02*.

PEACETIME NATIONAL TASKS

The ADF was called upon to undertake a number of regular and occasional tasks in support of national interests over 2002-03. These included specific and ongoing commitments to coastal surveillance, support to the Department of Immigration, Multicultural and Indigenous Affairs and support to the Australia Customs Service.

TABLE 2.5: PEACETIME NATIONAL TASKS⁽¹⁾

OPERATION	OBJECTIVE AND STATUS
<p>Tartan April 2003 <u>Forces</u> ADF</p>	<p>Objective: To provide ADF support to Coastwatch to track, intercept, board and apprehend the merchant vessel <i>Pong Su</i> which was the subject of a combined Australian Federal Police and Australian Customs Service drug enforcement operation.</p> <p>Status: Ceased on 20 April 2003.</p> <p>Contribution: The ADF provided C-130 and P-3 aircraft for aerial surveillance, one Anzac-class frigate (HMAS <i>Stuart</i>), Special Forces, a RAN clearance diving element and two RAN helicopters in support of Coastwatch to successfully apprehend the <i>Pong Su</i> off the coast of NSW.</p>

Relex II March 2002 - continuing <u>Forces</u> ADF	Objective: To conduct air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals. Status: Current. Contribution: The ADF continued to provide support to the whole-of-Government effort to deter unauthorised arrivals by sea in Australia's north west approaches. ADF support included one frigate, one amphibious ship, two P-3 maritime patrol aircraft, up to six Fremantle-class patrol boats and up to three Army transit security elements.
Celesta August 2001 - continuing <u>Forces</u> ADF	Objective: To conduct surface fisheries patrols in the Heard Island-McDonald Island Exclusive Economic Zone. Status: Dormant. Contribution: Operation Celesta scheduled patrols were not conducted in 2002-03.
Gaberdine August 2001 - continuing <u>Forces</u> ADF	Objective: To provide support to the Department of Immigration, Multicultural and Indigenous Affairs to manage any increase in unauthorised boat arrivals. Status: Current. Contribution: The ADF provided logistic and transportation support to the Department of Immigration, Multicultural and Indigenous Affairs, including tents, construction and facilities. One C-130 aircraft and a medical team were provided in September 2002 to transport approximately forty unauthorised arrivals from Manus Island in Papua New Guinea, to Nauru.
Mistral 1998 - continuing <u>Forces</u> Navy and Air Force	Objective: To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by contributing to the Australian Fisheries Management Authority's Southern Ocean fisheries patrols and the overall situational awareness. Status: Current. Contribution: This is the overarching operation covering surveillance of the Southern Ocean.
Cranberry June 1997 - continuing <u>Forces</u> ADF	Objective: To coordinate military intelligence and surveillance in northern Australia. Status: Current. Contribution: Surveillance continued to be conducted using a range of ADF assets including Fremantle-class patrol boats, P-3 maritime patrol aircraft and Regional Force Surveillance Units.

Prowler 1996 – continuing <u>Forces</u> Navy and Army	Objective: To collect military geographic information in northern Australia. Status: Dormant. Contribution: This operation is being reviewed to incorporate it into the Australian Theatre Military Geographic Information Plan.
Beachcomber ⁽²⁾ 1996 – continuing <u>Forces</u> Navy and Army	Objective: To collect beach information in Australia for operational planning. Status: Dormant. Contribution: This operation is being reviewed with a view to incorporating it into the Theatre Military Geographic Information Plan.
Osteal 1995 – continuing <u>Forces</u> Navy and Air Force	Objective: To conduct Coral Sea maritime surveillance patrols. Status: Dormant. Contribution: This operation is being reviewed to incorporate it into the Australian Theatre Surveillance Plan.
Mellin 1995 – continuing <u>Forces</u> Navy and Air Force	Objective: To contribute to Torres Strait and Timor Gap maritime surveillance patrols. Status: Dormant. Contribution: This operation is being reviewed to incorporate it into the Australian Theatre Surveillance Plan.
Solania 1988 – continuing <u>Forces</u> Navy and Air Force	Objective: To conduct South West Pacific maritime surveillance patrols. Status: Dormant. Contribution: This operation remained in abeyance due to higher operational commitments.
Estes 1980 – continuing <u>Forces</u> Navy	Objective: To conduct surface patrols in Bass Strait. Status: Current. Contribution: This operation is being reviewed to incorporate it into the Australian Theatre Surveillance Plan.

NOTES

1. Surveillance operations are conducted when required subject to asset availability. The level and type of forces assigned to the various surveillance operations will be adjusted in accordance with national surveillance priorities. The surveillance operations in Australia's north western maritime approaches have been subsumed by Operation Relix II for the duration of that operation.
2. Operation Beachcomber commencement date was erroneously omitted in the *Portfolio Budget Statements 2002-03*.

AUSTRALIAN DEFENCE FORCE EXERCISES

TABLE 2.6: ADF JOINT EXERCISES⁽¹⁾

EXERCISE	FORCES	OBJECTIVE AND PERFORMANCE
Vital Prospect 03 June 2003 <i>Conducted</i>	DJFHQ, Navy, Army, Air Force	Objective: To practise the Deployable Joint Force Headquarters staff in the methods, procedures, planning and conduct of joint operations through participation in a command post exercise. Performance: Achieved. The exercise was conducted successfully, further developing staff in the conduct of the joint military appreciation process.
Northern Shield May 2003 <i>Cancelled</i>	Navy, Army, Air Force	Objective: To exercise Headquarters Northern Command and the integrated Operational Coordination Committee in the joint planning and conduct of operations within the Northern Command area of operations. Performance: Not Achieved. The exercise was cancelled due to operational commitments.
Oprex 01/03 ⁽²⁾ May 2003 <i>Conducted</i>	Army, Air Force	Objective: To practise and evaluate ADF operational and tactical level response arrangements for the provision of Defence Force Aid to Civilian Authorities under the National Anti-Terrorist Plan. Performance: Achieved. This exercise practised and confirmed ADF response arrangements under the National Anti-Terrorist Plan.
Sea Eagle 03 ⁽²⁾ March 2003 <i>Conducted</i>	Navy, Army	Objective: To develop amphibious core skills by conducting a basic joint amphibious exercise involving major fleet units, landing craft, aviation assets, primary casualty reception elements, and landing force elements and to prepare the Amphibious Warfare Group for the joint and combined Exercise Crocodile 03 in September 2003. Performance: Achieved. The exercise was conducted successfully, developing Amphibious Warfare Group core skills.
Squadex 03-1 March 2003 <i>Conducted</i>	Navy, Army	Objective: To maintain core maritime and land force elements of the Amphibious Force Element Group by conducting a basic amphibious work-up, embarkation and disembarkation procedures and practising the control of watercraft and helicopters for basic assault. Performance: Achieved. The exercise provided training as the work-up to Exercise Sea Eagle 03.

EXERCISE	FORCES	OBJECTIVE AND PERFORMANCE
Cressida II ⁽²⁾ March 2003 <i>Conducted</i>	Head- quarters Australian Theatre, Naval, Land, Air and Special Operations components	Objective: To test and validate command and staff procedures of Headquarters Australian Theatre and Component headquarters in the full range of procedures to be taken during an incident involving fatal casualties and the notification of casualties. Performance: Achieved. The exercise enhanced the preparedness of staff in the conduct of operations.
Sea Snake 03 February – June 2003 <i>Cancelled</i>	Army, Air Force	Objective: To evaluate the preparedness of high-readiness elements and selected air elements by practising the command and control of joint forces deployed in a simulated offshore environment through the planning and execution of evacuation operations. Performance: Not Achieved. The exercise was cancelled due to operational commitments.
Vital Launch 03 February 2003 <i>Conducted</i>	Navy, Army, Air Force and Special Operations	Objective: To practise Deployable Joint Force Headquarters and component staff in the methods, procedures, planning and conduct of joint and combined operations through participation in the joint military appreciation process. Performance: Achieved. Maritime and air component staff integrated successfully with a Joint Task Force Headquarters. Comprehensive testing in the planning and conduct of maritime operations in a joint environment was achieved.
Minor War Vessel Concentration 03 February 2003 <i>Conducted</i>	Navy, Army	Objective: To ensure that the patrol boat, hydrographic and amphibious (minor war vessel) Force Element Groups maintain the minimum level of capability by undertaking high-intensity collective harbour and sea training and exercising Special Forces insertion techniques. Performance: Achieved. The exercise provided an excellent opportunity for junior officer continuation training. Special Forces exercises also provided scope for developing new skills and maintaining the minimum level of capability for Fremantle-class patrol boats.

EXERCISE	FORCES	OBJECTIVE AND PERFORMANCE
Tendi Walk ⁽²⁾ January – February 2003 <i>Conducted</i>	Head quarters Australian Theatre, Naval, Land, Air and Special Operations components	Objective: Command post exercise to practise Headquarters Australian Theatre and component staff in planning for joint operations. Performance: Achieved. Personnel successfully practised planning for joint operations.
Red Snake 02 September 2002 <i>Cancelled</i>	Navy, Army, Air Force	Objective: To evaluate commando capabilities by undertaking a strike exercise employing air and sea insertion techniques. Performance: Not Achieved. The exercise was cancelled. Commando capabilities were successfully evaluated in Exercise Swift Eagle 02.
Oprex Sun 02-2 August 2002 <i>Conducted</i>	Navy, Army, Air Force	Objective: To evaluate the ADF response arrangements for the provision of Defence Force Aid to Civilian Authorities and Defence Assistance to the Civil Community under the National Anti-Terrorist Plan by practising procedures in response to a terrorist incident. Performance: Achieved. ADF procedures and response arrangements under the National Anti-Terrorist Plan were confirmed.
Platypus Moon 02 July 2002 <i>Cancelled</i>	Navy, Army	Objective: To develop and practise launch and recovery techniques from submarines for Special Forces operations. Performance: Not Achieved. The exercise was cancelled due to the unavailability of amphibious assets. This capability will be practised in 2003-04.

NOTES

1. Exercise Day Anchor 02 was erroneously reported in the *Portfolio Budget Statements 2002-03* and the *Portfolio Additional Estimates Statements 2002-03* as being conducted in June – July 2002. The exercise was conducted in February 2002. The exercise was erroneously omitted from the *Defence Annual Report 2001-02*.
2. These exercises were erroneously omitted from the *Portfolio Budget Statements 2002-03*.

TABLE 2.7: COMBINED ADF/UNITED STATES EXERCISES

EXERCISE	AUSTRALIAN FORCES	OBJECTIVE
Gold Eagle 02 June - July 2002 <i>Conducted</i>	Army	Objective: To further develop interoperability between the Australian Army and the United States Marine Corps by conducting a field training or amphibious exercise that provides familiarisation training in capabilities, equipment and facilities not available in Australia and to gain a working knowledge of the United States Marine Corps' operational, logistic and administrative procedures. Performance: Achieved. The exercise was conducted as part of Exercise Rimpac 02.
Southern Frontier 2002 June - August 2002 <i>Conducted</i>	Air Force	Objective: To enhance and maintain a close relationship with the United States Marine Corps by hosting a United States Marine Corps Flying Units training exercise at RAAF Tindal and RAAF Darwin bases. Performance: Achieved. The exercise was successfully conducted.
Pacific Reserve 02 July 2002 <i>Conducted</i>	Army Reserve	Objective: To further develop interoperability between the Australian Army Reserve and the United States Army Reserve by conducting a field training exercise that provides familiarisation training in capabilities, equipment and facilities not available in Australia, and to gain a working knowledge of the United States Army Reserve operational, logistic and administrative procedures. Performance: Achieved. Interoperability between the Australian Army Reserve and the United States Army Reserve was developed and tested.
Pacific Bond 02 July - August 2002 <i>Conducted</i>	Army	Objective: To further develop non-infantry arms corps interoperability between the Australian and United States armies by undertaking familiarisation training in capabilities, equipment and facilities not available in Australia, and to gain a working knowledge of United States Army operational, logistic and administrative procedures. Performance: Achieved. The exercise was an excellent opportunity to increase interoperability across non-infantry arms corps.

Lungfish 02 August 2002	Navy	<p>Objective: To develop and practise doctrine and tactics for combined RAN and United States Navy submarine operations by exercising operating procedures within an anti-submarine warfare environment.</p> <p>Performance: Achieved. Successful maritime interaction was achieved and doctrine and tactics for combined maritime operations were practised and validated.</p>
<i>Conducted</i>		
Red Flag/Green Flag August - September 2002	Air Force	<p>Objective: To enhance interoperability between Australian and United States forces by conducting a coalition joint air combat exercise in a hostile anti-aircraft environment.</p> <p>Performance: Achieved. Interoperability between Australian and United States forces was enhanced and valuable training was gained.</p>
<i>Conducted</i>		
Extendex 02-4 September 2002	Air Force	<p>Objective: To enhance interoperability between the RAAF and United States Navy by conducting anti-submarine warfare and anti-submarine surveillance training against a United States Navy submarine.</p> <p>Performance: Achieved. Successful maritime interaction was achieved through this exercise and valuable anti-submarine warfare and anti submarine surveillance training was gained.</p>
<i>Conducted</i>		
Extendex 03-1 October - December 2002	Air Force	<p>Objective: To enhance interoperability between the RAAF and United States Navy by conducting anti-submarine warfare and anti-submarine surveillance training against a United States Navy submarine.</p> <p>Performance: Not Achieved. The exercise was cancelled due to operational commitments.</p>
<i>Cancelled</i>		
Dugong 02 November 2002	Navy	<p>Objective: To maintain Mine Counter Measures Force Element Group proficiency, standards and safety in all core mariner and mine warfare areas by conducting a combined mine counter-measures diving and explosive ordnance disposal procedures exercise.</p> <p>Performance: Achieved. The exercise was conducted successfully and core mariner and mine warfare skills were validated.</p>
<i>Conducted</i>		
Extendex 03-2 January - March 2003	Air Force	<p>Objective: To enhance interoperability with RAAF and United States Navy by conducting anti-submarine warfare and anti-submarine surveillance training against a United States Navy submarine.</p> <p>Performance: Not Achieved. The exercise was cancelled due to operational commitments.</p>
<i>Cancelled</i>		

Emu Moon 03 ⁽¹⁾ March – April 2003	Army, Air Force	<p>Objective: To practise Special Forces insertion, re-supply and extraction by conducting parachuting and air landing operations.</p> <p>Performance: Achieved. Currency in airborne capability for available Special Forces personnel was achieved. Additional training will be conducted in late 2003 for personnel who have returned from operations.</p>
<i>Conducted</i>		
Star Eagle 03 April - May 2003	Army	<p>Objective: To enhance interoperability between the Australian and United States armies through the commencement of an annual engagement exercise between 4th Battalion, Royal Australian Regiment and the United States 75 Ranger Regiment.</p> <p>Performance: Not Achieved. The exercise was cancelled due to the unavailability of United States assets.</p>
<i>Cancelled</i>		
Tandem Thrust 03 April – May 2003	Air Force	<p>Objective: To practise short warning combined operations.</p> <p>Performance: Partially Achieved. Participation in the exercise was reduced due to operational commitments. The exercise was successful, albeit with limited participation.</p>
<i>Conducted</i>		
Air Warrior 11 03 May 2003	Air Force	<p>Objective: To train airlift and ground force crews in short notice tactical operations and combat airlift.</p> <p>Performance: Not Achieved. The exercise was cancelled due to operational commitments.</p>
<i>Cancelled</i>		
Gold Eagle 03 May - July 2003	Army	<p>Objective: To further develop interoperability between the Australian Army and the United States Marine Corps by conducting a field training or amphibious exercise that provides familiarisation training in capabilities, equipment and facilities not available in Australia, and to gain a working knowledge of United States Marine Corps operational, logistic and administrative procedures.</p> <p>Performance: Substantially Achieved. The exercise provided training with the United States Marine Corps and interoperability was enhanced through the conduct of a field training exercise.</p>
<i>Conducted</i>		
Extendex 03-3 June 2003	Air Force	<p>Objective: To enhance interoperability between the RAAF and United States Navy by conducting anti-submarine warfare and anti-submarine surveillance training against a United States Navy submarine.</p> <p>Performance: Achieved. Successful maritime interaction was achieved and valuable anti-submarine warfare and anti submarine surveillance training was gained.</p>
<i>Conducted</i>		

NOTE

1. Exercise Emu Moon 03 was erroneously omitted from the *Portfolio Budget Statements 2002-03*.

TABLE 2.8: COMBINED ADF/FIVE POWER DEFENCE ARRANGEMENTS EXERCISES

EXERCISE	AUSTRALIAN FORCES	PARTICIPATING COUNTRIES	OBJECTIVE
Stardex 02 September 2002 <i>Conducted</i>	Navy, Air Force	Malaysia, Singapore, New Zealand, United Kingdom	Objective: To exercise maritime, land and air forces from member nations of the Five Power Defence Arrangements in the defence of Peninsular Malaysia and Singapore to enhance interoperability among forces. Performance: Achieved. The exercise was conducted successfully. Five Power Defence Arrangements procedures were validated in the conduct of combined and joint operations and valuable under surface warfare and air defence training was achieved.
Suman Warrior 2002 September - October 2002 <i>Conducted</i>	Army	Malaysia, Singapore, New Zealand, United Kingdom	Objective: To develop interoperability and foster better relationships and mutual understanding among the Five Power Defence Arrangements armies by undertaking combined land operations and practising operational command and staff procedures in combined operations. Performance: Achieved. Interoperability was enhanced through the conduct and practice of combined operations procedures.
Iads Adex 03 April 2003 <i>Cancelled</i>	Navy, Air Force	Malaysia, Singapore, New Zealand, United Kingdom	Objective: To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint and combined maritime exercise. Performance: Not Achieved. RAAF and RAN participation was cancelled due to operational commitments.
Flying Fish 03 June - July 2003 <i>Conducted</i>	Navy, Air Force	Malaysia, Singapore, New Zealand, United Kingdom	Objective: To validate the adequacy and compatibility of Five Power Defence Arrangements tactical doctrine by practising joint procedures for the air and maritime defence of Peninsular Malaysia and Singapore. Performance: Substantially Achieved. The exercise was successfully completed. Operational commitments resulted in United Kingdom participation being reduced. Five Power Defence Arrangements tactical doctrine and joint procedures were effectively practised.

TABLE 2.9: COMBINED ADF/NEW ZEALAND EXERCISES

EXERCISE	AUSTRALIAN FORCES	OBJECTIVE
Swift Eagle 02 ⁽¹⁾ September 2002	Deployable Joint Force Headquarters	Objective: To evaluate a Combined Task Force in the conduct of short warning evacuation operations. Performance: Achieved. Commando capabilities were successfully validated in the conduct of evacuation operations.
<i>Conducted</i>		
Tasman Exchange 02 September – October 2002	Army	Objective: To further develop interoperability between the Australian and New Zealand armies and gain a working knowledge of New Zealand’s operational, logistic and administrative procedures at the tactical level by undertaking familiarisation training in capabilities and with equipment not available in Australia. Performance: Achieved. Interoperability between the Australian and New Zealand armies was enhanced.
<i>Conducted</i>		
Tasman Link 2002 October 2002	Navy, Army, Air Force	Objective: To enhance relations between Australian and New Zealand forces by conducting a live fire support coordination exercise. Performance: Achieved. The exercise was conducted following Exercise Tasman Exchange 02. The live-fire support coordination exercise enhanced relations between Australian and New Zealand forces.
<i>Conducted</i>		
Night Kiwi 02 November 2002	Army, Air Force	Objective: To maintain interoperability between Australian and New Zealand Special Forces by conducting combined special operations training and a mutual exchange of information relating to developments in special operations techniques and equipment. Performance: Not Achieved. The exercise was cancelled due to operational commitments, with Australia to participate in the New Zealand exercise, Wyvern Primo, in September 2003.
<i>Cancelled</i>		
Ocean Protector February 2003	Navy, Air Force	Objective: To maintain the RAN fleet operational capability as a work-up to Exercise Tasmanex by demonstrating proficiency in core skills, standards and safety across all facets of maritime warfare and operations. Performance: Not Achieved. The exercise was cancelled due to operational commitments and rolled into Exercise Tasmanex 03 which practises the same capabilities.
<i>Cancelled</i>		

Anzac Series 03 March - May 2003	Navy, Army, Air Force	Objective: To broaden the knowledge and experience of ADF and New Zealand Defence Force personnel with a series of individual exchanges that provide a working knowledge of the host unit's operational, logistic and administrative procedures and exposure to another culture, procedures and equipment. Performance: Achieved. The Anzac Series provided individuals from both nations the opportunity to develop their experience and professional knowledge.
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NOTE

1. Exercise Swift Eagle 02 was erroneously omitted from the *Portfolio Budget Statements 2002-03*.

TABLE 2.10: OTHER COMBINED EXERCISES

EXERCISE	AUSTRALIAN FORCES	PARTICIPATING COUNTRIES	OBJECTIVE
Rimpac 02 June - July 2002 <i>Conducted</i>	Navy, Air Force	United States, Canada, United Kingdom, Japan, South Korea, Chile, Peru and France	Objective: To enhance interoperability and the proficiency of participating maritime and air forces by practising coalition arrangements centred on realistic short warning littoral operations. Performance: Partially Achieved. The exercise was reduced due to operational commitments. Although ADF and United States Navy participation was reduced, under-sea warfare, surface warfare and anti-air warfare training was successfully conducted.
Long Look 02 June - September 2002 <i>Conducted</i>	Army	United Kingdom	Objective: To broaden the experience and knowledge of personnel and promote continued cooperation between the United Kingdom and Australian forces with a bilateral exchange of individual personnel. Performance: Achieved. Individuals from both nations developed in both exercise and operational contexts.
Fincastle 02 July 2002 <i>Conducted</i>	Air Force	Canada, United Kingdom, New Zealand	Objective: To enhance interoperability between RAAF, Canadian, British and New Zealand air and maritime forces by participating in a multilateral exercise providing training in undersea warfare procedures. Performance: Achieved. Excellent under-sea warfare training was gained during the exercise.
Wyvern Sun 02 July 2002 <i>Conducted</i>	Army	Thailand	Objective: To enhance skills, techniques and tactical knowledge and to improve the standard of the operational skills of Australian and Thai Special Forces through reciprocal and combined training. Performance: Partially Achieved. The exercise was reduced in scale due to operational commitments.

Vigilant Blade 02 July 2002 <i>Conducted</i>	Navy, Army, Air Force	Canada, United Kingdom, United States	Objective: To develop and validate the capability to lead or participate in the conduct of intelligence operations in support of a combined or coalition deployed force. The Australian-United States sponsored exercise practised intelligence operations and force protection in a combined environment and provided an opportunity to evaluate doctrine, procedures and interoperability for intelligence support to operations. Performance: Achieved. Valuable intelligence capability and interoperability training was gained during the exercise.
Pitch Black 02 July - August 2002 <i>Conducted</i>	Army, Air Force	United Kingdom, Singapore, United States	Objective: To enhance interoperability between Australian, United Kingdom, Singaporean and United States forces by conducting an air combat training exercise and practising integrated air defence procedures in large force employment missions including offensive and defensive counter-air missions. Performance: Achieved. Beneficial air defence training in the planning and conduct of large force air defence operations was gained.
Tamex 02-3 July - September 2002 <i>Cancelled</i>	Navy, Air Force	United States, New Zealand	Objective: To enhance interoperability with New Zealand Defence or United States Navy forces by practising combined anti-submarine warfare and anti-submarine surveillance operations. Performance: Not Achieved. The exercise was cancelled due to operational commitments.
Puk Puk ⁽¹⁾ July - September 2002 <i>Conducted</i>	Army	Papua New Guinea	Objective: To exercise with the Papua New Guinea Defence Force engineer battalion to promote engineering interoperability. Performance: Achieved. The ADF provided barracks infrastructure and skills training to the Papua New Guinea Defence Force, enhancing defence ties between Australia and Papua New Guinea.

Singas Exchange 02-03 July 2002 – March 2003	Army	Singapore	<p>Objective: To broaden the military knowledge and experience of Australian and Republic of Singapore Army personnel with a reciprocal individual exchange that provides a working knowledge of the host unit's operational, logistic and administrative procedures and promotes continued cooperation through exposure to another culture, procedures, equipment and personnel.</p> <p>Performance: Achieved. Five Australian and five Singaporean army personnel participated. Individuals and host units gained a valuable understanding of foreign culture and procedures.</p>
<i>Conducted</i>			
Chapel Gold 02 July 2002	Army	Thailand	<p>Objective: To further develop interoperability between the Australian and Royal Thai armies by practising individual skills and field craft in a tropical environment, and to gain a working knowledge of Royal Thai Army operational, logistic and administrative procedures.</p> <p>Performance: Achieved. The exercise was conducted successfully, furthering interoperability between the Australian and Royal Thai armies.</p>
<i>Conducted</i>			
Night Lion 02 August 2002	Army	Australia, Singapore	<p>Objective: To develop an understanding of, and interoperability with, the Republic of Singapore Armed Forces through the mutual exchange of ideas and developments in special operations techniques and equipment.</p> <p>Performance: Achieved. The exercise was conducted successfully and interoperability with the Republic of Singapore Armed Forces was developed.</p>
<i>Conducted</i>			
Mastex 02 August 2002	Navy, Air Force	Malaysia	<p>Objective: To progress interoperability between the RAN and the Royal Malaysian Navy in aspects of maritime warfare common to both forces by conducting graduated training activities and weapons practices.</p> <p>Performance: Achieved. The exercise was conducted successfully.</p>
<i>Conducted</i>			

Hunter 02 August 2002	Navy	Singapore	<p>Objective: To progress interoperability in aspects of mine warfare and clearance diving common to the RAN and the Republic of Singapore Navy by conducting combined mine counter-measures operations.</p> <p>Performance: Achieved. Personnel capability was refreshed and beneficial preparedness prior to Exercise Stardex 02 was achieved.</p>
Penguin 02 September 2002	Navy, Air Force	Brunei	<p>Objective: To develop and enhance interoperability between the RAN, RAAF and the Royal Brunei Navy by practising maritime patrol and surveillance procedures.</p> <p>Performance: Achieved. Successful training was achieved.</p>
Pirap Jabiru 02 September 2002	Navy, Army, Air Force	Thailand	<p>Objective: To enhance interoperability between the ADF and the Royal Thai Air Force by undertaking a planning exercise to develop procedures for the conduct of combined multinational peace support operations under the auspices of the United Nations.</p> <p>Performance: Achieved. Exercise objectives were achieved and interoperability between the ADF and Royal Thai Air Force was enhanced.</p>
Tricrab 02 September 2002	Navy, Air Force	United States, Singapore	<p>Objective: To coordinate and enhance interoperability between the RAN, United States Navy and the Republic of Singapore Navy by practising airborne insertion methods, enhancing rapid deployment procedures and conducting explosive ordnance disposal and improvised explosive device disposal operations.</p> <p>Performance: Achieved. Successful explosive ordnance disposal and improvised explosive device disposal training was gained and effective interaction between the RAN, United States Navy and the Republic of Singapore Navy was achieved.</p>

Goodwill 02 October 2002	Navy, Air Force	Japan	<p>Objective: To further RAN, RAAF and Japanese Maritime Self Defense Force interoperability through the conduct of a sea exercise program.</p> <p>Performance: Achieved. The sea exercise program was conducted successfully and continued interoperability was achieved.</p>
<i>Conducted</i>			
Haringaroo 02-2 October 2002	Army	Malaysia	<p>Objective: To enhance interoperability between the Australian Army and the Royal Malaysian Armed Forces at the tactical level by practising skills and field craft in a tropical environment.</p> <p>Performance: Not Achieved. The exercise was cancelled due to the withdrawal of the Royal Malaysian Armed Forces.</p>
<i>Cancelled</i>			
Longreach 02 October – November 2002	Navy, Army, Air Force	Fiji	<p>Objective: To conduct engagement with the Republic of Fiji Military Forces and impart Australian operational planning techniques from the Deployable Joint Force Headquarters to the Republic of Fiji Military Forces by practising contingency, operational and combined planning procedures in potential humanitarian assistance missions.</p> <p>Performance: Achieved. The exercise provided an excellent forum for the exchange of information and ideas in the planning of combined operations by the Defence Forces of Australia and Fiji.</p>
<i>Conducted</i>			
Lumbas 02 October – December 2002	Navy	Philippines	<p>Objective: To develop interoperability in coordinated or combined maritime patrol and surveillance operations between the RAN and Philippines Navy.</p> <p>Performance: Achieved. The exercise was conducted successfully and interoperability between the RAN and Philippines Navy was enhanced.</p>
<i>Conducted</i>			

<p>Croix Du Sud 2002 November 2002</p>	<p>Navy, Army, Air Force</p>	<p>New Zealand, France</p>	<p>Objective: To maintain relations and enhance interoperability between the Australian, New Zealand and French defence forces by conducting a joint and combined exercise practising non-combatant evacuation operations in a non-permissive environment. Performance: Achieved. The exercise provided successful training in the conduct of Services-protected evacuation and humanitarian aid operations, and interoperability between the Australian, New Zealand and French defence forces was enhanced.</p>
<p><i>Conducted</i></p>			
<p>Night Falcon 02 November 2002</p>	<p>Army, Air Force</p>	<p>Papua New Guinea</p>	<p>Objective: To enhance and maintain Special Forces skills by practising the deployment of a Special Air Service Regiment force element and conducting unilateral war-roles training and limited non-Special Forces bilateral training with the Papua New Guinea Defence Force in a challenging location in Papua New Guinea. Performance: Achieved. The exercise confirmed Special Force skills, and bilateral training with the Papua New Guinea Defence Force was beneficial.</p>
<p><i>Conducted</i></p>			
<p>Helicon Luk 02 November 2002</p>	<p>Army</p>	<p>Papua New Guinea</p>	<p>Objective: To train and qualify aircrew in high-density altitude operations by conducting navigation and operations in mountainous terrain and familiarising aircrew with tropical operating conditions. Performance: Achieved. The exercise provided essential high altitude training in a mountainous terrain.</p>
<p><i>Conducted</i></p>			

Paradise 02 November 2002	Navy, Air Force	Papua New Guinea	<p>Objective: To enhance interoperability between Australian and Papua New Guinea defence forces by practising bilateral maritime surveillance and Exclusive Economic Zone protection measures and selected facets of maritime skills common to both forces.</p> <p>Performance: Achieved. Maritime surveillance and Exclusive Economic Zone protection measures were validated and maritime skills practised.</p>
<i>Conducted</i>			
Star Leopard 02 ⁽²⁾ October 2002	Army	Brunei	<p>Objective: To conduct bilateral Special Forces war roles training with the Royal Brunei Armed Forces.</p> <p>Performance: Achieved. The exercise was conducted successfully and relations between the Royal Brunei Armed Forces and Australian Special Forces were enhanced.</p>
<i>Conducted</i>			
Comptuex 03-1 November 2002	Air Force	United States, Canada	<p>Objective: Combined maritime warfare exercise with United States Pacific Fleet forces, to practise combined warfare operations with an undersea warfare focus and to maintain operational preparedness training requirements for the RAAF.</p> <p>Performance: Achieved. The exercise was conducted successfully and a high level of undersea warfare training was achieved and readiness levels were significantly enhanced.</p>
<i>Conducted</i>			
Tamex 02-4 December 2002	Navy, Air Force	United States, New Zealand	<p>Objective: To enhance interoperability with New Zealand Defence or United States Navy forces by practising combined anti-submarine warfare and anti-submarine surveillance operations.</p> <p>Performance: Not Achieved. The exercise was cancelled due to amphibious and aircraft operational commitments.</p>
<i>Cancelled</i>			

Taa Nok In Sii 02-2 December 2002 <i>Conducted</i>	Air Force	Thailand	Objective: To develop interoperability between the Royal Thai Navy and the RAAF by conducting surveillance training and developing operating procedures for combined operations. Performance: Achieved. The exercise was an excellent regional engagement tool, further developing interoperability with the Royal Thai Navy.
Comptuex 03-2 January - February 2003 <i>Cancelled</i>	Air Force	United States, Canada	Objective: To practise undersea warfare operations as part of a combined task force with United States and Canadian forces. Performance: Not Achieved. The exercise was cancelled due to aircraft asset unavailability and operational commitments.
Kernel Blitz 03 January - February 2003 <i>Cancelled</i>	Navy	United States, Canada	Objective: To enhance interoperability between the RAN, United States Navy and Canadian Navy by conducting an amphibious operation in a mined environment and integrating carrier, mine counter-measures and amphibious forces into an amphibious operation. Performance: Not Achieved. The exercise was cancelled and replaced by Exercise Transparent Hunter, scheduled for late 2003.
Tamex 03-1 January - March 2003 <i>Cancelled</i>	Navy, Air Force	United States, New Zealand	Objective: To enhance interoperability with New Zealand Defence or United States Navy forces by practising combined anti-submarine warfare and anti-submarine surveillance operations. Performance: Not Achieved. The exercise was cancelled due to the unavailability of amphibious and operational commitments.

Tasmanex 03 February 2003	Navy, Air Force	France, New Zealand	<p>Objective: To develop relations between the Australian, New Zealand and French defence forces by conducting maritime surveillance, anti-submarine warfare, maritime interception operations and naval control of shipping procedures.</p> <p>Performance: Partially Achieved. Despite the lack of a submarine, the exercise provided a good opportunity for ships to exercise anti-submarine warfare and continuation training. The coastal mine hunters also gained high value training in the conduct of mine warfare.</p>
<i>Conducted</i>			
Croix Du Sud 2003 February - May 2003	Navy, Army, Air Force	France, New Zealand, Tonga	<p>Objective: To maintain relations and enhance interoperability between the Australian, New Zealand, French and Tongan defence forces by conducting a joint and combined exercise practising non-combatant evacuation operations in a non-permissive environment.</p> <p>Performance: Not Achieved. The exercise was cancelled due to the late conduct of Croix Du Sud 02 in 2002. Croix Du Sud 04 is scheduled for early 2004.</p>
<i>Cancelled</i>			
Dawn Tiger 03 ⁽¹⁾ March 2003	Army	Malaysia	<p>Objective: To conduct counter-hijack training with the Malaysian Special Forces to enhance regional capability.</p> <p>Performance: Not Achieved. The exercise was cancelled due to operational commitments.</p>
<i>Cancelled</i>			
Tricrab 03 April 2003	Navy, Air Force	United States, Singapore	<p>Objective: To coordinate and enhance interoperability between the RAN, United States Navy and the Republic of Singapore Navy by practising airborne insertion methods and enhancing rapid deployment procedures, and conducting explosive ordnance disposal and improvised explosive device disposal operations.</p> <p>Performance: Not Achieved. The exercise was cancelled due to the unavailability of United States assets.</p>
<i>Cancelled</i>			

Wantok Warrior 03 April 2003 <i>Cancelled</i>	Army	Papua New Guinea	Objective: To develop interoperability between the Australian Army and the Papua New Guinea Defence Force by conducting a combined field activity focusing on military support operations, and a Defence Assistance to the Civil Community civil infrastructure task. Performance: Not Achieved. The exercise was cancelled due to the withdrawal of the Papua New Guinea Defence Force.
Haringaroo 03-1 ⁽¹⁾ April 2003 <i>Conducted</i>	Army	Malaysia	Objective: To enhance interoperability between the Australian Army and the Royal Malaysian Armed Forces at the tactical level by practising skills and field craft in a tropical environment. Performance: Achieved. The exercise was conducted successfully, with beneficial training for non-infantry arms corps participants and enhanced interoperability with the Royal Malaysian Armed Forces at the tactical level.
Focused Logistics Wargame 03 April – July 2003 <i>Cancelled</i>	Navy, Army, Air Force	Canada, United Kingdom, United States	Objective: To facilitate Australian input into United States multinational logistics objectives identified in the United States <i>Joint Vision 2010</i> . Performance: Not Achieved. The exercise was cancelled due to operational commitments.
Singaroo 03 May 2003 <i>Cancelled</i>	Navy	Singapore	Objective: To improve the interoperability of Australian and Republic of Singapore maritime forces by practising combined maritime procedures and tactics in order to undertake effective maritime combined or coalition operations. Both mutual defence and maritime security interests and the RAN proficiency, standards, and safety in core mariner and naval warfare areas will be maintained. Performance: Not Achieved. The exercise was cancelled due to the outbreak of the Severe Acute Respiratory Syndrome epidemic.

Western Pacific Naval Symposium MCMX 03 May - June 2003 <i>Cancelled</i>	Navy	Malaysia, Singapore, United States, United Kingdom, New Zealand, Thailand, Philippines	Objective: To conduct multilateral mine counter-measures operations by practising the clearing of mines in Singapore Straits with divers and mine counter-measures vessels. Performance: Not Achieved. The exercise was cancelled due to the outbreak of the Severe Acute Respiratory Syndrome epidemic.
Bell Buoy 03 May - June 2003 <i>Conducted</i>	Navy	Canada, Chile, New Zealand, Republic of Korea, Singapore, United Kingdom, United States	Objective: To improve allied interoperability in combined naval control and protection of shipping operating procedures by exercising and developing regional doctrine and procedures. Performance: Achieved. The exercise was conducted successfully and interoperability in combined naval control and protection of shipping operating procedures was enhanced.
Vigilant Shield 03 June 2003 <i>Conducted</i>	Navy, Army, Air Force	United States, United Kingdom, Canada	Objective: To practise intelligence operations in support of a combined or coalition deployed force with United States, United Kingdom and Canadian forces. Performance: Achieved. The exercise was conducted successfully, validating the capability to conduct intelligence operations in a combined or coalition force.
Dawn Panther 03 June 2003 <i>Conducted</i>	Army	Thailand	Objective: To develop closer defence relationships with Thailand through ongoing counter-hijack training with the Thai Special Forces. Performance: Achieved. Counter-hijack training with the Thai Special Forces was conducted successfully.
Tamex 03-2 June 2003 <i>Cancelled</i>	Navy, Air Force	United States, New Zealand	Objective: To enhance interoperability with New Zealand Defence or United States Navy forces by practising combined anti-submarine warfare and anti-submarine surveillance operations. Performance: Not Achieved. The exercise was cancelled due to operational commitments.

<p>Flaming Arrow 03 June 2003</p>	<p>Army</p>	<p>Singapore</p>	<p>Objective: To further develop interoperability between Australian and Republic of Singapore defence forces by conducting a field training exercise that provides familiarisation training in capabilities, equipment and facilities not available in Australia and a working knowledge of Singaporean operational, logistic and administrative procedures. Performance: Not Achieved. The exercise was cancelled due to the withdrawal of the Republic of Singapore Armed Forces.</p>
<p><i>Cancelled</i></p>			
<p>Haringaroo 03-2⁽¹⁾ June 2003</p>	<p>Army</p>	<p>Malaysia</p>	<p>Objective: To enhance interoperability between the Australian Army and the Royal Malaysian Army at the tactical level by practising skills and field craft in a tropical environment. Performance: Not Achieved. The exercise was cancelled due to the withdrawal of the Royal Malaysian Army.</p>
<p><i>Cancelled</i></p>			
<p>Joint Maritime Course 03⁽¹⁾ June – July 2003</p>	<p>Air Force</p>	<p>NATO (Belgium, Canada, Czech Republic, Denmark, France, Germany, Greece, Hungary, Iceland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Spain, United Kingdom, United States)</p>	<p>Objective: To train participants in maritime warfare roles, including air, maritime surface, subsurface, power projection and battlespace dominance and to enhance interoperability between North Atlantic Treaty Organisation (NATO) forces and the Royal Australian Air Force. Performance: Achieved. Excellent maritime warfare training was achieved in the Joint Maritime Course.</p>

Long Look 03 ⁽¹⁾ June – September 2003	Army	United Kingdom	<p>Objective: To broaden the military experience and knowledge of selected personnel and to promote cooperation between Australia and the United Kingdom.</p> <p>Performance: Currently in progress. The contingent was deployed in June 2003.</p>
<i>In Progress</i>			

NOTES

1. This exercise was erroneously omitted from the *Portfolio Budget Statements 2002-03*.
2. Exercise Star Leopard 02 was erroneously reported as Exercise Night Leopard 02 in the *Portfolio Budget Statements 2002-03*.

OUTPUT TWO: NAVY CAPABILITIES

The Navy provided maritime forces that contributed to the ADF's capacity to defend Australia, contributed to regional security, supported global interests, shaped the strategic environment and protected national interests. Navy capabilities provide maritime patrol and response, interdiction and strategic strike, protection of shipping and offshore territories and resources, maritime intelligence collection and evaluation, hydrographic and oceanographic operations, combat search and rescue, and escort duties. Peacetime activities include maritime surveillance and response within the Australian exclusive economic zone in support of Coastwatch, distribution of humanitarian aid, and maritime search and rescue.

PERFORMANCE SUMMARY

The Navy achieved routine and operational goals in 2002-03, including commitments to:

- Operation Slipper – ADF support to the war on terror;
- Operations Bastille/Falconer – pre-deployment to the Middle East area of operations and ADF participation in the coalition operation in Iraq;
- Operation Cranberry – ADF support to conduct surveillance in northern Australia and contribute to the civil surveillance program;
- Operation Mistral – support to Australian sovereign rights and fisheries law enforcement in the Southern Ocean;
- Operation Bel Isi II – ADF support to the regional Peace Monitoring Group monitoring the ceasefire in Bougainville; and
- Operation Relex II – ADF support to the whole-of-Government approach to deter unauthorised boat arrivals.

The Navy continued to be a significant participant in a number of diverse ongoing and short notice operations. The Navy maintained a high profile in the United States-led war on terror and undertook a wide variety of tasks during Operation Falconer, including patrol operations, maritime interdiction and boarding, naval gunfire support and mine clearance.

NAVAL TASKS

The types of tasks which the Navy was able to contribute to included:

PERFORMANCE TARGETS	PERFORMANCE
Controlling sea approaches to Australia and associated littoral areas.	Achieved. Operation Relex II was successful in achieving the Australian Government's aim of deterring the flow of unauthorised arrivals into the Australian migration zone.
Attacking hostile ships and submarines.	Partially Achieved. Delays in achieving full capability for the Collins-class submarines limited the Navy's ability to fully conduct operations with these vessels. The Navy maintained a surface force capable of dealing with regional surface and submarine threats.
Assisting in the establishment and protection of forward operating bases.	Partially Achieved. The lack of amphibious training opportunities during the period, because of operational commitments, limited Navy's training currency to support the Army in the establishment of forward operating bases.
Providing substantial sealift forces to support lower level operations, such as evacuations, disaster relief, and peacekeeping operations.	Achieved. The Navy maintained the ability to conduct lower-level operations.
Protecting land forces committed to lower level operations.	Achieved. The Navy maintained the ability to protect land forces committed to lower-level operations via continuation training in naval gunfire support. Training in air warfare was also conducted to ensure that surface combatants could provide protection to land forces within the range and limitations of fitted weapon systems.
Contributing to coalitions in higher intensity operations against well-armed adversaries.	Achieved. Navy units maintained a high degree of interoperability with allied forces through participation in Operations Slipper/Bastille/Falconer and multinational exercises.
Providing capabilities to support peacetime national tasks including coastal surveillance, search and rescue, fisheries management, and navigational and hydrographic work.	Substantially Achieved. The Navy continued to support a civil surveillance program that included border and fisheries protection. Ship and helicopter support was provided, when available, for search and rescue tasks. Due to the inclusion of some hydrographic units in border protection, provision of capability for the national hydrographic survey task was reduced by 35 per cent from planned levels. Public access to oceanographic information managed by the Navy met national requirements.

MITIGATION OF KEY RISKS

PERSONNEL

Navy strategies to improve recruitment and retention have achieved continued improvement during 2002-03. The Navy's full-time workforce grew from 12,425 to 13,164 over the past two financial years, a net increase of 6.0 per cent¹. This compared favourably to net losses of 5.6 per cent in 1999-2000 and 1.4 per cent in 2000-2001, and a 2.4 per cent increase in 2001-02. Full-time recruiting decreased marginally from 85 per cent of the 2001-02 target to 84 per cent of the 1,842 target in 2002-2003, significantly higher than the 57 per cent figure in 1999-2000 and 74 per cent in 2000-2001. The higher rate of recruiting achievement was significant, noting that current recruiting targets have increased from previous years. The Navy's training force remained high at 2,044 compared to last year's figure of 2,200. Over the past year, the Navy's overall separation rate was relatively steady at 11.7 per cent. This was below the five-year average separation rate of 12.8 per cent.

While the overall Navy workforce situation continued to improve, some critical shortages remained in particular professions and trades. At the current levels of recruiting and retention, it will take about five years to overcome these shortages and strategies are in place to achieve this outcome.

The Navy developed a formal critical category management program designed to maximise recruitment, training throughput and retention within the 15 critical categories. Two sailor categories - writers and electronic warfare technicians - have been removed from the critical category stream through this process. Although gross requirements for marine technicians have been rationalised to achieve the necessary workforce balance, it will take some years to redress the shortage in senior sailors. Initiatives to address shortfalls of specialist skilled personnel are starting to show results, but continuing effort is required to rectify senior sailor shortfalls.

A quarterly and monthly reporting process was implemented for all categories assessed as critical to ensure that ongoing action continues to address these shortages. The reports detailed numbers of personnel shortfalls, required strengths, recovery-time and, most importantly, initiatives and key performance indicators aimed at addressing probable causes of the category shortfall. Notwithstanding the Navy's current high operational commitments, priority is being accorded to maintaining training throughput at sea, which is critical to assisting in the reduction of trained force shortfalls.

LOGISTICS

Logistics shortfalls continued to challenge the Navy's ability to support the current force structure and meet preparedness requirements. An injection of \$34.5m in 2002-03, dedicated to targeting the most critical shortfalls, prevented further degradation in these areas. The level of risk was monitored and managed by the reprioritisation of logistic resources. The Navy's continued performance in meeting operational tasking illustrated the effectiveness of this approach.

¹ The Navy's workforce data represents actual total paid strength, including Reservists undertaking full-time service, for the end of May 2001 (12,425) and the end of June 2003 (13,164).

OPERATIONS

The Navy continued to meet all commitments within the high tempo of concurrent operations, while also remaining aware of the requirement to reconstitute the full range of Navy capabilities. Reconstitution continued for force elements returning from operations, while capability and preparedness for more complex and warfighting skills will be enhanced with the conduct of planned major exercises.

AIR WARFARE CAPABILITY

Upgrade programs designed to improve area air warfare and anti-ship missile defence capabilities within the Adelaide-class guided missile frigates and the Anzac-class frigates, remain within the acquisition program. Preliminary studies associated with the acquisition of at least three air warfare destroyers were completed in 2002-03. The ships will provide a maritime-based area air warfare capability which is a critical component of an ADF air warfare system. The first ship is due to enter service in 2013.

SUBMARINE CAPABILITY

All six Collins-class submarines have now been commissioned. Two submarines were enhanced with a comprehensive combat system upgrade, while two more underwent a scheduled extended maintenance program to maintain their operational effectiveness. Submarine availability was affected by the delays in the extended maintenance program.

FORCE STRUCTURE

MAJOR SURFACE COMBATANT FORCE

Provides a capability for major surface combatant operations, comprising six Adelaide-class guided missile frigates and four Anzac-class frigates, rising to eight.

Achieved. The fourth Anzac-class frigate, HMAS *Stuart*, was commissioned in August 2002. The fifth Anzac-class frigate, *Parramatta*, was delivered in June 2003. All eight Anzac-class frigates are expected to be in service in 2006.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months.

Achieved. Levels were met in accordance with current preparedness directives.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. The level of current operations reduced access to ship collective training in some warfare disciplines, and career and professional training for individuals, with medium-term effect on core skills.

Quantity:

6 guided missile frigates - 1,233 FMC days⁽¹⁾ 6 guided missile frigates - 1,140 FMC days (93 per cent). The level of current operations reduced access to ship collective training opportunities and increased the level of maintenance activities.

4 frigates - 813 FMC days 4 frigates - 770 FMC days (95 per cent). The level of current operations reduced access to ship collective training opportunities and increased the level of maintenance activities.

NOTE

1. Full Mission Capability (FMC) refers to the unit’s ability to operate in accordance with its designed capability. Target FMC days are determined for each Force Element Group by aggregating total days for the unit in commission (365), less all days when a unit is programmed to be in major maintenance, leave periods or conducting initial operational training work-up. This can be a limitation in capturing full employment of ships on deployment, and for this reason a new measure, Unit Ready Days, has been introduced for 2003-04.

NAVY AVIATION FORCE

Provides a capability for naval aviation operations that will be enhanced by the introduction of Super Seasprite helicopters. These aircraft will provide a number of embarked flights for the Anzac-class frigates. Seahawk helicopters, already in service, provide flights for embarkation in guided missile frigates. A Sea King helicopter squadron is maintained to undertake maritime utility operations, including troop transport and a range of logistic tasks.

Achieved. Seahawk and Sea King helicopters met all planned operational commitments as well as a number of short notice additional taskings. These operational commitments resulted in a shortfall in training output, particularly for Seahawk.

Squirrel helicopters met the majority of training targets. Training shortfalls were a result of limited aircraft and instructor availability in conjunction with the Squirrel’s current role limitations.

Kalkara operations in support of Navy and Air Force training and missile testing met tasking assignments.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months. **Achieved.** Levels were met in accordance with current preparedness directives.

PERFORMANCE TARGETS	PERFORMANCE
Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Partially Achieved. Operational commitments resulting in non-availability for training, have caused a degradation in some core skills, in particular, anti-submarine warfare proficiency. Shortages of aircrew and delays in the full introduction of the Super Seasprite also affected training.
Quantity:	
12 Squirrels - 4,000 hours	12 Squirrels – 3,577 hours (89 per cent). The shortfall was caused by reduced aircraft availability due to modifications, scheduled servicing following unplanned flying in support of firefighting activities, and poor weather. Unfilled qualified instructor positions also exacerbated the flying and training shortfall.
7 Sea Kings - 2,000 hours	7 Sea Kings – 2,293 hours (115 per cent). The overfly was due to operational requirements in support of national objectives. 2002-03 saw the Sea King rate of effort being the highest for any Navy helicopter in many years.
16 Seahawks – 4,600 hours	16 Seahawks – 3,887 hours (85 per cent). Lack of instructors and qualified aircrew and maintenance personnel constrained hours usage ashore. Also, during 2002-03, a greater than originally planned number of aircraft were in, or awaiting, deep level maintenance as a result of a higher than normally programmed usage rate due to the Navy’s operational commitments in the past 18 months.
11 Super Seasprites – 0 hours	10 Super Seasprites – 0 hours. 10 Super Seasprite airframes have been delivered to Nowra but none have completed the acceptance process. The helicopters will be used in an interim training role until the full capability is accepted in December 2004. This will allow comprehensive testing of the Seasprites prior to final acceptance. The final airframe will be delivered on completion of the full Seasprite flight test program, currently expected during 2005-06, as part of Project SEA 1411 (Anzac Ship Helicopter).
13 Kalkaras – 39 presentations ⁽¹⁾	13 Kalkaras – 8 presentations (21 per cent). Of the 39 predicted target presentations, the Navy and Air Force operational authorities requested only eight.

NOTE

1. Kalkara is an unmanned aerial target system used for fleet support. Presentations refer to the number of instances during which the system is used as a target in training exercises.

PATROL BOAT FORCE

Provides a capability for patrol boat operations comprising fifteen Fremantle-class patrol boats.

Achieved. Transition from the Fremantle-class patrol boats to the Armidale-class patrol boats will take place between 2004-05 and 2007-08. The number of replacement patrol boats has not yet been determined and will be dependent upon finalisation of contractual arrangements. The Fremantle-class patrol boat force has exceeded its designed life-of-type by in excess of six years. There is an increasing risk that hull and system related defects will continue to impact on the provision of Fremantle-class patrol boat capability throughout the remainder of the class life.

The patrol boat force contributes to the civil surveillance program, which is managed by Coastwatch. The force also contributes to the protection of Australia's sovereignty, through the provision of a patrol, response and surveillance capability in Australia's maritime approaches. Patrol boats contribute to regional engagement and security through the conduct of operations, port visits and exercises with regional nations. Contributions in these areas were met in 2002-03.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Achieved. Levels were met in accordance with current preparedness directives.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Achieved. Operational units within the patrol boat force achieved a level of training that maintained core skills and professional standards.

Quantity:

15 patrol boats - 2,709 FMC days

15 patrol boats - 2,513 FMC days (93 per cent). A total of 32 weeks of unscheduled maintenance activity was incurred from November 2002 to June 2003. This was due to hull and/or system related defects in HMA Ships *Cessnock*, *Gawler*, *Dubbo*, *Geelong*, *Launceston*, *Geraldton*, *Bunbury*, *Fremantle* and *Warrnambool*.

SUBMARINE FORCE

Provides a capability for submarine operations comprising six Collins-class submarines.

Substantially Achieved. HMAS *Rankin* was commissioned in March 2003. Ongoing improvements in capability and reliability will progressively enhance the combat capability of all submarines. A number of issues arose during the year, principally flexible hose problems and extended maintenance periods, which impacted on achievement.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Partially Achieved. Due to capability enhancements and improvements on some of the class, Chief of the Defence Force directed preparedness levels were only partially achieved.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. With the exception of training in maritime support operations, all warfare core skills and professional standards were maintained.

Quantity:

6 Collins - 500 FMC days⁽¹⁾

6 Collins – 390 FMC days (78 per cent). The underachievement was due to HMAS *Waller* requiring additional maintenance and hull survey work during intermediate docking from April to November 2002; the impact on submarine availability due to a flexible hose failure, which had class-wide implications; and delays to HMAS *Collins* full cycle docking.

NOTE

1. HMA Ships *Collins* and *Farncomb* conducted a full cycle docking and were not available for FMC. HMAS *Rankin* was commissioned in March 2003.

AFLOAT SUPPORT FORCE

Provides a capability for afloat support comprising an oil tanker and a replenishment ship.

Achieved. The Navy achieved the capability for afloat support force, consisting of an oil tanker, HMAS *Westralia*, and a replenishment ship, HMAS *Success*.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Substantially Achieved. Levels were met in accordance with current preparedness directives with the exception of a 33 day period from 21 May to 3 June 2003 when both the oil tanker and replenishment ship had major defects that restricted their ability to undertake support operations.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Achieved. Levels were met in accordance with current preparedness directives.

Quantity: 1 oil tanker - 343 FMC days	1 oil tanker – 305 FMC days (89 per cent). The loss of FMC days was due to significant main propulsion defects.
1 replenishment ship - 294 FMC days	1 replenishment ship – 320 FMC days (109 per cent). Overachievement occurred due to the cancellation of a scheduled maintenance period.

MINE WARFARE FORCE

Entails a capability for mine warfare comprising six Huon-class coastal mine hunters, two auxiliary mine sweepers and two clearance diving teams.

Achieved. The sixth and final Huon-class coastal mine hunter, HMAS *Yarra*, was commissioned in March 2003. These ships provided the mine warfare capability, with the two auxiliary mine sweepers providing essential support and mine sweeping training capability. The two Navy clearance diving teams supported a range of missions including mine counter-measures, maritime tactical operations and underwater battle damage repair.

PERFORMANCE TARGETS	PERFORMANCE
Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Achieved. Levels were met in accordance with current preparedness directives.
Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Achieved. Levels were met in accordance with current preparedness directives.
Quantity: 6 coastal mine hunters - 700 FMC days	6 coastal mine hunters – 997 FMC days (142 per cent). The overachievement was primarily due to an increase in the operational test and evaluation program. This was necessary to ensure that the coastal mine hunters were proven to be fully functional prior to project completion and acceptance into Naval service of the class.

2 auxiliary mine sweepers - 195 FMC days	2 auxiliary mine sweepers – 0 FMC days. The two large auxiliary mine sweepers, <i>Bandicoot</i> and <i>Wallaroo</i> , were not fully mission capable throughout 2002-03 as they were unable to conduct the full range of minesweeping tasks previously performed by the small vessels <i>Koraaga</i> and <i>Bermagui</i> , which were retired from service in 1999. Notwithstanding, the large vessels did achieve 309 days at sea (deployed) providing essential support to the mine warfare and clearance diving task group, the mine warfare faculty, the surface warfare school and undertaking national tasks of route surveying Australia's primary ports and providing tug support to nuclear powered warship visits. <i>Brolga</i> , a minesweeping training platform and general support vessel, was used in a limited training role until retirement from the force on 12 April 2003.
2 clearance diving teams - 646 FMC days	2 clearance diving teams – 646 FMC days (100 per cent)

AMPHIBIOUS LIFT FORCE

Provides a capability for amphibious lift, comprising two amphibious landing ships, a heavy landing ship, and six heavy landing craft.

Achieved. The amphibious ships have been committed to operations including Slipper/Bastille/Falconer, Bel Isi II and Relex II. The increased rate of effort has led to a reduction in opportunities for joint training.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Achieved. Levels were met in accordance with current preparedness directives.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Partially Achieved. The increased rate of effort has led to a reduction in opportunities for joint training.

Quantity:

1 heavy landing ship - 266 FMC days

1 heavy landing ship – 247 FMC days (93 per cent). The loss of FMC days was due to the extension of a major maintenance period to allow for configuration changes.

2 amphibious landing ships -
568 FMC days

2 amphibious landing ships – 601 FMC days (106 per cent). The overachievement was due to operational deployments.

6 heavy landing craft -
1,171 FMC days

6 heavy landing craft – 1,159 FMC days (99 per cent). The small underachievement was a result of reduced exercise opportunities.

HYDROGRAPHIC FORCE

Provides a capability for hydrographic and oceanographic operations comprising two Leeuwin-class hydrographic ships and their embarked survey motor boats, four Paluma-class survey motor launches, a laser airborne depth sounder aircraft and the hydrographic office deployable survey unit, all supported by the Australian Hydrographic Office in Wollongong, NSW.

Partially Achieved. The two hydrographic ships and their embarked survey motor boats have not been formally accepted. Formal acceptance was delayed due to restrictions on the ships' operations in moderate to high sea conditions and systems deficiencies, and an inability to progress trials due to the ships' commitment to operational duties. The hydrographic ships are planned to be accepted in Naval service in mid-2005.

The survey motor launches remained operational in their primary role throughout the year, but no longer fully meet international and Defence feature detection requirements. This deficiency is being addressed by project upgrades of the survey motor launches and survey motor boats. A prototype replacement survey motor boat has been trialed, and the survey motor launches will undergo upgrades from 2004. The laser airborne depth sounder aircraft remained operational throughout the year. A defect in the aircraft's inertial navigation system, which restricted operations, was rectified in May 2003.

PERFORMANCE TARGET	PERFORMANCE
<p>Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Substantially Achieved. The laser airborne depth sounder capability was reduced by a defective inertial navigation system from July 2002 to May 2003. The Hydrographic Office Deployable Survey Unit⁽¹⁾ was unavailable, due to personnel shortages, until 5 August 2002, but this did not affect the number of days deployed. The hydrographic ships were unable to meet all preparedness requirements for hydrographic data collection, due to their six months commitment to other operations.</p>
<p>Achieve a level of training that maintains core skills and professional standards to conduct survey tasking, produce navigational information and provision of oceanographic and meteorological support.</p>	<p>Partially Achieved. Core skills were maintained in all units except hydrographic ships, which were committed to Operation Relex II until the end of 2002. Three hydrographic ship crews commenced reconstitution training in January 2003, with one achieving the required level of capability for hydrographic surveying by July 2003. Meteorological and oceanographic specialist personnel maintained core skills.</p>

Achieve endorsed data collection and production targets.	Partially Achieved. Hydrographic data collection was reduced by 35 per cent due to the hydrographic ships' commitment to Operation Relix II until the end of 2002. Meteorological and oceanographic data management and production targets were achieved as outlined in the Hydroscheme, the surveying, oceanographic and chart production plan for the Hydrographic Force.
Quantity:	
2 hydrographic ships – 531 FMC days	2 hydrographic ships – 498 FMC days (94 per cent). The underachievement was primarily due to defects in the camshaft followers for the main engines.
4 survey motor launches – 926 FMC days	4 survey motor launches – 913 FMC days (99 per cent). The underachievement was due to minor defects and temporary inability to fill short notice personnel needs.
1 laser airborne depth sounder aircraft – 900 flying hours for surveying; - 38 hours for ferrying activity spread across 208 FMC days	1 laser airborne depth sounder aircraft – 800 hours (89 per cent) for surveying; 0 hours (0 per cent) for ferrying activity spread across 208 FMC days. The underachievement was due to aircraft defects (33 hours) and unfavourable environmental (weather and sea) conditions which were not conducive to effective surveying operations. Funding for forward deployments to locations remote from the aircraft's home base was diverted to higher priority activities due to budgetary constraints.
1 Hydrographic Office Deployable Survey Unit – availability 300 days; – planned deployments 169 days	1 Hydrographic Office Deployable Survey Unit – 300 days availability (100 per cent) and 146 (86 per cent) deployments days. The Survey Unit did not achieve its deployment target due to a reduction in the duration of its Antarctic mission.
Chart Production: New charts/editions – 62	26 new charts/new editions were produced and published (42 per cent). Chart production targets were not able to meet civil requirements because of the Defence priority to support Operation Relix II. Production was also adversely affected by delays in delivery of the Digital Hydrographic Database (Project SEA 1430 Phase 1) and the introduction of an interim chart production system. A further 13 charts were 80 per cent complete.
New charts/diagrams for use by the Navy – 32	41 new charts/new diagrams were produced for use by the Navy (128 per cent). Production in excess of additional estimates targets was in response to increased demand for charts to support Defence operations, particularly Operation Relix II.
Electronic Navigational ⁽²⁾ Chart Cells – 44	45 electronic navigational chart cells were produced and released commercially (102 per cent)

NOTES

1. The Hydrographic Office Deployable Survey Unit was formerly the Hydrographic Office Detached Survey Unit.
2. Electronic Navigational Chart Cells were erroneously reported as Electronic Nautical Chart Cells in the Portfolio Additional Estimates Statements 2002-03 (page 30) and were omitted from the Defence Annual Report 2001-02.

PRICE TO GOVERNMENT

TABLE 2.11: PRICE OF OUTPUT TWO: NAVY CAPABILITIES

	ADJUSTED BUDGET ESTIMATE 2002-03 \$'000	REVISED ESTIMATE 2002-03 \$'000	PROJECTED RESULT 2002-03 \$'000	ACTUAL RESULT 2002-03 \$'000	VARIATION \$'000
Operating Expenses					
Employees – Military	1,140,690	1,117,821	1,164,009	1,057,916	-106,093
Employees – Civilian	243,296	274,132	284,281	307,705	23,424
Sub-total Employees	1,383,986	1,391,953	1,448,290	1,365,621	-82,669
Suppliers – Non- inventory	1,058,996	1,084,442	1,022,075	1,166,280	144,205
Suppliers – Inventory	235,488	233,953	212,128	238,922	26,794
Sub-total Suppliers	1,294,484	1,318,393	1,234,203	1,405,202	170,999
Depreciation and amortisation	991,731	886,701	1,006,469	888,766	-117,703
Value of assets sold				138,335	138,335
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	16,161	203,859	228,525	212,738	-15,787
Other expenses (includes borrowing cost expense and grants)	6,766	6,736	6,688	80,551	73,863
Total Operating Expenses from Ordinary Activities	3,693,128	3,807,642	3,924,175	4,091,213	167,038
Revenues					
Assets now recognised	6,760	-81,470	-109,256	-284,977	-175,721
Revenue from sale of assets		-3,815		-165,334	-165,334
Other revenue	-55,248	-68,274	-62,617	-72,730	-10,113
Total Own Source Revenues	-48,488	-153,558	-171,873	-523,041	-351,168
Price to Government for Output Two	3,644,640	3,654,084	3,752,300	3,568,172	-184,128

EXPLANATION OF SIGNIFICANT VARIATION

The overall price of Output Two was \$184m lower than the 2002-03 projected result, representing a decrease of five per cent. The major variations were due to:

a net decrease in military employee expenses (-\$106m) due to:

an underestimation of the salary arrears estimates which has been corrected in future years (+\$9m);

an understatement of overseas allowances incorrectly accounted for in Output Three (-\$13m);

- an overestimation of the budget which did not reflect the completion of pilot retention and other bonuses (-\$18m);
- refinement of the attribution rules to Output One to better reflect the cost of current operations (-\$27m);
- variation in costs attributed by the Defence Materiel Organisation and the Corporate Support and Infrastructure Group to Output Two (-\$35m); and
- other attribution variations (-\$22m).
- an increase in civilian employee expenses (+\$23m) due to higher than planned strength in the enabling and owner support areas as well as growth in civilian per capita costs;
- an increase in suppliers non-inventory expenses (+\$144m) due to:
 - a change in the accounting treatment between the capital and operating mix in the major capital equipment program (+\$55m);
 - the use of cash reserves in 2002-03 (+\$57m) to meet logistics and operational requirements;
 - accounting adjustments due to correction of data reported in 2001-02 (+\$18m);
 - accrual accounting expense not budgeted for (+\$5m); and
 - other miscellaneous variations (+\$9m).
- an increase in suppliers inventory expenses (+\$27m) reflecting the purchases of additional inventory items to meet logistic and operational requirements, part of which was funded out of Defence's cash reserves;
- a decrease in depreciation expenses (-\$118m) due to a refinement of attribution rules to reflect a move from a generic to a more output-specific attribution of costs;
- an increase in the value of assets sold (+\$138m) due to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds;
- a decrease in write down of assets expenses (-\$16m) due to an overestimation of the projected result in equipment obsolescence provisions and pricing adjustments;
- an increase in other expenses due mainly to the recognition of Defence's potential liability for compensation claims arising from asbestos exposure that was identified in a recent whole-of-government actuarial report (+\$76m);
- an increase in assets now recognised revenue (-\$176m) due to the attribution to Output Two of the SDSS and ship inventory alignment process and the subsequent SDSS to ROMAN reconciliation including other miscellaneous adjustments;
- an increase in revenue from sale of assets (-\$165m) due predominantly to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds (-\$138m); and
- a net increase in other revenue (-\$10m) due to:
 - the change in accounting treatment of fuel excise refunds (-\$43m); and
 - a variation in the revenue attributed to Output Two by Defence Groups (+\$33m).

OUTPUT THREE: ARMY CAPABILITIES

The Army contributed to the achievement of the Government's Defence outcome through the provision of capabilities for land and Special Forces operations. The Army's capabilities contributed to broader ADF capability, within a primarily maritime strategy, to defend Australian territory from any credible attack, to enhance the security of our immediate neighbourhood and to contribute to international coalitions of forces to meet crises beyond Australia's immediate neighbourhood where Australian interests were engaged. The Army also provided capabilities for peacetime national tasks, including forces with a capacity to enhance the national domestic security response to counter-terrorist and chemical, biological, radiological and explosive incidents.

The Army's capabilities comprised the capacity to conduct Special Forces operations, mechanised operations, light infantry operations, army aviation operations, ground-based air defence, combat support operations, regional surveillance operations, logistic support operations, motorised forces operations and protective and security operations.

PERFORMANCE SUMMARY

High levels of operational activity involving the Army continued over 2002-03. The land forces were deployed on operations in Afghanistan (Operations Slipper and Palate), East Timor (Operation Citadel), Papua New Guinea (Operation Bel Isi II), the Middle East (Operations Paladin, Bastille, Falconer and Mazurka), Africa (Operations Pomelo and Husky) and Europe (Operation Osier), and in Australia monitoring unauthorised boat arrivals (Operation Relex II) and supporting surveillance operations (Operation Cranberry).

The Army's most significant contribution to operations was the deployment of Special Forces task groups to Afghanistan and Iraq. Special Forces units demonstrated their versatility in transitioning from countering an unconventional foe in Afghanistan to combating a conventional force in western Iraq. In both theatres, the Army demonstrated courage, endurance, expertise and professionalism, justifiably earning praise and commendation from coalition peers, commanders and national leaders. Support forces that deployed with both Special Forces task groups were critical to the success of both missions. These included:

- a nuclear and chemical defence detachment from the recently raised Incident Response Regiment;
- Chinook helicopters and landing craft;
- an air defence troop that deployed with HMAS *Kanimbla*; and
- a logistics support element drawn from across the Army.

The Army also maintained a substantial presence in East Timor in support of the United Nations. This commitment included the deployments of two battalion groups based on 5th/7th and 1st Battalions of the Royal Australian Regiment. A company of

Army Reserve personnel were deployed to support 5th/7th Battalion in East Timor, the first such deployment of a formed combat sub-unit of Reserve soldiers since World War II.

On the domestic front, the Army maintained high readiness counter-terrorist response forces based on the Tactical Assault Group (West), the newly raised Tactical Assault Group (East) and the Incident Response Regiment. The importance of this capability was made evident during the interdiction and boarding of the Korean vessel *Pong Su*, in April 2003. The Army's Special Forces capability was further enhanced with the establishment of a Special Operations Command and improvements to the commando capability.

The Army continued to contribute to border protection operations by providing transit security elements in support of the apprehension of illegal boat arrivals and regional force surveillance units patrolling the north of Australia.

On the whole, the Army continued to meet its Defence White Paper preparedness requirements. In some areas, the Army found it difficult to meet preparedness requirements due to a lack of some types of ammunition and specialist personnel. Both these issues will be addressed in the Budget outcome in 2003-04 and future years.

Regardless of the high operational tempo in 2002-03, the Army continued to develop its capacity to respond to emerging threats. The Army reviewed the posture of the Army Reserves to ensure that elements were at a level of readiness necessary to allow them to respond to domestic security incidents. The Army continues to review its conduct of land operations in a joint environment and seek opportunities to enhance its capability through greater lethality and better protection.

In recognition of its position within the broader Australian community, the Army deployed in support of activities such as the Aboriginal and Torres Strait Islander Commission/Army Community Assistance Program, successfully completing projects in north-west Western Australia in 2002. The Army commenced projects on Palm Island in North Queensland and undertook a variety of Defence Cooperation Program activities in the Pacific Islands. The Army also provided significant support to the Australian community in assisting with the fighting of bushfires in Victoria, New South Wales and the Australian Capital Territory in January 2003.

MITIGATION OF KEY RISKS

In the *Portfolio Budget Statements 2002-03*, the Army identified two key risks to fully meeting its preparedness responsibilities.

PERSONNEL

To meet both the extant preparedness requirements and the future capability commitments detailed in the Defence White Paper, the Army's funded strength is projected to be some 26,563 by 2009-10. This includes an additional 327 personnel for Special Operations Command and accelerated growth to support the introduction of new capabilities.

The Army is enhancing its capability to sustain a brigade group offshore for extended periods and a battalion group offshore for short-notice contingency operations.

Satisfying this level of capability requires the maintenance of six high-readiness battalion groups. The ongoing development of an army sustainment model will assist the Army to identify and develop its force and personnel requirements to sustain offshore operations and respond to short-notice contingencies.

Improved recruiting and retention measures resulted in positive recruiting and retention rates. While this has assisted the Army in addressing its most critical trade deficiencies, the positive trend will need to continue for some time if the Army is to increase its strength and meet planned performance targets. In 2002-03, total Army recruiting performance was 86 per cent of target compared with the average of the previous two years of 87.5 per cent. When taken in conjunction with the 2002-03 separation rate for the Army (9.9 per cent compared with the average of the previous two years of 12.5 per cent), the outlook is positive.

LOGISTICS SUPPORT

Over the last twelve months, the Army identified the magnitude of deficiencies pertaining to training ammunition and the maintenance of the general service vehicle fleet. The Army has implemented plans to rectify these deficiencies.

CAPABILITY PERFORMANCE INFORMATION

PERFORMANCE TARGETS

SPECIAL FORCES OPERATIONS

The Special Forces operations capability contributes to the strategic tasks of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. They achieve these tasks by providing forces to conduct non-combatant evacuation and special recovery operations, conduct counter-terrorism and consequence management operations and support conventional land manoeuvre operations. The Special Forces operations capability is maintained at a high readiness.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Achieved. The Special Forces operations capability was able to support all preparedness requirements directed by the Chief of the Defence Force for military response options. Three separate task forces were deployed consecutively to Afghanistan. Each was based on a Special Air Service Regiment squadron, combat support and combat service support units. A similar task force, which included a commando platoon, was deployed to Iraq. The Special Forces operations capability maintained two Tactical Assault Groups for the conduct of domestic counter-terrorist operations. These units included the Tactical Assault Group East resident within 4th Battalion Royal Australian Regiment (Commando), and Tactical Assault Group West resident within the Special Air Service Regiment. 4th Battalion Royal Australian Regiment (Commando) continued the development of the commando capability role while providing a parachute capability during the deployment of 3rd Battalion Royal Australian Regiment to East Timor and its subsequent reconstitution.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. A number of training activities and exercises were not conducted as a result of commitments to operations or the requirement to develop new capabilities.

Quantity:

Special Operations Group, comprising:

- a headquarters;
- a Special Air Service Regiment;
- a commando battalion;
- a Reserve commando battalion;
- an incident response regiment (moved from the Combat Support Sub-output in May 2003); and
- 2 signals squadrons.

Achieved. The Special Forces operations capability had the personnel and equipment holdings necessary to complete the likely tasks required of it.

MECHANISED OPERATIONS

The mechanised operations capability contributes to the strategic tasks of supporting wider interests, defending Australia, securing our immediate neighbourhood and supporting peacetime national tasks. The capability provides light mechanised and light armoured forces to enhance combat power and weight for more demanding contingencies utilising the effects of surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces' plans, cohesion and morale. It achieves this through engaging with the enemy in close combat enabled by protection and integral firepower.

The mechanised operations capability provides forces, which are maintained at high to medium readiness. These forces can be deployed in combined arms teams from company to battalion size. These combined arms teams are drawn from armoured units, mechanised infantry, medium artillery, combat engineers, army aviation and various combat support units. This capability is derived mainly from the 1st Brigade, which is based in Darwin.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Partially Achieved. The mechanised operations capability was unable to support all allocated preparedness requirements directed by the Chief of the Defence Force for military response options. Deficiencies in equipment, in some types of ammunition and personnel in key trades affected preparedness levels for some directed military response options. A reduced, yet credible, level of capability was available for all of the military response options. Equipment and personnel deficiencies are being addressed, including the acquisition of upgraded ASLAVs, an upgrade of the M113 and personnel retention and remediation initiatives, while ammunition deficiencies are being resolved. The mechanised operations capability provided 5th/7th Battalion Royal Australian Regiments, along with a company of Army Reserve personnel, in support of operations in East Timor. The capability also provided personnel as the transit security element to border protection operations in the apprehension of illegal immigrants.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Partially Achieved. Personnel deficiencies in a number of key trades and a lack of some types of ammunition affected the achievement of some core skills.</p>

PERFORMANCE TARGETS

PERFORMANCE

Quantity:

1st Brigade, comprising:

- a headquarters;
- an armoured regiment;
- a reconnaissance regiment;
- mechanised infantry battalion; and
- combat and logistic support units.

Substantially Achieved. The mechanised operations capability had deficiencies in personnel and equipment holdings that affected its capacity to complete the likely tasks required of it.

LIGHT INFANTRY OPERATIONS

The light infantry operations capability contributes to the strategic tasks of securing our immediate neighbourhood and defending Australia. The capability provides light, air-mobile forces available for immediate deployment and is supported by specialist components drawn from aviation, fire support and logistic units. This capability is based on the 3rd Brigade, which is located in Townsville.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Achieved. The light infantry capability met levels of preparedness directed by the Chief of the Defence Force for military response options. Some preparedness tasks were assigned to other outputs due to the limitations imposed by the commitment to operations in East Timor.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. Most training requirements were met. Some air-mobility training activities were curtailed due to reduced Black Hawk helicopter support as a result of airframe cracking, a shortage of flying instructors and commitments in East Timor.

Quantity:

3rd Brigade, comprising:

- a headquarters;
- armoured mobility for 2 infantry companies;
- 2 infantry battalions; and
- combat and logistic support units.

Achieved. Personnel and equipment availability for units in this sub-output were sufficient to meet preparedness levels.

The Parachute Battalion Group, **Achieved.** Personnel and equipment availability for units in this sub-output were sufficient to meet preparedness levels.

- a parachute infantry battalion; and
- combat and logistic support units.

ARMY AVIATION OPERATIONS

The Army aviation operations capability contributes primarily to the strategic task of defending Australia, securing our immediate neighbourhood, supporting wider interests and supporting peacetime national tasks. The capability provides aircraft, which are maintained at high readiness, for mobility through tactical troop lift, aerial fire support, command and liaison, and reconnaissance operations. The capability is drawn from aviation units based in the north of Australia.

The capability is based on two aviation regiments consisting mainly of rotary-wing Kiowa, Iroquois, Black Hawk and Chinook helicopters, and fixed-wing King Air and Twin Otter aircraft. The Kiowa helicopters will be replaced progressively by two squadrons of armed reconnaissance helicopters commencing from December 2004. Iroquois helicopters are planned to be replaced with additional troop-lift helicopters in 2007.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Achieved. The army aviation operations capability met all levels of preparedness directed by CDF for military response options. Due to limitations imposed by the commitment to operations in East Timor, some directed military response options required a concerted effort to sustain this capability, particularly in the area of personnel.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. Concurrent activities, such as the deployment of Kiowa and Black Hawk helicopter units to East Timor, affected the achievement of all training requirements. Training activities for light infantry operations were not fully supported. Flight training hours required to qualify pilots were scheduled against anticipated recruitment of pilot trainees. Insufficient recruitment of pilot trainees and a higher failure rate at the ADF Basic Flying Training School saw hours, particularly those of the Black Hawk, not being achieved. Initiatives to increase trainee numbers have been implemented.

PERFORMANCE TARGETS	PERFORMANCE
Quantity:	Substantially Achieved. The aviation operations capability had the personnel, aircraft and equipment holdings necessary to complete the tasks required of it. While a significant level of support to ADF operational commitments was achieved, some training activities were not fully supported and the rate of effort was constrained by pilot shortages for some aircraft and cracking in some Black Hawk airframes.
36 Black Hawk – 8,600 flying hours	36 Black Hawk – 6,765 hours achieved (79 per cent). While the airframe cracking situation improved during the year, flying hours were also reduced by an abnormally high separation rate for Black Hawk pilot instructors, a 20 per cent pilot shortfall and a lower than required number of trainees entering the Army. A modification program continues for the rectification of cracking and a variety of initiatives have been implemented to address the personnel issues.
1 Black Hawk Simulator – 2,275 hours	1 Black Hawk Simulator – 1,259 hours achieved (55 per cent). The underachievement was due to a shortage of pilots.
42 Kiowa – 12,848 flying hours	42 Kiowa – 13,003 hours achieved (101 per cent). The target was exceeded due to the Black Hawk underfly.
6 Chinook – 1,270 flying hours	6 Chinook – 1,364 hours achieved (107 per cent). The overachievement reflected the commitment to operations in the Middle East.
25 Iroquois – 5,055 flying hours	25 Iroquois – 4,579 hours achieved (91 per cent). In order to sustain Black Hawk commitments, pilots were cross-trained from Iroquois. Flying hours were also affected by a shortage of maintenance supervisors.
3 King Air – 2,000 flying hours	3 King Air – 2,094 hours achieved (105 per cent). The overachievement was partly to offset the Twin Otter underachievement.
2 Twin Otter – 1,200 flying hours	2 Twin Otter – 951 hours achieved (79 per cent). The result reflected fluctuating aircraft availability due to the age of the fleet. Availability is being intensively managed until the current contract expires in March 2005.

GROUND-BASED AIR DEFENCE

The ground-based air defence capability contributes primarily to the strategic task of supporting wider interests in more demanding contingencies and defending Australia. The capability is versatile and able to defend airspace in conjunction with other land and joint elements. The capability provides weapon systems that can be deployed on land or on board ships, to protect high-value targets from air attack. Forces are provided by 16th Air Defence Regiment, based in South Australia, which maintains a ground-based air defence system consisting of RBS70 shoulder-launched missile systems and Rapier missile systems.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Substantially Achieved. The ground-based air defence capability met most levels of preparedness as directed by the Chief of the Defence Force for military response options. Personnel deficiencies and ground-based air defence ammunition deficiencies affected levels of preparedness and sustainment for all military response options. Ammunition requirements have been addressed but, due to long procurement timelines, delivery will take several years. Personnel shortages are being rectified through recruiting programs. Elements of the capability were deployed to support the RAN on operations in the Middle East.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Substantially Achieved. Most training activities were achieved. Some training activities were not undertaken due to operational deployments.</p>
<p>Quantity: 16th Air Defence Regiment</p>	<p>Partially Achieved. While the ground-based air defence capability had insufficient personnel and ammunition sustainability stocks to fully achieve all capability requirements, a significantly reduced but credible capability existed.</p>

COMBAT SUPPORT OPERATIONS

The combat support operations capability contributes to supporting combat forces in the range of strategic environments in which they may be deployed. The capability supports combat operations through the provision of surveillance, intelligence, engineering, topographical, electronic warfare, communications and military police units. This capability is drawn from combat support units based throughout Australia. Small elements of the capability are held at high readiness to support the high readiness units in other sub-outputs.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Substantially Achieved. The combat support operations capability met most preparedness tasks as directed by the Chief of the Defence Force for military response options. Limitations due to some equipment and personnel deficiencies in key trades affected some preparedness tasks. The deficiencies in equipment and personnel are being addressed. The capability provided significant support to forces deployed on operations throughout the year in all theatres. A construction squadron provided significant support to the Aboriginal and Torres Strait Islander Commission/Army Community Assistance Program through the construction of facilities for remote indigenous communities in north-west Western Australia.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. Concurrent operations and personnel deficiencies, such as critical trade deficiencies, affected the achievement of some training requirements.

Quantity:

- a construction regiment comprising:
 - 2 construction squadrons,
 - a construction engineer works section,
 - a topographical survey squadron,
- a surveillance and target acquisition battery;
- a signals regiment;
- a signals squadron;
- an intelligence battalion;
- a military police battalion; and
- a combat training centre (live).

Substantially Achieved. The combat support operations capability had sufficient personnel and equipment to provide a reduced, yet credible capability.

REGIONAL SURVEILLANCE

The regional surveillance operations capability contributes to the strategic task of defending Australia by providing forces to patrol the north of Australia in support of the national surveillance effort. The capability is maintained through the employment of Army Reserve personnel drawn from the local communities and the indigenous population and consists of three regionally-based battalion-sized units known as Regional Force Surveillance Units.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Achieved. All levels of preparedness directed by the Chief of the Defence Force for military response options were achieved. The three regional force surveillance units provided support to border protection operations in support of Operation Cranberry.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Achieved. All training activities were achieved.</p>
<p>Quantity: Three regional force surveillance units.</p>	<p>Achieved. The regional surveillance operations capability has the personnel and equipment holdings necessary to complete the likely tasks required of it.</p>

LOGISTIC SUPPORT

The logistic support capability provides supply, transport, repair, maintenance, health and other logistic functions to support combat operations across the spectrum of conflict from high intensity conflict to civil emergencies. The capability is drawn from the Logistic Support Force which is a brigade-sized organisation comprising regular and reserve units collocated throughout Australia. The Logistic Support Force is capable of sustaining a brigade deployed on operations for extended periods while concurrently supporting an independent battalion group.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Substantially Achieved. The logistic support capability was capable of achieving most Chief of the Defence Force directed military response options, but personnel deficiencies in critical trades and limited reserve stocks adversely affected the sub-output.</p>

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. Concurrent operations and personnel deficiencies in a number of key trades affected the achievement of all training requirements.

Quantity:

Logistic Support Force and its integral logistic support units including:

- a headquarters and headquarters force support group;
- a construction regiment;
- 2 signals squadrons;
- 3 force support battalions;
- 3 ships army detachments;
- 3 health support battalions;
- a recovery company;
- a petroleum company;
- a psychology unit; and
- a deployed forces support unit.

Substantially Achieved. The logistic support capability had insufficient personnel and equipment to achieve the likely tasks required of it. However, a reduced, yet credible level of capability was maintained.

MOTORISED INFANTRY OPERATIONS

The motorised infantry operations capability contributes to the strategic tasks of defending Australia and securing our immediate neighbourhood. The capability complements the 1st and 3rd Brigades by providing a range of highly mobile forces to conduct land manoeuvre operations utilising surprise, offensive action and concentration of force in order to disrupt or destroy enemy forces’ plans, cohesion and morale. The capability is maintained at medium readiness. The capability is derived mainly from the 7th Brigade, an integrated formation, based in Brisbane.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Partially Achieved. The motorised infantry operations capability was not capable of achieving all Chief of the Defence Force directed military response options due to equipment deficiencies, personnel deficiencies in key trades and sustainability issues. Personnel and equipment deficiencies are being addressed through ADF recruiting and retention programs.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Partially Achieved. Most training activities were successfully conducted. Some collective training activities were reduced in scope due to deficiencies in equipment, personnel and some types of ammunition.

PERFORMANCE TARGETS

PERFORMANCE

Quantity:

7th Brigade, comprising:

- a headquarters;
- a reconnaissance regiment;
- 2 motorised battalions; and
- combat and logistic support units.

Substantially Achieved. Regular units within the motorised infantry operations capability achieved the required staffing levels, providing a credible level of preparedness.

Partially Achieved. Reserve units within the motorised infantry operations capability achieved lower than expected recruiting targets which affected staffing levels for the capability.

PROTECTIVE OPERATIONS

The protective operations capability contributes to the strategic tasks of defending Australia and contributing to regional security by providing reinforcements for deployed regular units and a mobilisation base for subsequent rotations in the event of protracted operations. The capability is drawn from the reserve formations based across Australia. These forces possess core skills attained through unit training to enable them to reinforce existing units that are maintained at varying degrees of readiness. These forces are currently being trained to assist in the event of a domestic security incident.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Partially Achieved. The protective operations capability was unable to achieve most CDF directed military response options due to deficiencies in equipment and personnel in key trades. Personnel deficiencies are being addressed through ADF recruiting and retention programs, while initiatives such as the Ready Response Force will address the readiness of these units.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Partially Achieved. Most training activities were successfully conducted. Some collective training activities were reduced in scope due to deficiencies in equipment, personnel and some types of ammunition.

Quantity:

4th, 5th, 8th, 9th, 11th and 13th Brigades, each comprising:

- a headquarters;
- 2 or 3 infantry battalions;
- an armoured reconnaissance unit; and
- combat and logistic support units.

Partially Achieved. While personnel availability for units was at sub-optimal levels, personnel from the capability still provided a reinforcement and rotation base within the combat force component of the Army.

PRICE TO GOVERNMENT

TABLE 2.12: PRICE OF OUTPUT THREE: ARMY CAPABILITIES

	ADJUSTED BUDGET ESTIMATE 2002-03	REVISED ESTIMATE 2002-03	PROJECTED RESULT 2002-03	ACTUAL RESULT 2002-03	VARIATION
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Expenses					
Employees - Military	2,345,186	2,257,311	2,294,463	2,372,396	77,933
Employees - Civilian	260,753	344,961	375,540	383,428	7,888
Sub-total Employees	2,605,939	2,602,271	2,670,003	2,755,824	85,821
Suppliers - Non inventory	1,110,665	1,146,601	1,086,863	1,274,993	188,130
Suppliers - Inventory	282,561	281,995	292,353	417,011	124,658
Sub-total Suppliers	1,393,226	1,428,597	1,379,216	1,692,004	312,788
Depreciation and amortisation	657,264	578,050	600,749	533,631	-67,118
Value of assets sold				273,043	273,043
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	55,337	188,503	150,586	257,601	107,015
Other expenses (includes borrowing cost expense and Grants)	17,686	17,659	17,681	171,118	153,437
Total Operating Expenses from Ordinary Activities	4,729,452	4,815,080	4,818,234	5,683,221	864,987
Revenues					
Assets now recognised	-18,853	-142,434	-140,524	-264,138	-123,614
Revenue from sale of assets		-8,816		-310,775	-310,775
Other revenues	-112,507	-109,603	-148,527	-126,940	21,587
Total Own Source Revenues	-131,360	-260,852	-289,051	-701,853	-412,802
Price to Government for Output Three	4,598,092	4,554,228	4,529,184	4,981,368	452,184

EXPLANATION OF SIGNIFICANT VARIATION

The overall price of Output Three was \$452m higher than the 2002-03 projected result, representing an increase of ten per cent. The major variations were due to:

- a net increase in military employee expenses (+\$78m) due to:

- an underestimation of the salary arrears estimates which has been corrected for future years (+\$26m);
- an acceleration towards the White Paper workforce target of 26,000 to take advantage of favourable recruiting outcomes (+\$26m);
- an overstatement of overseas allowances (+\$13m); and
- other attributions variations (+\$13m).
- an increase in civilian employee expenses (+\$8m) due to higher than planned strength and per capita costs, together with refinement of the attribution rules including the allocation of security staff costs across all outputs;
- an increase in suppliers non-inventory expenses (+\$188m) due to:
 - a change in the accounting treatment between the capital and operating mix in the major capital equipment program (+\$81m);
 - additional logistic and operational requirements (+\$104m); and
 - accounting adjustments due to a correction of data reported in 2001-02 (+\$3m).
- an increase in suppliers inventory expenses (+\$125m) reflecting purchases of additional inventory items to meet logistic and operational requirements;
- a decrease in depreciation expenses (-\$67m) due to a refinement of attribution rules to reflect a move from a generic to a more output-specific attribution of costs;
- an increase in the value of assets sold (+\$273m) due to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds;
- a net increase in write down of assets expenses (+\$107m) due to ongoing work to refine Defence's asset holdings and valuations;
- an increase in other expenses (+\$153m) due to the recognition of Defence's potential liability for compensation claims arising from asbestos exposure that was identified in a recent whole-of-government actuarial report;
- an increase in assets now recognised revenue (-\$124m) due to:
 - the take-up of inventories recorded on the Army's Q-Store system into SDSS and additional inventory price adjustments (-\$203m); and
 - other variations due predominantly to the booking of the SDSS to ROMAN reconciliation (+\$79m).
- an increase in revenue from sale of assets (-\$311m) due predominantly to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds (-\$273m); and
- a decrease in other revenue (+\$22m) due to a variation in the revenue attributed to Output Three by Defence Groups, which has been corrected for future years.

OUTPUT FOUR: AIR FORCE CAPABILITIES

The Air Force contributed forces to the ADF's capacity to defeat attacks against Australia, defend regional and global interests, shape the strategic environment and protect national interests. The Air Force provided capabilities for precision strike operations, offensive and defensive counter-air operations, wide-area surveillance, air defence and airspace control, maritime patrol, anti-submarine and anti-surface warfare activities, tactical and strategic airlift, and combat support for air operations. These combat capabilities encompass air strike and reconnaissance, tactical fighter operations, strategic surveillance, maritime patrol aircraft operations, airlift, and combat support of air operations.

The Air Force also contributed to the maritime surveillance of Australian and regional economic exclusion zones, search and survivor assistance, aeromedical evacuations and VIP transport.

PERFORMANCE SUMMARY

OVERVIEW

The year was operationally demanding, with the majority of Air Force elements supporting the conduct of expeditionary operations into the nearer region and niche operations further afield in the context of coalition activity.

P-3 Orion long range maritime patrol aircraft continued involvement in a major surveillance operation (Operation Relex II) in the northern sea/air gap throughout the year. In addition, major force elements deployed to the Middle East included B707 air-to-air refuellers, F/A-18 Hornet fighter aircraft, P-3 aircraft and C-130 Hercules transport aircraft. These were supported by the expeditionary combat support squadrons and other support elements such as imagery analysts. Air Force air traffic controllers played a critical role in reactivating Baghdad International Airport under very difficult circumstances. Air Force medical and C-130 staff provided a rapid response to a major emergency, following the Bali bombings in October 2002, and evacuated a significant number of injured people to Australia.

While the year was very busy, the level of achievement was exceptional in a number of key areas, including surveillance activity and recovery of the F-111 fleet. The operational tempo of the past year, while reducing the capacity to support some aircraft upgrades and higher level training, demonstrated the Air Force's capacity to achieve its goals and meet the expectations of the Government and the Australian people.

Our retention was at the best level for many years, with separations for officers at 6.2 per cent and other ranks at 8.5 per cent. Overall recruiting performance was also excellent.

PLANNED MITIGATION OF KEY RISKS

Personnel. During the past year, Air Force personnel numbers continued to improve. Aircrew numbers were healthy, although experience levels remained low in some areas. There remains a shortage of some key personnel groupings including air traffic controllers, logistic officers and some technical trades, such as communications electronics technicians and signal operators. A number of personnel initiatives, including recruitment and retention benefits and other strategies, have been implemented to address these deficiencies.

Recruiting and Retention. While overall separations remained low, some categories continued to have high separations and low recruitment rates. The separation rate for officers was 6.2 per cent, although some smaller categories, such as airfield engineers at 17 per cent, predominantly at the flight lieutenant and squadron leader ranks, had higher rates. The overall separation rates for airmen and airwomen was 8.5 per cent, although the rate of the signals operators category was around 10 per cent (21 per cent at corporal rank), and that for the communications electronics technicians category was 11 per cent (20 per cent at flight sergeant rank). Recruiting results were good overall but, as with separation rates, some smaller employment groups experienced ongoing problems; for example, the air traffic controller category achieved only 33 per cent of its recruiting target and the ground support engineering category 66 per cent of target.

Ageing equipment. Ageing aircraft issues continued to impact on the Air Force through continuing higher repair and maintenance costs, and fatigue and corrosion management. However, the F-111 capability made a significant recovery from the major ageing aircraft related incidents that occurred during the previous year. These problems resulted in increased inspections, repair, and fatigue and corrosion management. The wing recovery program is ahead of schedule and aircraft availability has returned to required levels. Deployment of two B707 air-to-air refuellers to Kyrgyzstan to support Afghanistan operations resulted in an extended remediation program and, as expected after an intense operation, it will take some time to regenerate the capability to previous levels.

Logistics. Logistic pressures affecting F/A-18 and C-130J aircraft have been remediated for four years in the context of the 2003-04 Budget.

Training. Training was reduced in some key areas, so that the operational tempo could be maintained. This will take some time to recover.

Air combat edge. The air combat capabilities of a number of defence forces in the region have grown steadily in recent years. The Air Force is maintaining the edge through a series of enhancements to combat aircraft and their weapons, either in progress or identified in the Defence Capability Plan. Teams have been established to continue negotiations for the acquisition of a new air combat aircraft and new air-to-air refuelling aircraft. Continued enhancement of the Jindalee Operational Radar Network will improve surveillance capabilities and maintain our combat edge.

Forward deployment capability. The Air Force's ability to provide combat support and sustainment to air operations, concurrently with a recognised air picture for deployed operations, was limited by ageing systems' issues associated with the mobile

control and reporting capability. Remediation to replace ageing mobile air surveillance, control and reporting capability commenced in 2002-03 and will continue over the next three years.

SAFETY ENHANCEMENT

The Air Force undertook comprehensive safety audits of all units to measure performance against Australian standards and ensure continuous improvement. A program of annual audits was also introduced. Following a review of safety training, the Air Force plans to progressively integrate safety training into the professional military education and training scheme. As an interim step, specialist training will be provided, where necessary, to cover specific areas at risk as highlighted in the audits.

The Board of Inquiry into the F-111 deseal/reseal program highlighted issues with Air Force performance and methodologies. A program to address these issues was ongoing throughout the year.

CAPABILITY PERFORMANCE INFORMATION

PERFORMANCE TARGETS

CAPABILITY FOR STRIKE AND RECONNAISSANCE

Provides F-111 aircraft, crews and weapon systems at the level of capability required to perform strike operations against land and maritime targets, to provide support for ground forces, and to conduct counter air and air reconnaissance tasks.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality:</p> <p>Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Partially Achieved. At the start of the period, F-111 capability was restricted by ageing aircraft issues. Preparedness levels improved steadily over the year, and by the end of 2002-03 were approaching required levels. Of particular note was the strong performance of the F-111 at the 'Red Flag' exercise in September 2002. During this exercise, the F-111 was the only capability to meet all sortie requirements and the crews performed above expectations.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Partially Achieved. Limited aircraft availability restricted training during the early parts of the year, mitigated by the availability of the simulator, which has recently been upgraded. This limitation was largely remedied by the end of the reporting period.</p>
<p>Quantity:</p> <p>17 F-111C</p> <p>4 RF-111C</p>	<p>17 F-111C.</p> <p>4 RF-111C.</p>

14 F-111G - 2,600 flying hours	7 F-111G. In addition, 2 aircraft have been reallocated as breakdown spares and a further 5 aircraft have been quarantined in long-term storage, in line with the logistics support concept. 2,779 hours (107 per cent) were achieved as a result of earlier-than-anticipated recovery of aircraft availability.
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CAPABILITY FOR TACTICAL FIGHTER

Provides F/A-18 Hornet aircraft, crews and weapon systems at the level of capability required to perform operations to support control of the air, provide support for ground forces, strike against targets in both land and maritime environments and provide limited air reconnaissance capabilities. Hawk lead-in fighters and PC-9 forward air control aircraft contribute to this capability.

PERFORMANCE TARGETS

PERFORMANCE

Quality:

Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.

Achieved. Demonstration of preparedness levels was evidenced in the deployment of F/A-18 aircraft to the Middle East for combat operations in Iraq.

Achieve a level of training that maintains core skills and professional standards across all warfare areas.

Substantially Achieved. While minor skills degradation for some Australia based F/A-18 crews eventuated as a result of high operational tempo and deployment of key training equipment, a high level of training and professional standards was maintained throughout. The availability of Hawk lead-in fighters showed steady improvement.

Maintain a substantial contribution to the war on terror.

Maintained. The deployment of personnel and aircraft to support Operation Slipper, and then Operations Bastille/Falconer, was a substantial commitment.

Continue upgrades to F/A-18.

Hornet upgrades have been continuing as planned.

Quantity:

71 F/A-18 - 12,500 flying hours

71 F/A-18 - 14,077 hours (113 per cent) were achieved. The significant increase in the rate of effort was due to support for Operations Bastille and Falconer.

33 Hawk - 7,100 flying hours

33 Hawk - 6,691 hours (94 per cent) were achieved. The rate of effort has been slowly increasing towards desired levels, but aircraft serviceability remains below desired levels due to teething issues introducing the new capability.

4 P-C9/A(F) (forward air control role only) - 1,030 flying hours

4 PC-9/A(F) (forward air control role only) - 610 hours (59 per cent) achieved due to the inability to generate sufficient serviceable aircraft and high personnel operational tempo due to personnel deployments.

CAPABILITY FOR STRATEGIC SURVEILLANCE

Provides sensors and battlespace management elements as support for wide-area aerospace surveillance, air defence, airspace control, and battlespace management.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Substantially Achieved. The reduced reliability of ageing mobile radars precluded preparedness levels from being fully achieved.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Substantially Achieved. Shortfalls in some personnel specialisations and musterings have continued to affect skills and standards in some areas.</p>
<p>Maintain a substantial contribution to the war on terror.</p>	<p>Maintained. The deployment of personnel to support Operation Falconer/Catalyst late in the year was a substantial commitment and is recognised by our coalition partners as a very successful operation.</p>
<p>Quantity: 10 air traffic control radars</p>	<p>9 fixed air traffic control radars and 1 mobile air traffic control radar system were in operation.</p>
<p>3 tactical air defence radars</p>	<p>2 tactical air defence radars. Obsolescence issues resulted in the decommissioning of 1 tactical air defence radar system.</p>
<p>Over the horizon radar network including 2 over the horizon radar, known as the Jindalee Operational Radar Network, 1 over the horizon radar, known as the Jindalee Facility Alice Springs, and the Jindalee Operational Radar Network Co-ordination Centre operating 16 hours x 7 days x 47 weeks per year, in addition to research and development and other activities.</p>	<p>The Jindalee Operational Radar Network commenced operations in May 2003. Network usage for the period was 100 per cent of assigned hours. The Jindalee Facility Alice Springs achieved over 5,136 hours in total, of which 2,638 hours were operations. This represented a 51 per cent operational availability, above the required 35 per cent operational target, while still achieving required research and development activities.</p>
<p>3 tactical operations centres</p>	<p>1 fixed and 1 mobile tactical operations centre available. Obsolescence issues resulted in the decommissioning of a fixed tactical operations centre, while operation of the mobile tactical operations centre remained restricted.</p>
<p>National and tactical air traffic control</p>	<p>Provision of tactical air traffic control services in the roles of mobile air operations teams, airspace control element, mobile airspace control element and amphibious airspace control element. Activity levels met planned requirements for tactical air traffic control during current operations.</p>

CAPABILITY FOR MARITIME PATROL

Provides P-3 aircraft, crews and weapon systems at the level of capability required to conduct maritime surveillance and reconnaissance operations, anti-submarine and anti-surface warfare, maritime strike, and search and survivor assistance activities.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality:</p> <p>Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Substantially Achieved. Preparedness targets were met or exceeded with the exception of requirements to cater for more complex threats.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Substantially Achieved. High operational tempo in the surveillance role and transition activities to the new aircraft reduced the capacity to complete all training activities in the high-end war-fighting roles.</p>
<p>Maintain a substantial contribution to the war on terror.</p>	<p>Maintained. The deployment of personnel and aircraft to support Operations Slipper and Falconer was a substantial and successful commitment.</p>
<p>Maintain high levels of preparedness for surveillance operations, including search and rescue.</p>	<p>Maintained. The P-3 Orion fleet was substantially committed to multiple surveillance operations throughout the period. The Air Force maintained the search and rescue requirement between P-3 Orion and C-130 Hercules aircraft.</p>
<p>Quantity:</p> <p>22 P-3 Orion aircraft - 9,600 flying hours</p>	<p>22 P-3 Orion aircraft - 8,172 hours (85 per cent) achieved. The shortfall was the result of high levels of preparedness being maintained and the inability to generate sufficient aircraft due to the high operational tempo in conjunction with transition activities linked to the introduction of the AP-3.</p>
<p>Continue introduction of AP-3 through the upgrade program</p>	<p>8 AP-3 were introduced. This was slightly ahead of schedule as the final aircraft was not due for introduction until late 2003.</p>

CAPABILITY FOR AIR LIFT

Provides airlift aircraft, crews and weapon systems at the level of capability required to provide air logistics support, airborne operations, aeromedical evacuation, special operations, search and survivor assistance, VIP flights, air-to-air refuelling, navigator training support, and surveillance operations.

PERFORMANCE TARGETS	PERFORMANCE
Quality:	
Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.	Substantially Achieved. Commitments to ongoing operations have been maintained, although some of the more demanding preparedness targets were met with some restrictions, primarily as a result of aircraft availability.
Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. Some tactical roles involving the C-130J were still under development.
Maintain high levels of preparedness for search and rescue and surveillance operations.	Maintained. The P-3's high operational tempo required the transfer of some activities to the C-130 fleet. Nevertheless, high levels of preparedness for search and rescue and surveillance operations were maintained.
Maintain a substantial contribution to the war on terror.	Maintained. The deployment of personnel and aircraft to support Operations Slipper and then Falconer was a substantial and successful commitment.
Quantity:	
24 C-130 - 14,000 flying hours	24 C-130 - 13,622 hours (97 per cent) achieved.
4 B707 - 2,150 flying hours	4 B707 - 1,377 hours (64 per cent) achieved. The low rate of effort reflected emerging ageing aircraft issues exacerbated by the high operational tempo early in the reporting period and the requirement for an extended remediation program for the two aircraft returning from Kyrgyzstan.
14 Caribou - 5,080 flying hours	14 Caribou - 4,332 hours (85 per cent) achieved. The rate of effort was less than forecast but slightly improved over previous years. Reduced availability due to ageing aircraft issues and delays in scheduled maintenance continued to affect availability.
2 Boeing 737 BBJ - 1,200 flying hours	2 Boeing 737 BBJ - 970 hours (81 per cent) achieved. The rate of effort was driven primarily by non-Defence related VIP commitments.
3 CL604 Challenger - 2,100 flying hours	3 CL604 Challenger - 1,601 hours (76 per cent) achieved. The rate of effort was driven primarily by non-Defence related VIP commitments.
3 Falcon - 1,000 flying hours	3 Falcon - 681 hours (68 per cent) achieved. The rate of effort was driven primarily by non-Defence related VIP commitments.

PERFORMANCE TARGETS	PERFORMANCE
Withdraw remaining Falcon VIP aircraft	All remaining Falcon aircraft were withdrawn from service and returned to their owner by December 2002.
Introduce remaining Special Purpose aircraft	The remaining three Special Purpose aircraft were introduced into service during 2002-03.

CAPABILITY FOR COMBAT SUPPORT OF AIR OPERATIONS

Provides operations support activity required to support both expeditionary air bases within Australia and overseas in contingencies, and main operating bases day-to-day in Australia.

PERFORMANCE TARGETS	PERFORMANCE
<p>Quality: Achieve levels of preparedness directed by the Chief of the Defence Force for military response options with a warning time of less than 12 months.</p>	<p>Achieved. Achievement of preparedness levels was evidenced in the support of a number of deployments enabling combat operations in the Middle East and continued operations in East Timor.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas.</p>	<p>Substantially Achieved. Continued high operational tempo prevented full achievement of training requirements.</p>
<p>Quantity: 2 combat support wings; 1 Expeditionary Combat Support Wing; 1 combat reserve wing; 1 air field defence wing; and 1 health services wing.</p>	<p>Partially Achieved. Overall personnel numbers across the output improved to acceptable levels, although personnel shortfalls in some specialist areas persisted due to delays in commercialisation initiatives and personnel impacts from delays to projects.</p>
<p>Increase personnel and introduce new or upgraded equipment into service, including new equipment provided under East Timor remediation</p>	<p>Substantially Achieved. Most significant equipment deficiencies have been addressed.</p>

PRICE TO GOVERNMENT

TABLE 2.13: PRICE OF OUTPUT FOUR: AIR FORCE CAPABILITIES

	ADJUSTED BUDGET ESTIMATE 2002-03 \$'000	REVISED ESTIMATE 2002-03 \$'000	PROJECTED RESULT 2002-03 \$'000	ACTUAL RESULT 2002-03 \$'000	VARIATION \$'000
Operating Expenses					
Employees - Military	1,079,568	1,071,469	1,126,419	1,127,771	1,352
Employees - Civilian	230,608	273,068	294,177	319,388	25,211
Sub-total Employees	1,310,175	1,344,537	1,420,595	1,447,159	26,564
Suppliers - Non- inventory	1,147,073	1,153,672	1,113,128	1,216,654	103,526
Suppliers - Inventory	249,664	248,648	285,814	318,349	32,535
Sub-total Suppliers	1,396,737	1,402,320	1,398,941	1,535,003	136,062
Depreciation and amortisation	1,002,280	1,132,538	953,964	1,330,872	376,908
Value of assets sold				203,024	203,024
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	21,567	210,409	215,400	67,945	-147,455
Other expenses (includes borrowing cost expense and grants)	7,452	7,409	7,394	85,708	78,314
Total Operating Expenses from Ordinary Activities	3,738,211	4,097,213	3,996,296	4,669,711	673,415
Revenues					
Assets now recognised	-20,471	-147,873	-137,511	-265,927	-128,416
Revenue from sale of assets		-4,042		-179,240	-179,240
Other revenues	-44,664	-82,851	-51,166	-66,422	-15,256
Total Own Source Revenues	-65,135	-234,766	-188,677	-511,589	-322,912
Price to Government for Output Four	3,673,076	3,862,447	3,807,619	4,158,122	350,503

EXPLANATION OF SIGNIFICANT VARIATION

The overall price of Output Four was \$351m higher than the 2002-03 projected result, representing an increase of nine per cent. The major variations were due to:

- a net increase in military employee expenses (+\$1m) due to:
 - an underestimation of the salary arrears estimates which has been corrected in future years (+\$8m);

- an actuarial adjustment to update parameters for military workers compensation liability (+\$26m);
- a refinement of attribution rules for housing (-\$20m);
- a refinement of attribution rules for health costs (-\$6m); and
- other minor variations, including an overestimation of allowances (-\$7m).
- an increase in civilian employee expenses (+\$25m) due to a higher than planned strength and per capita costs attributed to Output Four, together with refinement of the attribution rules including the allocation of security staff costs across all outputs;
- the increase in suppliers non-inventory expenses (+\$104m) due mainly to:
 - a change in accounting treatment between the capital and operating mix in the major capital equipment program (+\$126m); and
 - other variations including refinement in costs attributed to Output Four by Defence Groups to better reflect the attribution of suppliers expenses across all outputs (-\$22m).
- an increase in suppliers inventory expenses (+\$33m) due to the purchases of additional inventory items to meet operational requirements, part of which was funded out of Defence's cash reserves;
- an increase in depreciation expenses (+\$377m), due mainly to:
 - the different treatments applied at budget and in the actual results associated with disposal of APG-65 radars from the F/A-18 aircraft (+\$155m); and
 - a refinement of attribution rules to reflect a move from a generic to a more output-specific attribution of costs, including other minor variations (+\$221m).
- an increase in the value of assets sold (+\$203m) due to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds;
- a net decrease in write down of assets expenses (-\$147m) due to an overestimation of the projected result in equipment obsolescence provisions and pricing adjustments;
- an increase in other expenses (+\$78m) due mainly to the attribution to Output Four of Defence's potential liability for compensation claims arising from asbestos exposure that was identified in a recent whole-of-government actuarial report;
- an increase in assets now recognised revenue (-\$128m) due to additional inventory price adjustments, and the booking of the SDSS to ROMAN reconciliation and other miscellaneous adjustments;
- an increase in revenue from sale of assets (-\$179m) due mainly to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds; and
- a net increase in other revenue (-\$15m) due mainly to a variation in the revenue attributed to Output Four by Defence Groups, which has been corrected for future years.

OUTPUT FIVE: STRATEGIC POLICY

Output Five provided strategic policy advice to the Government on Australia's strategic circumstances and specific security issues. This contributed to the achievement of Australia's strategic objectives of supporting global security and stability in the wider Asia Pacific region. This output provided strategic policy guidance to other areas of Defence on force structure, capability development, preparedness of ADF elements, international relationship management, and operational matters. It also managed the Defence Cooperation Program.

PERFORMANCE SUMMARY

PERFORMANCE TARGET

THE FIRST ANNUAL REVIEW OF AUSTRALIA'S STRATEGIC ENVIRONMENT BY EARLY 2002-03

Achieved

Australia's National Security: A Defence Update 2003 was released in February 2003. The Update reviewed the implications of the evolving strategic environment for Australia's defence posture and concluded that, while the principles set out in the Defence White Paper remain sound, some rebalancing of capability and expenditure would be necessary. The detailed assessment of the rebalancing required is being undertaken through the Defence Capability Review to be completed in late 2003.

Defence provided policy advice to the Government on the deployment of specialised ADF capabilities that would offer a meaningful contribution to the United States-led operations against terrorism and to prevent the spread of weapons of mass destruction. This included policy advice on operations in Afghanistan, the deployment of military assets to the Middle East and the war in Iraq. Policy support was provided to the negotiation of access and basing agreements in support of deployed ADF elements. Defence also increased its representation in the Middle East to support Australia's defence engagement programs in the region.

STRATEGIC REVIEW OF INTEROPERABILITY BETWEEN THE ADF AND US FORCES

Achieved

Agreement was reached with the United States to establish Defence policy talks and joint staff talks. These forums will improve Australia's ability to have input into United States defence decision-making through headquarters to headquarters dialogues. The United States was also engaged in areas relating to access to military technology. The bilateral interoperability review completed its appraisal of strategic interoperability and is now reviewing operational interoperability.

DEVELOP RELATIONSHIPS WITH INDONESIA IN CONSULTATION WITH THE DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

Achieved

Australia and Indonesia continued to progress the defence relationship focusing on areas of mutual interest, at a pace comfortable to both governments. The post-Bali bombing environment led to the postponement of several senior-level visits in late 2002 and early 2003. Dialogue was maintained through a visit by the Chief of Air Force, reciprocal visits by both Deputy Chiefs of Army, visits between the Commander Northern Command and his three TNI counterpart commanders, and high level Defence participation in the Australia-Indonesia ministerial forum in March 2003. Defence also conducted preliminary discussions with the Indonesian armed forces on possible counter-hijack and hostage recovery co-operation relating to the safety of Australians overseas.

COMMITMENT OF FORCES TO THE UNITED NATIONS PEACEKEEPING OPERATION IN EAST TIMOR

Achieved

Australia continued to provide substantial support to the development of the East Timor Defence Force and Defence Secretariat. Defence provided advisory support, professional skills training and English-language training in-country. Inaugural bilateral Defence Cooperation talks were held which reviewed the program of Australian assistance and identified several areas for further defence cooperation. In addition, Australia continued to provide a significant commitment of forces to the United Nations peacekeeping operation in East Timor.

JOINT REVIEW OF AUSTRALIAN AND NEW ZEALAND TRAINING AND EXERCISING PROGRAM INTEROPERABILITY

Achieved

Australian and New Zealand Defence Ministers agreed to a new statement on Australia – New Zealand closer defence relations in June 2003. The statement included a description of the outputs sought from the bilateral defence relationship. More frequent reporting to Ministers, aligned to the objectives set out in the statement, and including interoperability issues, will help in making judgements on future priorities.

MITIGATION OF KEY RISKS

The Defence *Portfolio Budget Statements 2002-03* identified four key risks that could adversely affect the performance of the Strategic Policy output. The first of these risks was the prospect of deterioration in Australia's strategic circumstances, both generally and with respect to specific potential crises. To mitigate this risk, Defence continuously reviewed the strategic environment to ensure its capabilities were appropriate to respond to possible threats and contingencies. *Australia's National Security: A Defence Update 2003* was one such review, although more regular classified strategic reviews were produced for internal planning purposes. The Strategic Policy Group managed the 'lessons learnt' process for operations in Iraq to draw lessons from

Defence's involvement and to ensure that defence capabilities remain relevant and the benefits of operational experience are utilised.

The second risk identified was the need to ensure that Strategic Operations Division, which moved to the Vice Chief of the Defence Force Group in February 2003, had access to sufficient staff to provide the capacity for continuous 24-hour command and control. Careful management of personnel allowed watch-keeping staff to be augmented during periods of high operational tempo. However, the shortage of permanent staff within some areas of Strategic Operations Division and the availability of adequate personnel, particularly during periods of high operational tempo, will need to be managed to minimise this risk.

The third risk identified was the risk management of infrastructure development projects in regional countries funded under the Defence Cooperation Program. This risk was mitigated by improving controls in place in support of Defence Cooperation projects. This was achieved by ensuring in-country advisers were adequately qualified and given the appropriate delegation and support, communication with officials from other countries was clear and in the best interests of Australia and the region, and appropriate guidance and supervision was provided in the management of projects.

The final risk identified was the need to ensure that policy staff have sufficient capacity to handle core priorities at times of increased operational tempo, such as that associated with the war on terror. This concern was addressed through a variety of strategies including the continuous monitoring of workloads and reviewing priorities. A reassignment of personnel occurred to meet additional demands during the period of increased activity associated with Iraq.

CAPABILITY PERFORMANCE INFORMATION

PERFORMANCE TARGETS

Strategic and International Policy Activities and Engagement

Includes all international policy activities, encompassing policy development and advice on international issues including guidance for Defence Cooperation expenditure, Defence International Engagement Plan development, Defence Attaches, Defence engagement with allies, contribution to multilateral activities and crisis management.

PERFORMANCE TARGETS	PERFORMANCE
<p>Provide timely and responsive strategic policy advice to the Government to enable it to make sound judgements on, and to respond to, Australia's strategic circumstances, and specific security issues as they arise.</p>	<p>Achieved. Defence provided timely and responsive strategic policy advice to the Government. This included policy advice to support Ministerial visits to foreign countries. Defence also provided advice on issues associated with the war on terror and the implications of United States defence policy, the war in Iraq, the withdrawal of the Peace Monitoring Group from Bougainville, strengthened assistance to the Solomon Islands, further support to the Papua New Guinea Government's defence reform program, defence relations with the wider Asian region, tensions in the Middle East, and the development of defence cooperation with other nations. Defence provided advice on initiatives aimed at preventing the spread of weapons of mass destruction. It also contributed advice as part of the Government's exports control regime.</p>
<p>Provide strategic policy guidance to enable other areas of Defence to make sound recommendations or decisions, as appropriate, to the Government on international relationship management.</p>	<p>Achieved. Strategic policy guidance was provided to other areas of Defence on international engagement. This included advice on international defence relations associated with the war on terror, and policy support for strategic-level dialogue between senior Australian and foreign defence officials. The Strategic Policy Group advised other areas of Defence on the conduct of training, and training-related projects and exercises conducted under the Defence Cooperation Program. Advice was also provided in relation to strategic crisis management arrangements and the development of ADF contingency planning for potential operations in the region.</p>
<p>Effectively manage the Defence Cooperation Program to achieve the aims of the program.</p>	<p>Achieved. Defence successfully managed the Defence Cooperation Program to achieve significant outcomes despite the impact of world events, such as the Severe Acute Respiratory Syndrome outbreak and the increased operational tempo generated by the war in Iraq. This involved activities aimed at strengthening defence relationships in accordance with the international engagement objectives articulated in the Defence International Engagement Plan, including the provision of training, technical advice, infrastructure development and logistics support to regional nations.</p>

MILITARY STRATEGY AND COMMAND

Involves assisting the Chief of the Defence Force in the command and the control of the ADF by contributing to the provision of military strategic advice, monitoring ADF operations, and shaping and influencing the whole-of-government crisis management process. It also involves developing strategic guidance for decisions about capability and warfighting.

PERFORMANCE TARGETS	PERFORMANCE
<p>Provide timely and responsive strategic policy advice to the Government to enable it to make sound judgements on, and to respond to, Australia's strategic circumstances, and specific security issues as they arise.</p>	<p>Achieved. Defence provided timely and responsive strategic policy advice on developments in the strategic environment that might have implications for the employment of the ADF. This advice included development of <i>Australia's National Security: A Defence Update 2003</i>, and input to the Joint Standing Committee on Foreign Affairs, Defence and Trade, Defence Sub-Committee's <i>Inquiry into Australia's Maritime Strategy</i>. The major key military operation in support of Government policy, Operation Bastille/Falconer (operations in Iraq), was planned and successfully executed in the required timeframe. Planning for Operation Catalyst (Australia's contribution to the rehabilitation of Iraq) was also undertaken. Other military operations that support Australia's foreign policy objectives and national sovereignty interests were sustained during this period of high activity. These included Operations Citadel, Slipper, Relex II and Bel Isi.</p>
<p>Provide strategic policy guidance to enable other areas of Defence to make sound recommendations or decisions, as appropriate, to the Government on force structure, capability development, preparedness of ADF elements and operational matters as they arise.</p>	<p>Achieved. Strategic policy guidance was provided to other areas of Defence on the strategic context for decisions on capability development. Particular examples include the <i>Future Warfighting Concept</i>, <i>Foundations of Australian Military Doctrine</i>, ADF Preparedness Planning Guidance, Monthly Defence Performance Summary, <i>Statement of Military Strategic Priorities</i>, <i>Enabling Multidimensional Manoeuvre</i> and Quarterly Strategic Reviews. In addition, ad hoc advice was provided on issues as they arose, including the terrorist attacks in the region and the war in Iraq.</p>

PRICE TO GOVERNMENT

TABLE 2.14: PRICE OF OUTPUT FIVE: STRATEGIC POLICY

	ADJUSTED BUDGET ESTIMATE 2002-03	REVISED ESTIMATE 2002-03	PROJECTED RESULT 2002-03	ACTUAL RESULT 2002-03	VARIATION
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Expenses					
Employees – Military	67,253	68,370	57,388	48,967	-8,421
Employees – Civilian	38,406	35,428	37,496	31,596	-5,900
Sub-total Employees	105,659	103,799	94,884	80,563	-14,321
Suppliers – Non- inventory	110,236	106,920	106,662	93,248	-13,414
Suppliers – Inventory	686	321	276	3,288	3,012
Sub-total Suppliers	110,922	107,242	106,938	96,536	-10,402
Depreciation and amortisation	14,554	3,454	5,946	3,719	-2,227
Value of assets sold				2,023	2,023
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	-237	405	531	2,873	2,342
Other expenses (includes borrowing cost expense and grants)	111	133	121	4,978	4,857
Total Operating Expenses from Ordinary Activities	231,009	215,033	208,419	190,692	-17,727
Revenues					
Assets now recognised	3	-227	-543	-1,933	-1,390
Revenue from sale of assets		-106		-2,267	-2,267
Other revenues	-4,232	-4,436	-11,240	-7,669	3,571
Total Own Source Revenues	-4,228	-4,768	-11,783	-11,869	-86
Price to Government for Output Five	226,781	210,265	196,636	178,823	-17,813

EXPLANATION OF SIGNIFICANT VARIATION

The overall price of Output Five was \$18m lower than the 2002-03 projected result, representing a decrease of nine per cent. The variations were due to:

- a decrease in military employee expenses (-\$8m) as a result of a refinement of the attribution rules;

- a decrease in the costs of civilian employees (-\$6m) attributed to Output Five from Defence Groups;
- a decrease in suppliers non-inventory expenses (-\$13m) due mainly to a refinement of the attribution rules and an underachievement in the Defence Cooperation Program as a result of unexpected world events, such as the Severe Acute Respiratory Syndrome (SARS) outbreak, and an increased operational tempo, which restricted ADF participation in Defence Cooperation activities;
- an increase in suppliers inventory expenses (+\$3m) reflecting the purchases of additional inventory items to meet logistic and operational requirements, part of which was funded out of Defence's cash reserves; and
- an increase in other expenses (+\$5m) due to recognition of Defence's potential liability for compensation claims arising from asbestos exposure that was identified in a recent whole-of-government actuarial report.

DEFENCE COOPERATION

Expenditure for the Defence Cooperation Program in 2002-03 was \$62.6m. The table below summarises the achievement of the Defence Cooperation Program by region.

TABLE 2.15: DEFENCE COOPERATION SUMMARY

	2000-01 ACTUAL \$'000	2001-02 ACTUAL \$'000	2002-03 BUDGET ESTIMATE \$'000	2002-03 REVISED ESTIMATE \$'000	2002-03 ACTUAL \$'000	2003-04 BUDGET ESTIMATE \$'000
Papua New Guinea	15,368	27,710	9,731	9,731	9,434	9,083
South Pacific Region	16,823	17,480	18,136	21,186	22,478	24,699
South East Asia	24,711	29,668	29,963	30,373	25,831	28,042
Other regional activities	3,730	4,708	4,622	5,362	4,905	5,907
Facilities for training in Australia ⁽¹⁾	12	1	-	-	-	-
Total	60,644	79,568	62,452	66,652	62,648	67,731

NOTE

- Funding was provided to undertake maintenance of training equipment in support of Defence Cooperation training. These costs are now absorbed within the individual training establishments and are not reported separately.

PAPUA NEW GUINEA

PERFORMANCE SUMMARY

In 2002-03, the Australian Government continued to provide substantial assistance to the Papua New Guinea Government's defence reform program. The aim of the program is to achieve stability in the force by making it smaller, more affordable and better managed. Australia initially provided \$20m, within a strict accountability framework, to support a redundancy program. Following Papua New Guinea's commitment to a downsized Papua New Guinea Defence Force of 2,000, the Australian Government agreed to provide a second and final tranche of financial support to the redundancy program of up to a further \$20m, subject to finalisation of administrative issues. This level of support will facilitate the completion of the redundancy program and open the way for the next stage of the reform program, which involves re-focusing the Papua New Guinea Defence Force.

The Defence Cooperation Program with Papua New Guinea focused on training, technical advice, infrastructure development and logistics support. Training was provided to the Papua New Guinea Defence Force maritime element, infantry and engineers, and the Papua New Guinea Defence College. The Defence Cooperation Program also provided a number of positions for Papua New Guinea Defence Force personnel in Australia at both the Royal Military College and the Australian Defence College. New armouries costing \$2.1m were constructed at Lae, Wewak, Manus Island and Vanimo, the principal Papua New Guinea Defence Force bases outside Port Moresby. A major refit was conducted for one of the four Papua New Guinea Defence Force Pacific patrol boats under the life extension program. In addition, a number of

bilateral exercises were conducted, including a new engineering activity, Exercise Puk Puk.

SOUTH PACIFIC REGION

PERFORMANCE SUMMARY

The Defence Cooperation Program in the South Pacific region grew in 2002-03 by \$5m. This was mainly as a result of Australia's re-engagement with Fiji, cooperation projects in Tonga and the commencement in earnest of the Pacific patrol boat program's life extension program. Increased ADF operational commitments had limited impact on Australia's bilateral relationships in the region, with the exception of the continued unavailability of Air Force surveillance flights over the Pacific.

The defence relationship with Fiji has largely been rebuilt since the lifting of Australian Government sanctions in October 2001. Australia continued to focus on enhancing the professional ethos of the Republic of Fiji Military Forces and encouraging the development of healthy civil-military relations. Four ADF adviser positions, which were withdrawn in 2000 following the attempted coup, were reinstated.

Australia continued to support the development of the Tonga Defence Service. As well as support to the Pacific patrol boat program, the ADF continued to provide specialist support in training, communications, engineering and maritime surveillance.

Relationships with Samoa, Kiribati, Tuvalu, the Republic of Palau, the Republic of the Marshall Islands, the Federated States of Micronesia and the Cook Islands continued to focus on support to maritime surveillance capabilities. Australia has provided a Pacific patrol boat to each of these countries (the Federated States of Micronesia has three) and continues to provide logistics, fuel, maintenance and training. An ADF advisory team, posted to each of these countries, assisted in developing sustainable national maritime surveillance capabilities.

In August 2002, Defence supported the planning and operation of Operation Island Chief 2002, a tri-nation maritime surveillance operation, involving five Pacific patrol boats from the Federated States of Micronesia, Palau and the Marshall Islands. The operation enabled the nations to carry out surveillance and law enforcement cooperatively in each respective country's waters based on applicable law, rules and regulations. The operation served to promote maritime skills and interoperability among the three nations' police maritime wings. A further operation was conducted in April 2003 with cooperative assistance from Australia, and surveillance support from the United States and New Zealand.

TABLE 2.16: SOUTH PACIFIC REGION SUMMARY⁽¹⁾

	2000-01 ACTUAL	2001-02 ACTUAL	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL	2003-04 BUDGET ESTIMATE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Vanuatu	1,787	1,785	1,623	1,623	1,900	1,638
Solomon Islands	760	685	1,214	502	537	606
Tonga	1,402	1,470	1,619	1,619	2,407	2,435
Western Samoa	535	519	493	493	528	656
Cook Islands	226	307	407	407	316	403
Fiji	1,118	1,291	1,195	1,995	2,662	3,164
Republic of the Marshall Islands	554	639	760	760	952	1,020
Federated States of Micronesia	804	847	793	793	848	1,026
Tuvalu	759	542	782	782	415	694
Kiribati	748	653	836	836	916	961
Palau	656	450	740	740	647	856
Multilateral General Assistance ⁽²⁾	7,472	8,291	7,674	10,636	10,350	11,240
Total	16,823	17,480	18,136	21,186	22,478	24,699

NOTES

1. Figures may not add due to rounding.
2. Funding relates mainly to support to the Pacific patrol boat program.

Vanuatu

The Defence Cooperation Program with Vanuatu provided continued support to the Pacific patrol boat program, communications, advisory assistance and training for the Vanuatu Police and Mobile Forces. The program also assisted the Vanuatu police with strengthening the physical security and management procedures of its armouries. The increase in expenditure was primarily due to the advancement of a communications project for the Vanuatu Police Force into 2002-03.

Solomon Islands

Defence Cooperation with the Solomon Islands was curtailed following the 2000 coup. In 2002, Defence commenced phased re-engagement to support whole-of-government efforts to promote law and order in the Solomon Islands. Training for the patrol boat crews recommenced and, towards the end of 2002, a half-life refit was conducted on one of two Pacific patrol boats.

Tonga

Defence Cooperation with Tonga focused on training and exercises, support to maritime surveillance, the provision of ongoing maintenance and support for the Pacific patrol boat program and developing Tonga's communication and engineering

capabilities. The program for the upgrade of Tonga Defence Service's facilities at Vilai Barracks and Taliai Military Camp continued. The higher than planned expenditure was primarily due to the advancement of elements of the upgrade program into 2002-03.

Western Samoa

Defence Cooperation with Samoa focused on support to the Pacific patrol boat program and training of the Samoa Police Force. The increase in expenditure was a result of higher than anticipated training costs.

Cook Islands

Defence Cooperation with the Cook Islands was focused on support to the Pacific patrol boat program.

Fiji

Defence Cooperation with Fiji consisted primarily of support to the Pacific patrol boat program and sponsorship of Republic of Fiji Military Forces' students on ADF courses. In January 2003, four ADF adviser positions were re-established in Fiji. The increase in expenditure was due to the resumption of cooperation activities following the lifting of sanctions, including costs associated with the return of in-country ADF advisers, and higher than anticipated training opportunities taken up by Fiji.

Republic of the Marshall Islands

Defence Cooperation with the Republic of the Marshall Islands focused on regional maritime security and cooperation. This was achieved by means of assistance to the sea patrol with the management and operations of its patrol boat and the necessary training, infrastructure and logistics. The increase in expenditure was a result of increased in-country support for ADF advisers.

Federated States of Micronesia

Defence Cooperation with the Federated States of Micronesia focused on regional maritime security and cooperation. This was achieved by assisting the maritime wing of the national police with the management and operations of its three patrol boats and the necessary training, infrastructure and logistics. The increase in expenditure was a result of increased in-country support for ADF advisers.

Tuvalu

Defence Cooperation with Tuvalu focused on continued advisory, maintenance and fuel support to the Pacific patrol boat program and training of personnel from the Tuvalu Police Force maritime wing. The reduced expenditure was due to a vacancy for an in-country ADF adviser.

Kiribati

Defence Cooperation with Kiribati focused on support to the Pacific patrol boat program and the provision of Navy training to the Kiribati Police Force maritime

wing. The increase in expenditure was due to costs for upgrades to Defence Cooperation housing for in-country ADF advisers.

Palau

Defence Cooperation with Palau focused on regional maritime security. This was achieved by means of assistance to the Marine Law Enforcement Division with the management and operations of its patrol boat and the necessary training, infrastructure and logistics.

Multilateral General Assistance

Key activities included half-life refits for Pacific patrol boats *Kiro* from Fiji, and *Auki* from the Solomon Islands. The majority of the increase in funding in 2002-03 reflected the commencement of the Pacific patrol boat life extension program with the slipping of *Taranga* from Papua New Guinea. Additional funds were also expended on support for all nations owning Pacific patrol boats through the costs of the follow-on support contract, and training and support of foreign students at the Australian Maritime College in Launceston, Tasmania.

PACIFIC PATROL BOAT PROJECT

TABLE 2.17: PACIFIC PATROL BOATS BY COUNTRY

COUNTRY	PACIFIC PATROL BOATS
Cook Islands	1
Fiji	3
Federated States of Micronesia	3
Kiribati	1
Marshall Islands	1
Palau	1
Papua New Guinea	4
Tonga	3
Tuvalu	1
Samoa	1
Solomon Islands	2
Vanuatu	1
Total	22

SOUTH EAST ASIA

PERFORMANCE SUMMARY

The Defence Cooperation Program in the South East Asia region fell in 2002-03 by nearly \$4m. This was primarily due to the impact of unexpected world events, such as the Severe Acute Respiratory Syndrome outbreak, and increased operational tempo, including the war in Iraq, which restricted ADF participation in a number of Defence Cooperation activities.

Australia continued to provide substantial support to the development of the East Timor Defence Force and Defence Secretariat. Defence continued to provide advisory support, professional skills training and English-language training in-country. Australia and Indonesia made progress in developing a mutually beneficial defence relationship, at a pace agreeable to both governments. This focused on expanding bilateral dialogue and building a more substantial program of non-combat-related training, in addition to pursuing new initiatives under the Memorandum of Understanding on Combating International Terrorism.

Longstanding and strong defence relationships with Singapore, Thailand, Malaysia and the Philippines were characterised by broad-based programs of dialogue, training and joint projects in the fields of logistics, science and materiel. Increased operational commitments saw a reduction in the ongoing exercise program, particularly with Malaysia, but with no significant effect on the continuing defence relationship. The impact of Severe Acute Respiratory Syndrome also caused the postponement of several activities with Singapore. Malaysia and Singapore continued to work closely with Australia through the Five Power Defence Arrangements. Singapore also conducted significant unilateral training in Australia, including an annual exercise at Shoalwater Bay, Qld and had permanent Republic of Singapore Air Force training detachments at RAAF Pearce, WA and Oakey, Qld. Defence relationships with Thailand, the Philippines and Singapore benefited from the contribution these countries made to the security of East Timor through the United Nations mission of support in East Timor.

Defence Cooperation with Vietnam continued to grow through attendance at the Australian Defence College and postgraduate courses and an expanding dialogue. Joint in-country activities in English-language training and malaria research were maintained. The relatively new defence relationships with Cambodia, Brunei and Laos developed to a modest level. English-language training underpinned the relationships with both Cambodia and Laos. Brunei received training, on a fee-for-service basis, and participated in a small exercise program. Work to promote strategic policy development was undertaken with each of the three countries.

In addition, Defence participation at regular multilateral Asean Regional Forum meetings and active involvement in confidence-building activities complemented defence bilateral cooperation in the region.

TABLE 2.18: SOUTH EAST ASIA SUMMARY

	2000-01 ACTUAL	2001-02 ACTUAL	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL	2003-04 BUDGET ESTIMATE
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Singapore	296	441	530	530	254	428
Philippines	3,551	3,175	3,944	3,944	3,047	3,424
Thailand	4,875	4,528	5,300	5,300	3,478	3,796
Malaysia	6,003	4,380	5,287	5,287	4,483	4,881
Indonesia	3,355	5,131	4,745	5,155	4,583	5,329
East Timor	4,570	8,715	6,590	6,590	7,504	6,864
Vietnam	1,458	2,233	2,447	2,447	1,421	2,161
Cambodia and Laos	603	970	1,000	1,000	1,017	1,059
Brunei	0	95	120	120	44	100
Total	24,711	29,668	29,963	30,373	25,831	28,042

Singapore

While the impact of the Severe Acute Respiratory Syndrome epidemic caused the postponement of some defence engagement activities, interaction with the Singapore Armed Forces continued at all levels across a broad range of areas, including high level policy dialogue, combined exercises, personnel exchanges and training. Ministers met in Australia in November 2002, and again in Singapore at the International Institute for Strategic Studies Shangri-La Dialogue in May-June 2003. Our mutual commitment to regional security was demonstrated at the Asian Regional Forum Consequence Management Seminar held in Darwin in June 2003, at which the armed forces of Australia and Singapore provided a joint presentation. The visit of Singapore's Chief Defence Scientist in December 2002 contributed to our mutually beneficial science and technology relationship. Singapore conducted unilateral training with Exercise Wallaby, during October-November 2002, at the Shoalwater Bay, Qld training area. Singaporean detachments continue to utilise RAAF Pearce, WA for pilot flying training and the Army Aviation Centre in Oakey, Qld for helicopter training.

Philippines

Australia and the Philippines held successful Defence engagement talks in Manila in May 2003, reinvigorating strategic dialogue between the two countries. These talks, together with the bilateral training and education working group talks held in Manila in October 2002, emphasised the ongoing cooperation in the areas of education and training, deepened bilateral cooperation in maritime surveillance and reaffirmed Australian support for the Armed Forces of the Philippines' modernisation program. The expenditure shortfall in 2002-03 was primarily due to lower than anticipated training opportunities taken up by the Philippines.

Thailand

Despite increases in operational tempo, training exercises, including annual counter-terrorist training exercises, took place in Thailand. A number of high level visits occurred including by the Chief of the Defence Force to Thailand and the Thai Chief of Air Force to Australia. Two long-standing science projects on high frequency communications, and sea and mine countermeasures were concluded. The expenditure shortfall was primarily due to lower than anticipated training opportunities taken up by Thailand.

Malaysia

Malaysia and Australia continued to share a strong defence relationship, supported principally by the series of exchange postings and training opportunities offered under the auspices of the Malaysia-Australia Joint Defence Program. The program of combined exercises was significantly affected by the operational tempo and resource constraints faced by both nations. No bilateral combined exercises were conducted in 2002-03, although professional contact between the two armed forces continued to be facilitated by the presence of an Army rifle company and a small Air Force detachment at Butterworth, and by multilateral exercises conducted under the auspices of the Five Power Defence Arrangements. The relationship was further enhanced through high level strategic dialogue, including at ministerial level. The expenditure shortfall was due to the cancellation of combined exercises and lower than anticipated training opportunities taken up by Malaysia.

Indonesia

Australia and Indonesia continued to progress the defence relationship focusing on areas of mutual interest. The post-Bali bombing environment led to postponement of several senior-level visits in late 2002 and early 2003. Dialogue was maintained through a visit by the Chief of Air Force in August 2002, regional security dialogue, reciprocal visits by both Deputy Chiefs of Army, visits between Commander Northern Command and his three TNI counterpart commanders and high level Defence participation in the Australia-Indonesia ministerial forum in March 2003.

Defence provided defence information analysis training to Indonesian officers under the Memorandum of Understanding on Combating International Terrorism. Preliminary discussions were also held on developing counter hijack and hostage recovery co-operation between the ADF and TNI. Training activities continued to emphasise strengthening the range of both non-combat-related and English-language training provided to TNI. In a new initiative an Australian naval officer was placed at the senior TNI staff college. The expenditure shortfall was primarily due to lower than anticipated training opportunities taken up by Indonesia and the postponement of an Australian Navy training adviser attachment to the Navy junior officer training academy.

East Timor

Australia's Defence Cooperation Program with East Timor, which commenced in February 2001, continued to grow throughout 2002-03 to support the development of an affordable, sustainable and effective East Timor Defence Force.

Inaugural bilateral Defence Cooperation talks were held with the East Timor Defence Secretariat and East Timor Defence Force in late June 2003. The meeting focused on reviewing the program of Australian assistance and discussed issues of strategic interest. Several areas for further Defence cooperation were identified.

The first phase of a platoon commanders' course was held in Australia for 30 East Timor Defence Force personnel. The number of Australian Defence personnel deployed to East Timor, under the Defence Cooperation Program, increased to around 30. This was mainly due to the delivery of in-country English language training for the East Timor Defence Force and the provision of a small advisory element to its 1st and 2nd Battalions.

The significant increase in actual expenditure, compared to the revised estimate for the Defence Cooperation Program with East Timor in 2002-03, was primarily due to an increase in the scope of activities under the program and the provision of a transport capability which will assist the East Timor Defence Force in responding to security incidents and meeting ongoing training requirements.

Vietnam

Australia's defence relationship with Vietnam expanded through a range of activities primarily focused on training. These included English-language training, IT training, an officer exchange, attendance at the Australian Defence College and malaria research. In addition, several high level visits took place, including a hosted visit to Vietnam by the Chief of Army. The expenditure shortfall was primarily due to lower than anticipated training opportunities taken up by Vietnam.

Cambodia and Laos

Australia's bilateral defence relationships with Cambodia and Laos continue to gradually increase. During 2002-03, officers from Cambodia and Laos attended the Australian Defence College, English-language training, and Defence and emergency management training. Modest support was provided to the Cambodian Command and Staff College and to the implementation of Cambodian White Paper initiatives. The provision of training, particularly English-language training, remained the focus of the Defence Cooperation relationships with both Cambodia and Laos.

Brunei

While modest, the defence relationship with Brunei continued to develop through the conduct of mutually beneficial activities, exercises and training. Highlights of the past year included the fourth Australia Brunei Darussalam Joint Defence Working Committee meeting in October 2002 and mutual cooperation in rotary flying standardisation, air safety, logistics and defence materiel. In addition, Exercise Star Leopard 02, a bilateral Special Forces training exercise, was successfully conducted in October 2002.

OTHER REGIONAL ACTIVITIES

PERFORMANCE SUMMARY

The 'Other Regional Activities' budget funded a range of activities including conferences and seminars, single Service and combined training, multilateral activities, the Defence International Training Centre, and Defence Cooperation activities with India, Pakistan and Bangladesh. The Defence relationships with India and Pakistan, which were suspended in May 1998 following their nuclear tests, have now resumed and have regained their previous momentum, but with a greater emphasis on activities that will improve the level of strategic dialogue with both countries.

Multilateral

The major activities undertaken during the year were the Pacific area senior officer logistics seminar, the maritime air surveillance course, the Defence management seminar, Five Power Defence Arrangements meetings, study visits, support for multilateral training activities, and health costs. The predominant cost within this category was the operating costs of the Defence International Training Centre.

India

Defence Cooperation with India included staff college exchanges and senior visits to and from India. The inaugural Defence Joint Working Group meeting with India held in March 2003 and was a significant factor in enhancing strategic dialogue with this major regional power.

Pakistan

Defence Cooperation with Pakistan was resumed in September 2001. The focus of activities in 2002-03 was to regain previous levels of defence engagement through re-establishing staff college exchanges, training activities and senior visits.

Bangladesh

The relationship with Bangladesh has continued at a very modest level. Defence Cooperation with Bangladesh in 2002-03 included sponsored training in emergency management, which was held in Australia.

OUTPUT SIX: INTELLIGENCE

The Intelligence and Security Group provides intelligence collection and analysis to support the planning and conduct of ADF operations, defence policy making and planning, capability development and wider Government decision making. It also provides, on a whole-of-government basis, a range of information security capabilities and services.

The Group continued to work with capability planners to develop a program of substantial and sustained investment in enhanced intelligence capabilities, including:

- the ability to comprehensively monitor and report on several crises concurrently and to provide effective operational support to deployed forces;
- improved signals intelligence and imagery collection capabilities;
- improved intelligence processing and dissemination systems; and
- enhanced levels of cooperation with allies with a greater focus on counter-terrorism issues.

PERFORMANCE SUMMARY

The Group produced a range of quality intelligence products to support ADF operations, to assist decision-makers and advisers and to provide integrated support for the development of ADF capabilities, while maintaining a high state of readiness. Intelligence operations and capabilities provided real-time and near real-time intelligence analysis and products on a continuous basis, with services and products tailored to specific customer requirements. The provision of intelligence support to the Government and the ADF was integral to Australia's contribution to the coalition operation in Iraq.

Significant progress was made in meeting the requirements of the ADF for timely intelligence support to deployed forces, particularly during Operation Falconer, and in developing new techniques and systems to comprehend and counter the terrorist threat. The efforts against terrorism, in particular, led to even closer cooperation with the United States and other key intelligence partners.

MITIGATION OF KEY RISKS

The Intelligence Group faces a number of key risks such as: significant security failure; erosion of capability; and catastrophic system failure. Considerable work was carried out during the year to fully identify our risk profile, to understand the associated consequences and to take steps to mitigate them. Particular effort has been devoted to further improving agency security levels and to countering large-scale system failure. In a period where speedy support to deployed forces is a routine part of the Group's activities, and where information related to terrorist threats must be passed rapidly through our systems, effective risk mitigation has become critically important.

Much of the work in this area continues to be related to maintaining, into the future, our core capabilities. In the long run, of course, the most effective risk mitigation lies in the continued recruitment and development of quality staff, in focusing closely on customer requirements and through continued investment in new technology.

PERFORMANCE TARGETS

PROVIDE QUALITY INTELLIGENCE PRODUCTS AND SERVICES

Achieved

A wide range of intelligence products and services was provided to customers in Defence and to other departments and agencies. These included intelligence assessments and reports, signals analysis, imagery and geospatial data and reports, and communications and information security services. The customer-base for intelligence was broadened, and distribution widened, to provide greater support for operations in Iraq and to combat global terrorism. The Group consistently received positive feedback on accuracy, timeliness and relevance of its products. The Group was proactive in broadening its customer base and expanding the electronic distribution of product to better suit the needs of many customers.

Of particular note was the Group's response to the challenge presented by regional terrorist organisations. The nature of these organisations differs markedly from traditional intelligence targets requiring our collectors to develop new methods to identify and track them. Our assessors in this field are often forced to work with uncorroborated, vague or sketchy information in forming their judgements. While this has been a difficult learning process, it has brought about unprecedented levels of cooperation within the Australian intelligence community and with our key intelligence partners. All agencies are acutely aware of the potentially disastrous consequences of failing to collect the right information or of drawing the wrong inference. Our hitherto limited ad-hoc efforts against terrorist organisations have been consolidated into systems and structures designed to deal with this threat over the long term.

ENSURE EFFECTIVE AND SUSTAINABLE INTELLIGENCE SUPPORT FOR THE PLANNING AND CONDUCT OF ADF OPERATIONS AND FOR DECISION-MAKERS

Achieved

ADF operators reported a high level of satisfaction with the support provided to them, despite the pressure of the high tempo of operations.

MAINTAIN AND DEVELOP FIRST RATE DEFENCE INTELLIGENCE AND GEOSPATIAL INFORMATION CAPABILITIES

Substantially Achieved

The Defence intelligence program continued to satisfy the bulk of higher priority intelligence requirements. Some current shortcomings will be remedied over the next few years as a number of major capital equipment projects progress and specialists are

recruited and further develop their skill levels. The Defence Imagery and Geospatial Organisation continued to produce integrated imagery and geospatial products for national and Defence customers, and commenced a review of the memorandum of understanding with the United States for geospatial information.

MAINTAIN THE KNOWLEDGE EDGE BY EXPLOITING NEW TECHNOLOGY

Achieved

The Group's ability to support the knowledge edge in intelligence collection and analysis is critically dependent on acquiring and exploiting new technologies. Continued technological advances in a range of areas, including signals intelligence, imagery and mapping, and processing and dissemination, are increasing the Group's ability to support intelligence customers.

STRENGTHEN THE INTELLIGENCE CONTRIBUTION TO THE US ALLIANCE, AND TO RELATIONSHIPS WITH OTHER INTELLIGENCE PARTNERS

Achieved

Close and effective relationships with Australia's intelligence partners make a major contribution to the intelligence output. The Group continued to strengthen these relationships through collaboration and burden sharing in the introduction of new capabilities, as well as through the ongoing exchange of intelligence product, high-level liaison, good working relationships and improved communications and connectivity. The Group played a leading role in developing interoperability solutions for deployed forces in Afghanistan and Iraq.

IMPROVE INVESTMENT AND CAPABILITY PLANNING, ACCOUNTABILITY AND RESOURCE AND SECURITY MANAGEMENT.

Achieved

Accountability has been maintained and improved through participation in Defence planning and reporting processes, including the balanced scorecard, charter letters, the Defence Management and Finance Plan, and monthly reporting to the Defence Committee. The introduction of the *Intelligence Services Act 2001* provided a clear framework for the further development of accountability systems and procedures. The Group now has in-house specialist legal advice to assist with governance issues.

ENSURE PROCESSES AND SYSTEMS ARE EFFECTIVE AND CONTINUOUSLY IMPROVING

Substantially Achieved

The Defence intelligence agencies pursued a variety of initiatives to enhance collection, collection management, and production management processes and systems. Further improvements continued, especially measures to better integrate intelligence systems and architectures.

**DEVELOP MOTIVATED, ADAPTABLE AND SKILLED TEAMS OF
HIGHLY COMPETENT PROFESSIONALS**

Substantially Achieved

The Defence intelligence agencies implemented a range of measures in response to results from the annual staff survey, including the improvement of leadership training courses, and the extension of this training to lower-ranked staff. The Defence Imagery and Geospatial Organisation has introduced a course at the Australian Defence Force Academy, leading to a Graduate Certificate of Arts (Intelligence).

PRICE TO GOVERNMENT

TABLE 2.19: PRICE OF OUTPUT SIX: INTELLIGENCE

	ADJUSTED BUDGET ESTIMATE 2002-03	REVISED ESTIMATE 2002-03	PROJECTED RESULT 2002-03	ACTUAL RESULT 2002-03	VARIATION
	\$'000	\$'000	\$'000	\$'000	\$'000
Operating Expenses					
Employees - Military	46,953	47,730	35,238	42,566	7,328
Employees - Civilian	107,742	121,262	125,222	124,532	-690
Sub-total Employees	154,695	168,993	160,460	167,098	6,638
Suppliers - Non inventory	120,490	125,461	110,932	100,193	-10,739
Suppliers - Inventory	169	466	445	794	349
Sub-total Suppliers	120,659	125,927	111,377	100,987	-10,390
Depreciation and amortisation	51,386	41,382	79,966	40,177	-39,790
Value of assets sold				5,849	5,849
Write down of assets (includes net losses on sale of assets and net foreign exchange losses)	-860	1,565	1,932	8,616	6,684
Other expenses (includes borrowing cost expense and grants)	249	339	390	9,868	9,478
Total Operating Expenses from Ordinary Activities	326,129	338,207	354,125	332,595	-21,530
Revenues					
Assets now recognised	345	-3,172	-3,423	-4,179	-756
Revenue from sale of assets		-185		-5,825	-5,825
Other revenues	-3,506	-3,610	-8,393	-5,607	2,786
Total Own Source Revenues	-3,161	-6,967	-11,816	-15,611	-3,795
Price to Government for Output Six	322,968	331,240	342,309	316,984	-25,325

EXPLANATION OF SIGNIFICANT VARIATION

The overall price of Output Six was \$25m lower than the 2002-03 projected result, representing a decrease of seven per cent. The variations were due to:

- an increase in military employee expenses (+\$7m) which reflects an underestimation of the per capita rates which have been corrected in future years;
- a decrease in suppliers non-inventory expenses (-\$11m) due to:
 - accounting adjustments due to a correction of data reported in 2001-02 (-\$20m);
 - an increase in attributed costs for major capital equipment projects (+\$5m);
 - a revision to the budgeted requirement for intelligence activities (+\$5m); and
 - other minor variations due to departmental attributions and attribution rule changes (-\$1m);
- a net reduction in depreciation expenses (-\$40m) due to a refinement of attribution rules to reflect a move from a generic rule to a more output-specific attribution of costs;
- an increase in the value of assets sold (+\$6m) due to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds;
- a net increase in write down of assets expenses (+\$7m) due to adjustments in asset-under-construction accounts to reflect the true position of those accounts;
- an increase in other expenses (+\$9m) due to recognition of Defence's potential liability for compensation claims arising from asbestos exposure that was identified in a recent whole-of-government actuarial report;
- an increase in revenue from sale of assets (-\$6m) due to the Minister for Finance's new requirement in 2002-03 for Defence to separately disclose the value of both the assets sold and the revenue proceeds; and
- a decrease in other revenue (+\$3m) due to other net variations including attributed revenue from other agencies.

CHAPTER THREE

RESULTS FOR GOVERNMENT AS DEFENCE'S OWNER

2002-03 FINANCIAL STATEMENTS

CAPITAL BUDGET OVERVIEW

MAJOR CAPITAL EQUIPMENT

CAPITAL FACILITIES

ASSET MANAGEMENT

**PURCHASER-PROVIDER ARRANGEMENTS WITH
THE DEFENCE HOUSING AUTHORITY**

DISCRETIONARY GRANTS

VICE CHIEF OF THE DEFENCE FORCE

DEFENCE SCIENCE AND TECHNOLOGY

PROTECTIVE SECURITY IN DEFENCE

**PUBLIC AFFAIRS AND CORPORATE
COMMUNICATION**

**ECOLOGICALLY SUSTAINABLE DEVELOPMENT
AND ENVIRONMENTAL PERFORMANCE**

FREEDOM OF INFORMATION



INDEPENDENT AUDIT REPORT

To the Minister for Defence

Scope

I have audited the financial statements of the Department of Defence for the year ended 30 June 2003. The financial statements comprise:

- Statement by the Chief Executive and Chief Finance Officer;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Contingencies and Commitments;
- Schedule of Administered Items; and
- Notes to and forming part of the Financial Statements.

The Department of Defence's Chief Executive is responsible for the preparation and presentation of the financial statements and the information they contain. I have conducted an independent audit of the financial statements in order to express an opinion on them to you.

The audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. Audit procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material respects, the financial statements are presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with my understanding of the Department of Defence's financial position, its financial performance and its cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

The Department's Statement of Financial Position as at 30 June 2003 reports:

- inventory of \$3.83 billion;

- repairable items of \$2.54 billion which are reported in Specialist Military Equipment; and
- Australian Defence Force employee leave provisions of \$1.07 billion.

Assets

Owing to inadequacies in the Department's inventory procedures, the effects of which are described in Note 7G, I have been unable to form an opinion on the reported value (net of obsolescence provisions) of general stores and explosive ordnance, as it has not been possible to validate, \$610 million (2001-02 - \$1.88 billion) and \$1.2 billion, (2001-02 - \$1.74 billion) respectively of the \$3.83 billion referred to above.

Owing to inadequacies in the Department's repairable items system, the effects of which are described at Note 7F, I have been unable to form an opinion on an amount of \$550 million (2001-02 - \$2.77 billion) included in the repairable items amount of \$2.54 billion referred to above.

The audit opinion on the financial report relating to the previous year was qualified in respect of the above matters, namely, inventory, including explosive ordnance, and repairable items.

Liabilities

In addition, owing to inadequacies in the Department's Military employee personnel recording systems, primarily relating to the lack of integrity associated with the capture and recording of data within those systems, the effects of which are referred to at Note 9A, I have been unable to form an opinion on an amount of \$732 million for the Australian Defence Force employee leave provisions of the \$1.07 billion referred to above.

As a consequence of the inadequacies in the Department's Military employee personnel recording systems referred to above, I also have been unable to form an opinion on the amounts reported at Note 14 on Executive Remuneration to the extent that it includes accrued leave for Military personnel.

Summary and Financial Statement Impact

For the reasons given, the effects of the inadequacies described above, with respect to:

- inventory, including general consumables and explosive ordnance;
- repairable items; and
- Australian Defence Force employee leave provisions;

on the Statement of Financial Performance, Statement of Financial Position and associated Notes to and Forming Part of the Financial Statements are not able to be measured reliably, thereby limiting the scope of the audit.

In summary, because there are uncertainties with material balances relating to inventory, repairable items and leave liabilities, the corresponding movements with those account balances also impact the Statement of Financial Performance.

Qualified Audit Opinion

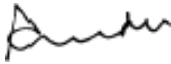
In my opinion, except for the effects on the financial statements of any adjustments as might have been required had these limitations on the scope of the audit not existed, the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*; and
- (ii) give a true and fair view, in accordance with applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Department of Defence as at 30 June 2003, and its financial performance and cash flows for the year then ended.

Other Statutory Matters

As described at Note 28, the Department has breached section 48 of the *Financial Management and Accountability Act 1997*.

Australian National Audit Office



Oliver Winder
Acting Auditor-General

Canberra
24 October 2003

Department of Defence

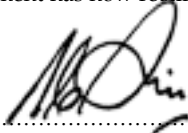
STATEMENT BY THE CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements for the year ended 30 June 2003 give a true and fair view of the matters required by the Finance Minister's Orders made under the *Financial Management and Accountability Act 1997*, except for uncertainty relating to:

- the reported value of approximately 32 per cent of some general stores inventory, including all items acquired prior to 1993. The book value of the general stores inventory at issue is \$610 million (Note 7G refers). In 2001-02, general stores inventory was qualified by the Australian National Audit Office (ANAO) to the extent of \$1.88 billion;
- the reported value of approximately 62 per cent of explosive ordnance inventory being all items acquired before 1996 and items acquired as part of assets under construction contracts between 1997 and 2000. The book value of the explosive ordnance at issue is \$1.2 billion (Note 7G refers). In 2001-02, explosive ordnance inventory was qualified by the ANAO to the extent of \$1.74 billion;
- the reported value of approximately 21 per cent of repairable items (a component of specialist military equipment). The book value of the repairable items at issue is \$550 million (note 7F refers). In 2001-02, repairable items were qualified by the ANAO to the extent of \$2.77 billion; and
- the reported value of military leave balances with a book value of \$732 million (Note 9A refers). As a consequence of this uncertainty, it is possible that leave entitlements used in the compilation of the disclosure for executive remuneration for military personnel may also be in error (Note 14 refers).

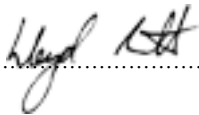
Considerable progress has been made over the past year in identifying and addressing the pricing issues associated with general stores and explosive ordnance inventory. The reliability of recording and tracking movements in repairable items has also improved. Military leave records are subject to a comprehensive data quality review of leave processes and balances. Further progress on these issues will be made in 2003-04.

The Department has, for a number of years, consistently reported on two 'Special Accounts' although only one of these accounts was determined by the Minister for Finance. The Department has now rectified this matter (Note 28 refers).

Signed 

R C Smith
Secretary

24 October 2003

Signed 

L P Bennett
Chief Finance Officer

24 October 2003

2002-03 FINANCIAL STATEMENTS

Department of Defence

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
REVENUE			
Revenues from ordinary activities			
Revenues from Government	3A	18,232,438	17,845,534
Sales of goods and services	3B	230,545	236,378
Interest	3C	19,332	15,246
Revenue from sale of assets	3D	685,537	177,890
Net foreign exchange gains	3E	17,101	3,529
Assets now recognised	3F	866,295	694,050
Other	3G	118,390	172,833
<i>Revenues from ordinary activities</i>		<u>20,169,637</u>	<u>19,145,460</u>
EXPENSE			
Expenses from ordinary activities (excluding borrowing cost expense)			
Employees	4A	6,194,572	5,732,050
Suppliers	4B	5,349,874	4,690,657
Grants	4C	2,544	22,587
Depreciation and amortisation	4D	2,863,416	2,526,197
Value of assets sold	3D	640,549	159,963
Write-down of assets	4E	586,475	1,573,635
Other	4F	345,596	1,770
<i>Expenses from ordinary activities (excluding borrowing cost expense)</i>		<u>15,983,026</u>	<u>14,706,859</u>
<i>Borrowing costs expense</i>	5	<u>26,755</u>	<u>28,581</u>
Net surplus		<u>4,159,857</u>	<u>4,410,020</u>
Net credit to asset revaluation reserve	11	1,002,431	986,851
Decrease in accumulated results on application of revised accounting standard AASB 1028 <i>Employee Benefits</i>	1.6	(31,230)	-
Total revenues, expenses and valuation adjustments attributable to the Commonwealth Government and recognised directly in equity		<u>971,200</u>	<u>986,851</u>
Total changes in equity other than those resulting from transactions with owners as owners		<u>5,131,057</u>	<u>5,396,871</u>

The above statement should be read in conjunction with the accompanying notes.

Department of Defence

STATEMENT OF FINANCIAL POSITION

as at 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
ASSETS			
Financial assets			
Cash	6A	99,557	835,153
Receivables	6B	1,152,542	382,314
Capital use charge	6C	-	137,978
<i>Total financial assets</i>		<u>1,252,099</u>	<u>1,355,445</u>
Non-financial assets			
Land and buildings	7A	9,282,868	9,054,538
Specialist military equipment	7B	31,383,274	30,656,890
Infrastructure, plant and equipment	7C	4,748,730	4,517,776
Intangibles	7D	173,709	164,360
Heritage and cultural	7E	19,047	18,897
Inventories	7G	3,832,343	3,620,788
Other	7H	718,549	564,424
<i>Total non-financial assets</i>		<u>50,158,519</u>	<u>48,597,671</u>
TOTAL ASSETS		<u>51,410,618</u>	<u>49,953,117</u>
LIABILITIES			
Interest bearing liabilities			
Leases	8A	343,738	360,271
<i>Total interest bearing liabilities</i>		<u>343,738</u>	<u>360,271</u>
Provisions			
Employees	9A	3,317,711	2,954,603
Other	9B	343,600	
<i>Total provisions</i>		<u>3,661,311</u>	<u>2,954,603</u>
Payables			
Suppliers	10A	1,200,066	1,033,744
Other	10B	30,130	15,052
<i>Total payables</i>		<u>1,230,195</u>	<u>1,048,796</u>
TOTAL LIABILITIES		<u>5,235,244</u>	<u>4,363,671</u>
NET ASSETS		<u>46,175,374</u>	<u>45,589,447</u>

The above statement should be read in conjunction with the accompanying notes.

*Department of Defence***STATEMENT OF FINANCIAL POSITION**

as at 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
EQUITY			
Contributed equity	11	1,811,008	1,300,047
Reserves	11	7,219,674	6,217,243
Retained surpluses	11	<u>37,144,692</u>	<u>38,072,156</u>
TOTAL EQUITY		<u>46,175,374</u>	<u>45,589,447</u>
Current assets		2,181,448	2,157,718
Non-current assets		49,229,170	47,795,398
Current liabilities		2,401,847	2,079,944
Non-current liabilities		2,833,397	2,283,727

The above statement should be read in conjunction with the accompanying notes.

Department of Defence

STATEMENT OF CASH FLOWS

for the year ended 30 June 2003

	2002-03	2001-02
Notes	\$'000	\$'000
OPERATING ACTIVITIES		
Cash received		
Goods and services	320,705	261,227
Appropriations	18,230,325	17,843,477
Interest	21,453	13,206
GST received from Australian Taxation Office	669,935	609,766
Other	162,559	115,549
Total cash received	<u>19,404,977</u>	<u>18,843,225</u>
Cash used		
Employees	(5,866,959)	(5,535,080)
Suppliers*	(5,464,434)	(4,755,478)
Grants	(2,544)	(22,587)
Borrowing costs	(26,755)	(28,581)
Other	(2,000)	(1,770)
Cash transferred to the Official Public Account	(870,201)	-
Total cash used	<u>(12,232,893)</u>	<u>(10,343,496)</u>
Net cash from operating activities	12 <u>7,172,085</u>	<u>8,499,730</u>
INVESTING ACTIVITIES		
Cash received		
Proceeds from sales of land and buildings	578,009	160,117
Proceeds from sales of specialist military equipment	29,690	553
Proceeds from sales of plant and equipment	47,318	57,306
Total cash received	<u>655,017</u>	<u>217,977</u>
Cash used		
Purchase of land and buildings	(283,254)	(274,732)
Purchase of specialist military equipment*	(2,719,134)	(2,482,883)
Purchase of plant and equipment*	(412,005)	(218,726)
Purchase of software and intangibles	(34,064)	(16,203)
Purchase of inventory	(738,520)	(806,421)
Total cash used	<u>(4,186,977)</u>	<u>(3,798,965)</u>
Net cash (used by) investing activities	<u>(3,531,960)</u>	<u>(3,580,988)</u>

The above statement should be read in conjunction with the accompanying notes.

Department of Defence

STATEMENT OF CASH FLOWS

for the year ended 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
FINANCING ACTIVITIES			
Cash received			
Appropriations - contributed equity		995,201	754,175
Total cash received		<u>995,201</u>	<u>754,175</u>
Cash used			
Repayment of debt		(9,959)	(31,414)
Capital Use Charge paid		(4,918,116)	(4,750,290)
Return of contributed equity		(474,264)	(97,884)
Dividends paid		-	(8,594)
Total cash used		<u>(5,402,339)</u>	<u>(4,888,182)</u>
Net (cash used) by financing activities		<u>(4,407,138)</u>	<u>(4,134,007)</u>
Net increase/(decrease) in cash held		(767,013)	784,736
Cash at the beginning of the reporting period		835,153	58,303
Effect of exchange rate movements on cash at the beginning of the reporting period		31,416	(7,886)
Cash at the end of the reporting period	6A & 12	<u>99,557</u>	<u>835,153</u>

* Included in cash used for suppliers are costs of \$217,344,136 (2002: \$302,209,954) which were budgeted for as part of the capital program. Due to the asset capitalisation and threshold recognition criteria they have not been included in purchases of specialist military equipment or plant and equipment.

The above statement should be read in conjunction with the accompanying notes.

Department of Defence

SCHEDULE OF COMMITMENTS

as at 30 June 2003

	2002-03	2001-02
Notes	\$'000	\$'000
BY TYPE		
Capital commitments		
Land and buildings ¹	312,735	419,426
Specialist military equipment ²	7,622,803	6,891,532
Other capital commitments ³	1,110,504	563,830
Total capital commitments	9,046,042	7,874,788
Other commitments		
Operating leases ⁴	734,420	794,523
Other non-capital commitments	4,282,935	3,666,865
Total other commitments	5,017,355	4,461,388
Commitments receivable⁵	(1,125,589)	-
Net commitments	12,937,808	12,336,176
BY MATURITY		
Capital Commitments		
One year or less	3,300,350	2,836,403
From one to five years	4,327,988	4,420,854
Over five years	772,924	617,531
Other Non-Capital commitments		
One year or less	1,524,524	1,520,814
From one to five years	1,689,589	1,309,557
Over five years	646,795	836,494
Operating lease commitments		
One year or less	168,198	67,981
From one to five years	232,836	279,423
Over five years	274,604	447,119
Net commitments by maturity	12,937,808	12,336,176

* Commitments are GST inclusive where relevant.

1. Outstanding contractual payments for buildings under construction.
2. Outstanding contractual payments for specialist military equipment under construction.
3. Other commitments include outstanding contractual payments for plant and equipment and garrison support contract.
4. Operating leases included are effectively non-cancelable and are described in the table below.
5. Commitments receivable represents the estimated GST receivable on the gross commitments payable.

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence
SCHEDULE OF COMMITMENTS
 as at 30 June 2003

Nature of Lease	General Description of Leasing Arrangement
Property leases	Defence leases both residential and commercial properties in Australia and overseas in support of ADO activities. Lease payments are subject to the terms and conditions of the lease, ie annual increase in accordance with upward movements in the Consumer Price Index.
Aircraft leases	Defence has two types of aircraft leases – those in support of military operations and those in support of parliamentary services. Leases entered into during 2003 for navigational training (7 aircraft) are for a period of 10 years.
Agreements for the provision of motor vehicles to senior executive officers	No contingent rentals exist. There are no renewal or purchase options available to Defence.
Equipment leases	Defence has leases for items of equipment including computer hardware, photocopiers, communications equipment, internet services and gym equipment. The length of the leases varies from one to five years.
Revenue leases	Defence receives revenue from the lease of property and office space. Office space is generally let to tenants in order to provide a service for Defence employees (eg canteen, banking and travel), to other government agencies or to local civic authorities.

* Future commitments are disclosed at Note 31.

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence

SCHEDULE OF CONTINGENCIES

as at 30 June 2003

	2002-03	2001-02
Notes	\$'000	\$'000
Contingent liabilities		
Claims for damages/costs	132,943	127,518
Redundancies	-	1,159
Other	-	985
Total contingent liabilities	132,943	129,662
Contingent assets		
Claims for damages/costs	68,394	108,673
Net contingent liabilities	64,549	20,989

Details of each class of contingent liabilities and assets, including those not included above because they cannot be quantified or considered remote, are disclosed in Note 13: Contingent Liabilities and Assets.

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence

SCHEDULE OF ADMINISTERED ITEMS

for the year ended 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
Revenue Administered on Behalf of Government <i>for the year ended 30 June 2003</i>			
Non-taxation Revenue			
Interest	19	1,114	8,604
Dividends	19	373,525	88,636
Other sources of non-taxation revenues	19	668,052	753,009
Total Revenues Administered on Behalf of Government		1,042,691	850,249
Expenses Administered on Behalf of Government <i>for the year ended 30 June 2003</i>			
Employees	20	2,498,659	2,270,955
Subsidies	20	7,394	6,411
Net foreign exchange losses	20	2,045	12,269
Write-down of assets	20	84,239	-
Other	20	2,320	-
Total Expenses Administered on Behalf of Government		2,594,657	2,289,634

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence

SCHEDULE OF ADMINISTERED ITEMS

for the year ended 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
Assets Administered on Behalf of Government			
<i>as at 30 June 2003</i>			
Financial assets			
Cash	21	80,226	121
Receivables*	21	50,946	176,830
Investments	21	1,258,883	1,258,883
Total financial assets		1,390,055	1,435,834
Non financial assets			
Land and Buildings	21		84,409
Prepayments – Retention Benefits	21	74,018	-
Total non-financial assets		74,018	84,409
Total Assets Administered on Behalf of Government		1,464,073	1,520,243
Liabilities Administered on Behalf of Government			
<i>as at 30 June 2003</i>			
Provisions			
Employees	22	28,100,000	26,900,000
Total Liabilities Administered on Behalf of Government		28,100,000	26,900,000
Net Assets Administered on Behalf of Government		(26,635,927)	(25,379,757)
Current Liabilities		1,374,000	1,346,000
Non-current Liabilities		26,726,000	25,554,000
Current Assets		154,636	176,951
Non-current Assets		1,309,437	1,343,292

* Administered United Nations receivable

The above statement should be read in conjunction with the accompanying notes.

Department of Defence
SCHEDULE OF ADMINISTERED ITEMS
for the year ended 30 June 2003

	Notes	2002-03 \$'000	2001-02 \$'000
Administered Cash Flows			
<i>for the year ended 30 June 2003</i>			
Operating Activities			
Cash received			
Interest		1,114	8,604
Dividends		373,525	88,636
Cash from Official Public Account for:			
Special Appropriations		1,362,296	1,320,361
Other Appropriations		30,692	-
Superannuation contributions		551,835	607,077
Transfer of funded portion from MSBS		28,373	-
Other		102,192	113,242
Total cash received		<u>2,450,027</u>	<u>2,137,920</u>
Cash used			
Personal benefits		(1,348,723)	(1,318,668)
Subsidies paid		(7,394)	(6,411)
Cash to the Official Public Account		(1,012,783)	(812,890)
Other - Transfers to Departmental account		(1,022)	-
Total cash used		<u>(2,369,922)</u>	<u>(2,137,969)</u>
Net cash (used by)/from operating activities		<u>80,105</u>	<u>(49)</u>
Net increase/(decrease) in cash held		80,105	(49)
Cash at the beginning of the reporting period		121	170
Cash at the end of the reporting period	21	<u>80,226</u>	<u>121</u>

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence

SCHEDULE OF ADMINISTERED ITEMS

for the year ended 30 June 2003

Notes	2002-03 \$'000	2001-02 \$'000
Administered Commitments		
<i>as at 30 June 2003</i>		
BY TYPE		
Capital commitments		
Land and Buildings transferred from Defence Housing Authority to Sydney Harbour Federation Trust	-	84,409
Other commitments		
ADFA long service leave*	6,978	-
Net administered commitments	6,978	84,409
BY MATURITY		
All net commitments		
One year or less	6,978	-
From one to five years	-	84,409
Over five years	-	-
Net administered commitments	6,978	84,409
Note: There is no GST on all 2002-03 commitments		
ADFA Long Service Leave		
* The Commonwealth has an agreement with the University of New South Wales to provide military education and training services at the Australian Defence Force Academy. This agreement may give rise to the payment of amounts to cover a long service leave liability accrued by the employees of the University engaged at the Academy. Defence has agreed to the amount of \$6.978m and further agreed to payment of this upon signature of the new agreement, which is expected to be in the latter half of the 2003 calendar year.		
Administered Contingencies		
<i>as at 30 June 2003</i>		
There were no quantifiable Administered contingencies as at 30 June 2003 (2002:nil).		

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Notes

- 1 Summary of Significant Accounting Policies
- 2 Events Occurring after Reporting Date
- 3 Operating Revenues
- 4 Operating Expenses
- 5 Borrowing Costs Expense
- 6 Financial Assets
- 7 Non-Financial Assets
- 8 Interest-Bearing Liabilities
- 9 Provisions
- 10 Payables
- 11 Equity
- 12 Cash Flow Reconciliation
- 13 Contingent Liabilities and Assets
- 14 Executive Remuneration
- 15 Remuneration of Auditors
- 16 Average Staffing Levels
- 17 Act of Grace Payments, Waivers and Defective Administration Scheme
- 18 Financial Instruments
- 19 Revenues Administered on Behalf of Government
- 20 Expenses Administered on Behalf of Government
- 21 Assets Administered on Behalf of Government
- 22 Liabilities Administered on Behalf of Government
- 23 Administered Reconciliation Table
- 24 Administered Contingent Liabilities and Assets
- 25 Administered Investments
- 26 Administered Financial Instruments
- 27 Appropriations
- 28 Special Accounts
- 29 Reporting of Outcomes
- 30 Restructuring
- 31 Future Commitments

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 1: Summary of Significant Accounting Policies

1.1 Objective of Defence

The objective and the Commonwealth Government's outcome for Defence are one and the same.

Defence contributed to a single outcome: *The defence of Australia and its national interests.*

Defence's activities contributing toward this outcome are classified as either departmental or administered. Departmental activities involve the use of assets, liabilities, revenues and expenses controlled or incurred by Defence in its own right. Administered activities involve the management or oversight by Defence on behalf of the Government of items primarily controlled or incurred by the Government.

Defence's activities are identified in the financial statements as:

- Output 1 - Defence Operations;
- Output 2 - Navy Capabilities;
- Output 3 - Army Capabilities;
- Output 4 - Air Force Capabilities;
- Output 5 - Strategic Policy; and
- Output 6 - Intelligence.

1.2 Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (or FMOs, being the *Financial Management and Accountability (Financial Statements for reporting periods ending on or after 30 June 2003) Orders*);
- Australian Accounting Standards (AAS) and Accounting Interpretations issued by the Australian Accounting Standards Board (AASB); and
- Consensus Views of the Urgent Issues Group.

The Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historic cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or financial position.

Assets and liabilities are recognised in the Statement of Financial Position when, and only when, it is probable that the future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets, which are unrecognised, are reported in the Schedule of Commitments and the Schedule of Contingencies (other than

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2003

Unquantifiable Contingencies and Remote Contingencies, which are reported at Note 13).

Revenues and expenses are recognised in the Statement of Financial Performance when, and only when, the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

The continued existence of the Department in its present form, and with its present activities, is dependent on Government policy and on continuing appropriations by Parliament for the Department's activities.

Administered revenues, expenses, assets and liabilities and cash flows reported in the Schedule of Administered Items and related notes are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated in Note 1.21.

1.3 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2001-02, except in respect of:

- The accounting for outputs appropriations (Note 1.4);
- Recognition of equity injections (Note 1.5);
- Measurement of certain employee benefits at nominal amounts (Note 1.6);
- The initial revaluation of property plant and equipment on a fair value basis (Note 1.15);
- The imposition of an impairment test for non-current assets carried at cost;
- The accounting for Military Superannuation Funded Benefit whereby the Commonwealth on behalf of the fund makes funded benefit payments to members of the scheme and the Commonwealth is reimbursed by the fund of these payments (Note 1.21); and
- The accounting for Military Retention Benefits on an accrual basis where the benefit paid is amortised as an expense over the number of years to which the benefit applies (Note 1.21).

1.4 Revenue

Revenues from Government

Departmental outputs appropriation for the year (less any savings offered up in Portfolio Additional Estimate Statements) are recognised as revenue, except for certain amounts which relate to activities that are reciprocal in nature, in which case revenue is recognised only when it has been earned.

In 2002-03, Defence elected to operate on a just-in-time drawdown basis which resulted in undrawn appropriations as at 30 June 2003 being reflected as a receivable. This receivable is available for drawdown to meet future obligations.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Resources Received Free of Charge

Services received free of charge are recognised as revenue when, and only when, a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration, are recognised at their fair value when the asset qualifies for recognition (with the exception of specialised military equipment, refer to Note 1.15), unless received from another government agency as a consequence of a restructuring of administrative arrangements (refer to Note 1.5).

Other Revenue

Revenue from the sale of goods and services is recognised upon delivery of the goods and services to customers.

Under the Transactional Banking arrangements adopted 1 July 1999, Defence manages its own cash bank accounts in line with the Department of Finance and Administration's 'just in time' drawdown arrangements (refer to Note 1.10). Interest revenue has been recognised as it was earned, on a proportional basis, taking into account the interest rates applicable to financial assets. The Agency Banking Incentive Scheme ceased during 2002-03, and consequently, interest was only accrued and paid on Defence's main trading accounts for part of the financial year.

Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

The revenue from the delivery of goods and the rendering of services are recognised by reference to the stage of completion of contracts or other agreements to provide goods or services. The stage of completion is determined according to the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Foreign exchange gains and losses are recognised as the difference between the exchange rate on the day the revenue was recognised and the day the cash is received (or 30 June where the revenue is yet to be received).

Revenue is recognised when revaluation decrements previously expensed for a class of assets are reversed as part of the revaluation process within the same class of assets. Any increments greater than previous decrements within the same class are reflected in the Asset Revaluation Reserve.

1.5 Transactions with the Government as Owner

From 1 July 2002, the FMOs require the amounts of appropriations designated as 'equity injections' (less any savings offered up in the Portfolio Additional Estimate Statements) to be recognised directly in Contributed Equity as at 1 July or later date of effect of the appropriation.

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2003

This is a change of accounting policy from 2001-02 to the extent any part of an equity injection that was dependent on specific future events occurring was not recognised until the appropriation was drawn down.

The change in policy has no financial effect in 2002-03 because the full amounts of the equity injections for 2001-02 were recognised in that year.

Capital Use Charge

A Capital Use Charge of 11 per cent (2002: 11 per cent) was imposed by the Government on the departmental net assets of Defence at year-end. The charge was adjusted to take account of asset gifts and revaluation increments during the financial year. The charge is accounted for in the statements as a return on capital..

In accordance with the recommendations of the Budget Estimates and Framework review, the Government has decided that the charge will not operate after 30 June 2003. As 2002-03 is the final year that the charge will operate, it has been set at a level that ensures budget neutrality.

Other Distribution to Owners

The FMOs require that distributions to owners be debited to contributed equity unless in the nature of a dividend. In 2002-03, by agreement with Finance, Defence returned \$484m to the Official Public Account.

1.6 Employee Benefits

Defence's workforce comprises two employment components: Australian Public Service (APS, ie civilians) and Australian Defence Force (ADF, ie military) personnel. Employee benefits for each workforce component are based on the relevant employment agreements and legislation.

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled. Liabilities for wages and salaries (including non-monetary benefits), annual leave and sick leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of the reporting date are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability. This is a change in accounting policy from last year required by the initial application of a new Accounting Standard AASB 1028 *Employee Benefits* from 1 July 2002. The financial impact on 30 June 2003 is a reduction to equity and an increase to employee entitlements of \$31m.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Leave

The liability for employee benefits includes provision for annual leave and long-service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of Defence is estimated to be less than the annual entitlement for sick leave.

The leave liabilities are calculated on the basis of employees remuneration, including Defence's employer superannuation contribution rates to the extent that the leave is likely to be taken during service rather than paid out on termination.

The liability for annual leave for APS employees reflects the value of total annual leave entitlements of all such employees at 30 June 2003 and is recognised at the nominal amount. All annual leave for APS employees is current.

The liability in respect of annual leave for ADF personnel reflects an estimate of the total value of annual leave entitlements, as at 30 June 2003. The liability is recognised as the best estimate of the nominal amount required to settle the obligation as at the reporting date. All annual leave for ADF employees is current.

The liability for long service leave has been determined by reference to the work of an actuary, as at 30 June 2003. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

The provisions for long service leave in respect of all APS and ADF personnel have been measured with regard to the probability that long service leave will either be taken by the employee or have to be paid. They also take into account employee attrition rates and certified pay increases. The determination of the current component is based on actual leave taken in the 2002-03 financial year. The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of employees at 30 June 2003.

Separation and Redundancy

The provisions for redundancies for both APS and ADF personnel arise from obligations flowing from redundancy programs and ongoing market testing of various Defence activities under the Commercial Support Program, where a reliable estimate of the amount of the payments can be determined. The calculation does not include savings from normal attrition where employees are not replaced.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Superannuation

Permanently appointed APS employees and the Department contribute to the Commonwealth Superannuation Scheme (CSS) or the Public Sector Superannuation Scheme (PSS). These schemes are defined benefit superannuation plans for APS employees. No liability is shown for APS superannuation in the Statement of Financial Position as the employer superannuation contributions by Defence fully extinguish the accruing liability, which is assumed by the Commonwealth, and is reported by the Department of Finance and Administration, with the administration being conducted by ComSuper.

An amount of \$174m (2002: \$139m) representing employer superannuation contributions has been brought to account in the Statement of Financial Performance as an operating expense. The applicable employer contribution rate from actuarial review for 2002-03 was 19.9 per cent for CSS members and 11.9 per cent for PSS members. For APS employees who are not members of the CSS or PSS the Department makes an employer superannuation contribution to their nominated fund.

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members.

ADF employer superannuation contributions, pension payments, DFRDB member contribution and the provision for unfunded superannuation are reflected in the Schedule of Administered items.

An amount of \$621m (2002: \$631m) representing employer superannuation contributions has been brought to account in the Statement of Financial Performance. The applicable employer contributions rate calculated by the Australian Government Actuary for 2002-03 was 33.0 per cent for DFRDB and 22.3 per cent for members of the MSBS.

Superannuation on-costs have been added to the provisions for annual leave and long-service leave in respect of both APS and ADF employees. The Statement of Financial Position shows accrued employer superannuation contributions for APS and ADF employees owing by Defence to the Commonwealth at the year-end.

Military Workers' Compensation

Defence manages the costs of claims arising under the compensation scheme for military employees. The scheme is administered under a Service Agreement by the Department of Veterans' Affairs. The estimate of the outstanding claims liability of the Military Compensation Scheme is prepared by the Australian Government Actuary. The estimate relates to claims arising from incidents occurring on or before 30 June 2003 (whether reported or not).

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

The assessment uses statistical information relating to scheme experience over previous years, current claim costs and reporting patterns adjustments for future claims escalation and imputed investment returns.

The total liability of \$1,595m reported in the Employee Provisions of these statements comprises a Central Estimate of \$1,463m for claim payments and, in accordance with AAS 26 *Financial Reporting of General Insurance Activities*, an amount of \$132m for future costs expected to be incurred in processing these claims.

A Central Estimate of the liability is intended to be unbiased in either direction. However, the underlying claims process cannot be projected with certainty. Therefore, it is almost inevitable that the true liability, which can only be known with precision in hindsight, will be different from the Central Estimate. Very broadly, a Central Estimate is intended to be equally likely to be higher or lower than the true liability. In a commercial environment, it is common practice to include a Prudential Margin or Risk Margin to cover the uncertainties inherent in Central Estimates.

If a Prudential Margin were to be applied, the Australian Government Actuary has advised that an allowance in the order of 20% of the Central Estimate (some \$300m) would be reasonable. However, since the liability is secured by an underlying government guarantee, Defence regards it as appropriate to recognise a best estimate of the liability rather than a conservative estimate. The continued use of the Central Estimate approach will be kept under regular review by Defence, through monitoring emerging costs in consultation with the Australian Government Actuary and Department of Veterans' Affairs, and monitoring developments to the relevant Accounting Standards.

Employee Workplace Agreements

As a result of workplace agreements in place for Defence employees, a number of pay increases for both APS and ADF personnel are due to be paid in ensuing years. The current military agreement is for a period of 18 months from 7 November 2002 until 6 May 2004. The last pay rise was 3 per cent from 3 July 2003.

The APS Certified Agreement expires on 31 December 2003. The last pay rise was 3 per cent from 8 May 2003.

Remuneration for executives (being members of the Senior Executive Service or equivalent) is subject to individual agreements.

Proposed changes to Military Compensation Arrangements

On 27 June 2003, the Minister for Veterans' Affairs and Minister Assisting the Minister for Defence, Danna Vale, released the Military Rehabilitation and Compensation Bill 2003 (exposure draft). The purpose of this Bill is to create a new military compensation scheme.

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2003

Under the current bill, the new scheme is a combination of the provisions of the *Safety, Rehabilitation and Compensation Act 1988* (SRCA) and the *Veterans' Entitlement Act 1986* (VEA), which will, over time, be replaced entirely by the new scheme.

Subject to the passage of the legislation, the new Military Rehabilitation and Compensation Scheme will apply to ADF service on or after the date the legislation is enacted. Former ADF members and their dependants receiving benefits through the VEA or the SRCA will continue to be covered by those schemes. Their benefits are unchanged.

Serving members and their dependants receiving benefits through the VEA or SRCA will continue to be covered by those schemes for injury, disease or death before the commencement day of the new Act. Compensation for injury, disease or death related to service after the commencement day of the new Act will be provided solely under the new Act.

Following consultation with the Defence and veteran communities, it is expected the bill will be submitted to Parliament during the fourth quarter of 2003.

1.7 Asbestos-Related Disease Exposure

An inter-departmental committee, chaired by the Department of Finance and Administration, commissioned Trowbridge Deloitte to perform an actuarial study on the nature and extent of the Australian Government's liability for Asbestos-Related Diseases (ARDs). The study, actuarial assessment of the Australian Government's Asbestos-Related Disease Exposure, involved collecting extensive data on individual Australian Government claims, modelling the various sources of claims and conducting interviews with various Australian Government agencies involved in managing the claims.

Based on the calculations provided in the final report as at 30 June 2003, Defence's share of the common law liability is estimated to be \$344m. This is disclosed at Note 4F and 9B.

The provision is based on the best estimate of Defence's potential exposure at 30 June 2003, consistent with the requirement of AASB 1044, *Provisions, Contingent Assets and Contingent Liabilities*. In making the best estimate of the consideration required to settle the provision, the Actuary has applied independent expertise and has used existing historical data, as well as similar claims elsewhere.

The estimate represents the present value of future compensation payments on both future reported claims and currently open claims, including defendant legal costs and is recognised net of apportionment and cross claims with other defendants.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

1.8 Leases

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Assets held under finance leases are brought to account at the present value of minimum lease payments at lease inception, and a liability is recognised for the same amount. Leased assets are amortised over the period of the lease, and lease payments are allocated between the principal liability and borrowing costs expense.

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

Lease incentives taking the form of 'free' leasehold improvements and rent-free periods are recognised as liabilities in accordance with *Urgent Issues Group Consensus View* UIG Abstract 3 Lessee Accounting for Lease Incentives Under a Non-Cancellable Operating Lease. These liabilities are reduced by allocating lease payments between rental expense and reduction of the liability.

During the 2002-03 financial year, Defence entered into a number of finance leases in relation to married quarters for Australian Defence Force personnel. These are reflected at Note 8.

Defence has entered into the sale and operating lease-back of several properties. Relevant gains or losses have been amortised over the term of the leases.

1.9 Borrowing Costs

All borrowing costs are expensed as incurred except to the extent that they are directly attributable to qualifying assets, in which case they are capitalised. The amount capitalised in a reporting period does not exceed the amounts of costs incurred in that period.

1.10 Cash

Cash means notes and coins held, as well as any deposits held at call with a bank or financial institution.

Changed cash management procedures during 2002-03 required Defence to adopt a 'just in time' drawdown approach to appropriations. This has reduced the amount of cash held by Defence. Defence has no term deposits as at 30 June 2003.

Undrawn appropriation is represented by a receivable from the Commonwealth.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

1.11 Bad and Doubtful Debts

A provision is maintained for doubtful debts. The provision is based on an analysis of the expected realisation of outstanding debts and write-off experience from prior years. Bad debts are written off as they are identified. No provision is made for Australian Government or Foreign Government debtors as they are deemed to be collectable.

1.12 Commitments

Commitments are obligations arising under agreements equally proportionately unperformed for expenditure contracted as at 30 June 2003. Defence also reports Future Commitments that are determined from the period between approval for a capital project to proceed and the awarding of the contract. These are detailed in Note 31.

1.13 Financial Instruments

Accounting policies for Departmental and Administered financial instruments are detailed in Note 18 and Note 26 respectively.

1.14 Acquisition of Assets

Assets are recorded at the cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

With the exception of specialist military equipment, assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value as at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. Assets acquired as a consequence of restructuring administrative arrangements are initially recognised as contributions by owners at the amounts at which they were recognised in the transfer or agency's accounts immediately prior to the restructuring.

1.15 Property, Plant and Equipment including Land, Buildings and Infrastructure

Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost in the Statement of Financial Position where they meet the capitalisation threshold. Individual items will be capitalised where the individual value is equal to or exceeds \$10,000. Group assets will be capitalised for items of homogenous nature within a single class where the individual item values equal or exceed \$1,000 and the class group value equals or exceeds \$50,000.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Revaluations

In accordance with Schedule 1 of the Financial Management and Accountability (Financial Statements 2002-2003) Orders and AASB 1041 *Revaluation of Non-Current Assets*, all non-current assets are valued on the fair value basis from 1 July 2002, with the exception of Specialist Military Equipment.

Defence adopted the fair value basis for the measurement of non-current assets during 2002-03, with the exception of specialist military equipment. This change in accounting policy is required by Australian Accounting Standard AASB 1041 *Revaluation of Non-Current Assets*.

All classes of property, plant and equipment, except for assets under construction (AUC) and specialist military equipment, with values greater than established revaluation thresholds are progressively revalued in accordance with the fair value method of valuation over a three-year revaluation cycle, so that values are no greater than three years old. The current progressive revaluation cycle began on 1 July 2002 and will conclude by 30 June 2005.

The financial effect for 2002-03 of this change in policy relates to those assets to be recognised at fair value at 30 June 2003. The financial effect of the change is given by the difference between the carrying amounts at 30 June 2002 of these assets and their fair values as at 30 June 2003. The financial effect by class is as follows:

ASSET CLASS	ADJUSTMENT	CONTRA ACCOUNT
Departmental		
Land	\$ 487,302,177 (increment)	Revaluation Reserve
Buildings	\$ 289,302,113 (increment)	Revaluation Reserve
Infrastructure Plant and Equipment	\$ 225,826,497 (increment)	Revaluation Reserve

Frequency

Valuations are carried out over a three-year revaluation cycle and are conducted by independent registered valuers.

Assets within each class acquired after the valuation of the asset type in the current revaluation cycle are reported at cost for the duration of the cycle unless significant changes in the value of the asset have occurred, in which case the asset will be subject to revaluation or indexation.

Assets Under Construction (AUC) are not revalued but are accounted for at cost and are separately identified as 'under construction' in Note 7. In addition to reviewing expenditures from the point of rollout into service, AUC expenditures are now also considered on a whole of life basis.

Defence has implemented its progressive revaluations as follows:

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2003

Land, Buildings and Infrastructure

The selection of assets to be revalued in a particular reporting period is made according to revaluation plans that are based on location and whether they have been identified for disposal. Independent valuers revalue land, buildings and infrastructure assets.

The Australian Valuation Office undertook revaluations of land, buildings and infrastructure in 2002-03.

Specialist Military Equipment

Specialist military equipment is no longer required to be revalued and are maintained at cost. This is in accordance with Finance Minister's Orders.

Depreciation and Amortisation

Items of property, plant and equipment are depreciated to their estimated residual values over their estimated useful lives to Defence using, in all cases, the 'straight-line' method of depreciation from the time they are first held ready for use. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements and the unexpired period of the lease.

Depreciation and amortisation rates (ie useful lives) and methods are reviewed at each balance date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

ASSET CLASS	2002-03	2001-02
Buildings	5 to 100 years	5 to 100 years
Infrastructure	5 to 100 years	5 to 100 years
Specialist military equipment	2 to 54 years	2 to 54 years
Other plant and equipment	2 to 30 years	2 to 30 years
Heritage and Cultural	0 to 100 years	0 to 100 years
Equipment under finance lease	Lease term	Lease term

The aggregate amount of depreciation and amortisation allocated for each class of asset during the reporting period is disclosed in Note 4D.

Recoverable Amount Test

From 1 July 2002, Schedule 1 of the FMOs no longer requires the application of the recoverable amount test in Australian Accounting Standard AAS 10 *Recoverable Amount of Non-Current Assets* to the assets of agencies when the primary purpose of the asset is not the generation of net cash inflows.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

No property plant and equipment assets other than land now held for sale have been written down to recoverable amount per AAS 10. Accordingly, the change in policy has had no financial effect.

Restoration Costs

Decontamination costs associated with properties listed for disposal are taken into account in the valuation of the property. This valuation adjustment is determined on the basis of remediation surveys and technical assessments. The cost of decontamination work carried out is then capitalised. Typically, adjustment to valuations is made for properties that have not been listed for disposal.

Asset Disposals

The gain or loss on disposal of property, plant and equipment is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal.

New disclosure requirements for 2002-03 require the proceeds from asset sales to be separately disclosed from the net book value of assets sold. Therefore the gross position is disclosed in the Statement of Financial Performance whilst the net surplus/(deficit) is disclosed at Note 3D.

1.16 Intangibles

Defence's intangible assets comprise of computer software and intangibles which are internally developed software.

Acquired intellectual property may form part of the acquisition of particular tangible assets, and in such cases, is reflected in the value reported for property, plant and equipment in the Statement of Financial Position.

Defence carries intangible assets at cost or at replacement value.

From 1 July 2002, Schedule 1 of the FMOs no longer requires the application of the recoverable amount test in AAS 10 *Recoverable Amount of Non-Current Assets* to the assets of agencies when the primary purpose of the asset is not the generation of net cash inflows.

However, Schedule 1 now requires such assets, if carried on the cost basis, to be assessed for indications of impairment. The carrying amount of impaired assets must be written down to the higher of its net market selling price or depreciated replacement cost.

All significant intangibles were assessed for impairment as at 30 June 2003. None were found to be impaired.

Intangible assets are amortised on a straight-line basis over their anticipated useful lives.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

1.17 Inventory

Costs in bringing each item of inventory to its present location and condition are assigned as follows:

- Defence does not ordinarily hold inventory for sale. Sales recorded represent inventory surplus to requirement and minor fuel sales. Inventory has been brought to account at weighted average cost since 2001-02. Costs are assigned to inventory on the same basis.
- Costs incurred in bringing inventory (primarily explosive ordnance and general stores) to its present location and condition, are capable of being allocated on a reasonable basis are included in the weighted average cost

Previously, as historic cost was not available in all instances, inventory was brought to account at average cost, replacement cost or at last purchase price. Inventory is considered obsolete based upon the nature of current inventory levels and expected usage of such assets in the achievement of Defence's outcome.

1.18 Taxation

Defence's activities are exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST). Defence is able to claim input credits for goods and services tax incorporated within the costs of assets and supplies purchased by Defence.

Revenues and Expenses are recognised net of GST, except where the amount of GST is not recoverable from the Australian Taxation Office. In these circumstances GST is recognised as part of the cost of acquisition of the assets or part of the item of expense. Receivables and Payables in the Statement of Financial Position are shown inclusive of GST.

1.19 Insurance

Defence has insured for key insurable risks through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation for civilians is insured through the Government's Comcare Australia. Defence meets the benefit costs for military compensation on an emerging cost basis.

1.20 Disclosure of Goods and Services Tax on Cash Flow Statements

Urgent Issues Group Consensus View UIG Abstract 31 Accounting for Goods and Services Tax (GST) requires that cash flows be grossed up for GST and that the net GST paid or received be disclosed. Applicable GST relating to investing activities is disclosed under operating activities.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

1.21 Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are disclosed in the Schedule of Administered Items and related Notes.

Except where otherwise stated below, administered items are accounted for on the same basis and using the same policies as for departmental items, including the application to the greatest extent possible of Accounting Standards, Accounting Interpretations and UIG Consensus Views.

Administered appropriations received or receivable from the Official Public Account (OPA) is not reported as administered revenues or assets respectively. Similarly, administered receipts transferred or transferable to the OPA are not reported as administered expenses or payables. These transactions or balances are internal to the Administered entity.

These transfers of cash are reported as administered (operating) cash flows and in the administered reconciliation table in Note 23.

Accounting policies, which are relevant to, administered activities only of Defence are disclosed below.

Revenue

All administered revenues are revenues relating to the core operating activities performed by Defence on behalf of the Commonwealth. Administered revenues comprise military superannuation contributions, payments received from the United Nations and foreign governments, and bank interest and dividends paid by the Defence Housing Authority.

Expenses

All administered expenses are expenses relating to the core operating activities performed by Defence on behalf of the Commonwealth. Administered expenses comprise unfunded military superannuation benefits, ADF housing subsidies, ADF retention benefits and foreign exchange losses.

Administered Investments

Investments held on behalf of the Commonwealth are included as administered assets and are brought to account as the value of the Commonwealth's share as at 30 June 1997 of the net assets of the entity, except where there has been a return of equity to the owner (the Government). This is a requirement of the Finance Minister's Orders. Administered investments in controlled entities are not consolidated because their consolidation is relevant only at the whole of government level.

The Commonwealth's capital investment in the Defence Housing Authority is outlined at Note 25.

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2003

Military Retention Benefits

Certain categories of ADF personnel who are members of the Military Superannuation Scheme (MSBS) and have had 15 years of service receive Retention Benefits as an incentive for continued service.

From 1 July 2002, retention benefit payments are recorded as prepayments instead of expenses. The change has been made to recognise the nature of these payments.

Military Superannuation

The Defence Force Retirement and Death Benefits Scheme (DFRDB) and the Military Superannuation Benefits Scheme (MSBS) are defined benefit superannuation plans for ADF members. ADF employer superannuation contribution revenue pension and lump sum payments, the provision for unfunded DFRDB and MSBS and superannuation and DFRDB member contribution revenue are reflected in the Schedule of Administered Items

The DFRDB is a fully unfunded scheme, the MSBS is a partly funded scheme. MSBS member contributions are paid into the MSBS Fund that is controlled by the MSBS Board and are therefore not reflected in the Schedule of Administered Items. The Commonwealth on behalf of the MSBS fund makes funded benefit payments to members of the scheme and the Commonwealth is reimbursed by the fund for these payments.

The Australian Government Actuary (AGA) estimates the unfunded provisions and expected future cashflows as at 30 June each year. These estimates are reflected in the schedule of Administered Items. The AGA completes a full review of the unfunded liabilities (a Long Term Cost Report) every three years. The most recent Long Term Cost Report was completed as at 30 June 2002. A review of costs based on this report was conducted by the AGA in 2003 and the military superannuation provision has been adjusted upward by \$1.2b for 30 June 2003 (\$900m for 30 June 2002). The total unfunded liability for DFRDB scheme as at 30 June 2003 was \$21.6bn and the unfunded liability for the MSBS scheme was \$6.5bn as at 30 June 2003.

Comsuper administers MSBS and DFRDB benefit payments on behalf of Defence. These payments are made using Defence Special Appropriations. At 30 June 2003, a surplus amount of \$36.9m was drawdown by Comsuper. The surplus drawdown is recorded as part of the Administered Cash balance.

Entitlements of Employees of the University of New South Wales

The University of New South Wales has employees engaged or former employees who have been engaged at the Australian Defence Force Academy.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

The Commonwealth has an agreement, which is under review, with the University to provide funding for costs incurred for delivery of military education and training services at the Academy. Up to 30 June 2002, estimated provisions to cover employee entitlements of staff of the University engaged at the Academy have been disclosed as a liability in the financial statements.

An actuarial review during 2002-03 determined a value for the leave entitlement component. This has been reflected as a commitment. The superannuation component will be subject to a whole of government review during 2003-04, and remains an unquantifiable commitment.

1.22 Comparative Figures

Comparative figures for 2001-02 have been adjusted where required to conform to changes in presentation in these financial statements. However, it is impracticable to represent comparative amounts in Note 29 for Gain on Sale of Assets due to constraints in the department's financial system that would have required a transaction by transaction analysis to identify the individual assets.

1.23 Rounding

Amounts reported in the financial statements have been rounded to the nearest \$1,000 except in relation to the following:

- Act of Grace Payments, Defective Administration Scheme and Waivers;
- Remuneration of Executives;
- Remuneration of Auditors;
- Appropriation note disclosures;
- Assets held in Trust; and
- Special Public Money.

Totals are the sum of unrounded amounts.

Note 2: Events Occurring after Reporting Date

Establishment of Defence Materiel Organisation as a prescribed agency

On 18 September 2003, the Government announced that it would establish the Defence Materiel Organisation (DMO) as a prescribed agency to enable greater autonomy to manage and deliver projects. As such, the DMO will remain within the Department of Defence administratively, but be responsible for reporting directly to the Minister for Defence on financial matters associated with acquisition and aspects of logistics. The Secretary of Defence will continue to be responsible for the employment of Australian Public Service staff in the DMO under the *Public Service Act 1999*. This decision will significantly affect the ongoing structure and financial activities of the Department. The event occurred after balance date and has not been brought to account in the 2002-03 financial statements.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Note 3: Operating Revenues		
<u>Note 3A: Revenues from Government</u>		
Appropriation for outputs	18,230,325	17,843,477
Resources received free of charge	2,113	2,057
Total revenues from Government	18,232,438	17,845,534
<u>Note 3B: Goods and Services</u>		
Goods	51,661	54,198
Services	178,884	182,180
Total sales of goods and services	230,545	236,378
Provision of goods to:		
Related entities	12	46
External entities	51,649	54,152
Total sales of goods	51,661	54,198
Rendering of services to:		
Related entities	4,186	5,131
External entities	174,698	177,049
Total rendering of services	178,884	182,180
Goods and services are represented by:		
Sale of surplus inventory	3,540	1,570
Fuel sales to foreign governments	40,441	44,129
Other goods	7,680	8,500
Housing rentals	95,584	97,868
Operational exercises, training and facilities	9,708	10,903
Rations and quarters	37,112	37,676
Rental of Defence property (non housing)	4,389	5,916
Other services	32,091	29,816
	230,545	236,378
<u>Note 3C Interest Revenue</u>		
Interest on deposits	19,332	15,246
Total interest revenue	19,332	15,246

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Note 3D: <u>Net Gains from Sales of Assets</u>		
Land and buildings:		
Proceeds from disposal	608,529	120,031
Net book value of assets disposed	<u>(537,084)</u>	<u>(107,472)</u>
<i>Net gain from disposal of land and buildings</i>	<u>71,445</u>	<u>12,559</u>
Specialist military equipment:		
Proceeds from disposal	29,690	553
Net book value of assets disposed	<u>(56,678)</u>	<u>(92)</u>
<i>Net gain/(loss) from disposal of specialist military equipment</i>	<u>(26,988)</u>	<u>461</u>
Other infrastructure, plant and equipment:		
Proceeds from disposal	47,318	57,306
Net book value of assets disposed	<u>(46,787)</u>	<u>(52,399)</u>
<i>Net gain from disposal of other infrastructure, plant and equipment</i>	<u>531</u>	<u>4,909</u>
Total proceeds from disposals	685,537	177,890
Net book value of assets disposed	<u>(640,549)</u>	<u>(159,963)</u>
<i>Total net gain from disposal of assets</i>	<u>44,988</u>	<u>17,930</u>
Note 3E <u>Net Foreign Exchange Gains</u>		
Foreign exchange gains		
Non-speculative	47,586	25,191
Less Foreign exchange losses		
Non-speculative	<u>(30,485)</u>	<u>(21,662)</u>
<i>Total net foreign exchange gains</i>	<u>17,101</u>	<u>3,529</u>

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
<u>Note 3E:</u> <u>Assets Now Recognised</u>		
Property, Plant and Equipment		
Specialist military equipment	586,049	567,829
Land and buildings	9,059	731
Other infrastructure, plant and equipment	67,389	6,462
Software and intangibles	756	8,078
Total property, plant and equipment	<u>663,253</u>	<u>583,100</u>
Inventory		
Inventory	203,042	110,950
Total inventory	<u>203,042</u>	<u>110,950</u>
<i>Total assets now recognised</i>	<u>866,295</u>	<u>694,050</u>
 <u>Note 3G:</u> <u>Other Revenues</u>		
Revenue now earned*	-	58,668
Sales of materials and services	6,610	8,658
Foreign Military Sales refunds	11,886	15,163
Excise refunds	42,575	12,461
Settlement of damages	18,086	9,631
Other minor revenues**	39,233	68,253
Total other revenues	<u>118,390</u>	<u>172,833</u>

* The amount for 2002 includes \$56.953m which was initially provided to Defence for Federation Fund activities. Subsequent legislative changes have altered the nature of the original funding. Accordingly, the criteria for amortising money received in advance for the Federation Fund projects is no longer applicable.

** Other minor revenues include miscellaneous revenues.

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Note 4: Operating Expenses		
<u>Note 4A: Employee Expenses</u>		
Australian Public Service (APS) employee expenses		
Wages and salary	898,573	783,728
Superannuation	173,805	138,670
Leave and other entitlements	111,608	114,360
Separation and redundancies	6,046	9,228
Fringe benefits tax	6,482	4,902
Other employee expenses	2,603	2,134
Other allowances	22,295	20,762
Health expenses	1,451	1,187
Total APS employee benefit expenses	1,222,862	1,074,970
Workers compensation premiums	12,890	11,146
Total APS employee expenses	1,235,752	1,086,116
Australian Defence Force (ADF) employee expenses		
Wages and salary	2,537,836	2,425,052
Superannuation	620,822	631,305
Leave and other entitlements	86,768	105,062
Separation and redundancies	5,826	2,413
Overseas allowance	183,529	204,417
Other allowances	286,003	254,422
Fringe benefits tax	268,541	235,066
Health services	130,551	110,098
Housing	361,262	323,992
Other employee expenses	87,355	85,999
Total ADF employee benefit expenses	4,568,493	4,377,826
Military compensation scheme*	390,327	268,108
Total ADF employee expenses	4,958,820	4,645,935
Total employee expenses	6,194,572	5,732,050

* The 2003 amount includes \$131.7m in administration fees for the future processing of these claims. This is the first year that administration fees have been included in the military compensation expense.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
<u>Note 4B:</u> Suppliers Expenses		
Suppliers expenses is represented by:		
Supply of goods and services		
General goods and services	839,611	748,774
Communications and information technology	244,340	180,316
Consultants and professional services*	261,075	257,977
Inventory supplies (non capital)	301,884	130,225
Domestic travel	126,846	111,225
Training	174,939	183,464
Removal costs	148,826	150,182
Utilities	96,497	96,903
Overseas travel	63,887	60,206
Advertising	28,943	39,702
Freight and storage	45,023	42,007
Security services	19,404	18,519
Total supply of goods and services	2,351,275	2,019,499
Inventory consumption		
Inventory consumption	772,794	676,898
Total inventory consumption	772,794	676,898
Property, plant and equipment related items		
Repair and overhaul	1,225,780	1,050,960
Facilities operations (non utilities)	313,603	331,708
Asset purchases not capitalised under asset policy thresholds	217,344	302,210
Operating leases**	331,540	222,035
Property disposals related costs	41,428	32,467
Total property, plant and equipment related items	2,129,696	1,939,380
Other suppliers expenses		
Research and development	92,591	51,372
Assistance to states/territories (non grants)	3,518	3,508
Total other suppliers expenses	96,109	54,880
Total suppliers expenses	5,349,874	4,690,657
Suppliers Expenses		
Goods from related entities	10,138	16,860
Goods from external entities	1,316,086	1,133,002
Services from related entities	339,763	269,928
Services from external entities	3,683,887	3,270,867
Total supplier expenses	5,349,874	4,690,657

* Legal compensation expenses for 2001-02 of \$23m have been reclassified to General Goods and Services, resulting in a decrease for the total Consultants and Professional Service category from \$280m to \$257m in the comparative figure. Legal compensation expenses for 2002-03 were \$54m.

** These comprise minimum lease payments only.

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Note 4C: Grants		
Private sector	2,544	2,587
Overseas	-	20,000
Total grants	2,544	22,587
Grants are represented by:		
Defence rebuilding program Papua New Guinea	-	20,000
Defence Family Support Program	1,143	1,337
Research and other grants	1,401	1,250
	2,544	22,587
Note 4D Depreciation and Amortisation		
<i>Depreciation</i>		
Specialist military equipment	2,190,785	1,877,243
Buildings	288,542	249,590
Buildings under finance lease	25,126	26,187
Total Buildings	313,668	275,777
Other infrastructure, plant and equipment	337,012	339,167
Total depreciation	2,841,465	2,492,187
<i>Amortisation</i>		
Computer Software	14,456	11,885
Intangibles - internally developed software	7,495	22,125
Total amortisation	21,951	34,010
Total depreciation and amortisation	2,863,416	2,526,197
The aggregate amounts of depreciation and amortisation expensed during the reporting period for each class of depreciable asset are as follows:		
Buildings	288,542	249,590
Specialist military equipment	2,190,785	1,877,243
Plant and equipment	337,012	339,167
Leasehold improvements	25,126	26,187
Computer Software	14,456	11,885
Intangibles - internally developed software	7,495	22,125
Total depreciation and amortisation	2,863,416	2,526,197

No depreciation or amortisation was allocated to the carrying amounts of other assets.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
<u>Note 4E:</u>		
<u>Write Down of Assets</u>		
Financial assets		
Bad and doubtful debts expense	23,599	31,029
	<u>23,599</u>	<u>31,029</u>
This is to represented by:		
Bad debts written-off	24	269
Provision for doubtful debts	580	10,726
Adjustment to correct receivable balances for past errors	22,995	20,034
	<u>23,599</u>	<u>31,029</u>
Non-financial assets		
Specialist military equipment		
Fixed assets	81,298	426,384
Major project activities expensed*	27,053	889,727
Total specialist military equipment	<u>108,351</u>	<u>1,316,111</u>
Other property, plant and equipment		
Land and buildings	8,011	14,506
Other infrastructure, plant and equipment	169,143	54,820
Software and Intangibles	184	8,182
Major other plant and equipment project activities expensed	23,501	15,000
Major intangibles project activities expensed	3,518	-
Total other property, plant and equipment	<u>204,357</u>	<u>92,508</u>
Inventory		
Write-down of inventory	250,168	133,987
	<u>250,168</u>	<u>133,987</u>
Total write-down of assets	<u>586,475</u>	<u>1,573,645</u>
* In 2002-03 an amount of \$69.5m was reversed against Major project activities write-downs. This adjustment relates to write-offs which occurred in prior years.		
<u>Note 4F:</u>		
Other Expenses		
Defective Administration Scheme payments	288	343
Financial and other expenses	1,708	1,427
Asbestos Related Disease Exposure*	343,600	-
Total other expenses	<u>345,596</u>	<u>1,770</u>

* Refer to Note 1.7

Department of Defence

Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Note 5: Borrowing Costs Expense		
Leases	26,509	28,191
Other	246	390
<i>Total borrowing costs expense</i>	<u>26,755</u>	<u>28,581</u>
Note 6: Financial Assets		
Note 6A: Cash		
Cash on hand	3,364	1,565
Cash at bank at call	96,194	34,088
Term deposits	-	799,500
<i>Total cash</i>	<u>99,557</u>	<u>835,153</u>
All cash recognised is a current asset.		
Note 6B: Receivables		
Goods and services	77,321	177,138
Less Provision for doubtful debts	(3,716)	(32,796)
	<u>73,606</u>	<u>144,342</u>
GST receivable from the Australian Taxation Office	114,667	102,900
Interest receivable	-	2,122
Appropriation receivable	870,201	-
Advances and loans	59,719	71,684
Other receivables	34,349	61,266
<i>Total receivables (net)</i>	<u>1,152,542</u>	<u>382,314</u>
Receivables are represented by:		
Current	1,094,064	280,953
Non current	58,478	101,361
<i>Total</i>	<u>1,152,542</u>	<u>382,314</u>
Receivables (gross) are aged as follows:		
Not overdue	1,109,079	252,715
Overdue by:		
Less than 30 days	11,215	129,093
30 to 60 days	9,840	3,558
60 to 90 days	646	1,075
More than 90 days	25,477	28,669
<i>Total receivables (gross)</i>	<u>1,156,257</u>	<u>415,110</u>

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03	2001-02
	\$'000	\$'000
The provision for doubtful debts is aged as follows:		
Not overdue	-	-
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	3,054
60 to 90 days	-	1,073
More than 90 days	3,716	28,669
Total provision for doubtful debts	3,716	32,796
<u>Note 6C:</u> <u>Capital Use Charge</u>		
Capital Use Charge Receivable	-	137,978
Balance receivable/(payable) 1 July	137,978	21,542
Capital Use Charge	(5,056,094)	(4,633,854)
Capital Use Charge paid	4,918,116	4,750,290
Balance 30 June receivable/(payable)	-	137,978

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03	2001-02
	\$'000	\$'000
Note 7: Non-Financial Assets		
<u>Note 7A: Land and Buildings</u>		
Land		
at cost	4,240	7,202
at 2000-02 valuation (deprival)	1,622,598	2,370,582
at 2003-06 valuation (fair value)	888,922	-
	<u>2,515,760</u>	<u>2,377,784</u>
Less provision for land decontamination	(68,369)	(71,320)
	<u>2,447,391</u>	<u>2,306,464</u>
Work in progress - at cost	6,804	9,112
Total land	<u>2,454,195</u>	<u>2,315,576</u>
Buildings		
at cost	310,823	337,905
Accumulated depreciation	(19,014)	(12,168)
	<u>291,809</u>	<u>325,737</u>
Work in progress - at cost	549,766	418,307
at 2000-02 valuation (deprival)	5,862,582	8,319,228
Accumulated depreciation	(1,910,292)	(2,653,747)
	<u>3,952,290</u>	<u>5,665,481</u>
at 2003-06 valuation (fair value)	2,452,871	-
Accumulated depreciation	(721,574)	-
	<u>1,731,297</u>	<u>-</u>
Buildings held under finance lease	372,939	379,514
Accumulated depreciation	(69,429)	(50,076)
	<u>303,510</u>	<u>329,438</u>
Total buildings	<u>6,828,672</u>	<u>6,738,963</u>
Total Land and Buildings (non-current)	<u>9,282,868</u>	<u>9,054,538</u>
<u>Note 7B: Specialist Military Equipment</u>		
Specialist military equipment		
at cost	45,313,506	41,229,485
Accumulated depreciation	(21,339,856)	(18,929,182)
	<u>23,973,650</u>	<u>22,300,303</u>
Work in progress - at cost	7,409,624	8,356,587
Total Specialist Military Equipment (non-current)	<u>31,383,274</u>	<u>30,656,890</u>

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
<u>Note 7C:</u>		
Infrastructure, Plant and Equipment		
Plant and Equipment		
at cost	1,404,426	1,324,540
Accumulated depreciation	(699,432)	(650,611)
	<u>704,994</u>	<u>673,929</u>
at 2000-02 valuation (deprival)	3,795,075	5,357,521
Accumulated depreciation	(1,368,186)	(1,744,760)
	<u>2,426,889</u>	<u>3,612,761</u>
at 2003-06 valuation (fair value)	1,749,558	-
Accumulated depreciation	(472,111)	-
	<u>1,277,447</u>	<u>-</u>
Plant held under finance lease	974	974
Accumulated depreciation	(896)	(841)
	<u>78</u>	<u>133</u>
Work in progress	339,322	230,952
Total Infrastructure, Plant and Equipment (non-current)	<u><u>4,748,730</u></u>	<u><u>4,517,776</u></u>

All revaluations are independent and are conducted in accordance with the revaluation policy stated at Note 1.15. In 2002-03, the revaluations were conducted by an independent valuer, the Australian Valuation Office (AVO).

Revaluations increments of \$487,302,177 for land (2002: increment: \$170,922,120), \$289,302,113 for buildings on land (2002: increment: \$432,691,725) and increments of \$225,826,497 (2002: increment \$462,606,520) for other plant and equipment were made to the asset revaluation reserve.

<u>Note 7D:</u>		
Intangibles		
Computer Software	112,049	104,269
Accumulated amortisation	(52,868)	(38,175)
	<u>59,181</u>	<u>66,094</u>
Computer software work in progress	37,484	9,214
Intangibles internally developed software	129,632	130,158
Accumulated amortisation	(53,985)	(46,891)
	<u>75,647</u>	<u>83,267</u>
Other work in progress	1,397	5,786
Total Intangibles	<u><u>173,709</u></u>	<u><u>164,360</u></u>

<u>Note 7E:</u>		
Heritage and cultural assets		
at cost	19,047	18,897
Accumulated depreciation	-	-
	<u>19,047</u>	<u>18,897</u>
Total Heritage and Cultural Assets (non-current)	<u><u>19,407</u></u>	<u><u>18,897</u></u>

Note 7F: Analysis of Property, Plant, Equipment and Intangibles**Table A: Reconciliation of the Opening and Closing Balances of Property, Plant and Equipment and Intangibles**

Item	Land	Buildings	Specialist Military Equipment (SME)	Other Infrastructure, Plant and Equipment (owned and leased)	Heritage and Cultural Assets	Computer Software	Intangibles Internally Developed Software	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 1 July 2002								\$'000
Gross Book value	2,315,576	9,075,439	49,586,072	7,299,265	18,897	113,483	135,944	68,544,675
Accumulated depreciation/amortisation	-	(2,665,915)	(18,929,182)	(2,452,051)	-	(38,176)	(46,891)	(24,132,215)
Net book value	2,315,576	6,409,524	30,656,890	4,847,214	18,897	75,307	89,053	44,412,460
Additions:								
by purchase	2,046	281,209	2,717,717	421,821	150	30,638	3,408	3,456,988
by finance lease	-	28,607	-	-	-	-	-	28,607
Net revaluation increment/decrement	487,302	289,302	-	225,826	-	-	-	1,002,431
Reclassifications	(351)	319,357	(91,981)	(227,207)	-	4,989	(4,807)	-
Depreciation/ Amortisation expense	-	(313,668)	(2,190,785)	(337,012)	-	(14,456)	(7,495)	(2,863,416)
Recoverable amount write downs/ups	2,951	(10,962)	(108,351)	(192,644)	-	(184)	(3,518)	(312,708)
Other movements								
Assets recognised for the first time	25	9,034	586,049	67,389	-	352	403	663,253
Other adjustments	-	-	(129,587)	(9,871)	-	19	-	(139,439)
Disposals								
From disposal of entities or operations (including restructuring)	-	-	-	-	-	-	-	-
Other disposals	(353,353)	(183,731)	(56,678)	(46,787)	-	-	-	(640,549)
As at 30 June 2003								
Gross book value	2,454,195	9,548,980	52,723,130	7,289,355	19,047	149,533	131,029	72,315,269
Accumulated depreciation	-	(2,720,308)	(21,339,856)	(2,540,625)	-	(52,868)	(53,985)	(26,707,642)
Net book value¹	2,454,195	6,828,673	31,383,274	4,748,730	19,047	96,665	77,044	45,607,627

Note

- Repairable items with a written down value of \$2,545m (2001-02 :\$2,770m) comprise 8 per cent of the total specialist military equipment written down value of \$31,383m (2001-02 \$30,657). Uncertainty exists in elements of the repairable items account with a value approximating \$550m. A data quality program has been in place over the past two years to address this issue and while considerable progress has been made in the identification and correction of errors, further years are required to fully address this issue.

Note 7F: Analysis of Property, Plant, Equipment and Intangibles (continued)

Table B: Assets at Valuation

Item	Land \$'000	Buildings \$'000	Specialist Military Equipment (SME) \$'000	Other Infrastructure Plant and Equipment \$'000	Heritage and Cultural Assets \$'000	Computer Software \$'000	Intangibles Internally Developed Software \$'000	Total \$'000
As at 30 June 2003								
Gross value	2,511,520	8,315,451	-	5,544,633	-	-	-	16,371,604
Accumulated depreciation/amortisation	-	(2,631,866)	-	(1,840,297)	-	-	-	(4,472,163)
Provision for land decontamination	(68,369)	-	-	-	-	-	-	(68,369)
Net Book Value	2,443,151	5,683,586	-	3,704,335	-	-	-	11,831,072
As at 30 June 2002								
Gross value	2,370,582	8,319,228	-	5,357,521	-	-	-	16,047,331
Accumulated depreciation/amortisation	-	(2,653,747)	-	(1,744,760)	-	-	-	(4,398,507)
Provision for land decontamination	(71,320)	-	-	-	-	-	-	(71,320)
Net Book Value	2,299,262	5,665,481	-	3,612,761	-	-	-	11,577,504

Note 7F: Analysis of Property, Plant, Equipment and Intangibles (continued)

Table C: Property, Plant, Equipment and Intangibles held under Finance Lease

Item	Land \$'000	Buildings \$'000	Specialist Military Equipment (SME) \$'000	Other Infrastructure, Plant and Equipment \$'000	Heritage and Cultural Assets \$'000	Computer Software \$'000	Intangibles Internally Developed Software \$'000	Total \$'000
As at 30 June 2003								
Gross value	-	372,939	-	974	-	-	-	373,913
Accumulated depreciation/amortisation	-	(69,429)	-	(896)	-	-	-	(70,325)
Net Book Value	-	303,511	-	78	-	-	-	303,589
As at 30 June 2002								
Gross value	-	379,514	-	974	-	-	-	380,488
Accumulated Depreciation/Amortisation	-	(50,076)	-	(841)	-	-	-	(50,917)
Net Book Value	-	329,438	-	133	-	-	-	329,571

Note 7F: Analysis of Property, Plant, Equipment and Intangibles (continued)

Table D: Property, Plant, Equipment and Intangibles under Construction

Item	Land \$'000	Buildings \$'000	Specialist Military Equipment (SME) \$'000	Other Infrastructure, Plant and Equipment \$'000	Heritage and Cultural Assets \$'000	Computer Software \$'000	Intangibles Internally Developed Software \$'000	Total \$'000
As at 30 June 2003								
Gross value	6,804	549,766	7,409,624	339,544	-	37,484	1,397	8,344,619
As at 30 June 2002								
Gross value	9,112	418,307	8,356,587	230,952	-	9,214	5,786	9,029,958

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03	2001-02
	\$'000	\$'000
<u>Note 7G:</u> <u>Inventories</u>		
Inventories not held for sale	4,339,612	4,128,057
<i>Less provision for obsolescence</i>	<u>(507,269)</u>	<u>(507,269)</u>
Total inventories	<u>3,832,343</u>	<u>3,620,788</u>
Inventories is represented by:		
Current	567,317	409,920
Non Current	<u>3,772,295</u>	<u>3,718,137</u>
Total gross inventories	<u>4,339,612</u>	<u>4,128,057</u>
<i>Less provision for obsolescence</i>	<u>(507,269)</u>	<u>(507,269)</u>
Total Inventories	<u>3,832,343</u>	<u>3,620,788</u>

As disclosed in accounting policy Note 1.17, inventory is valued at weighted average cost. Defence has inventory on hand acquired over the past 35 years. As in prior years:

- invoices and related purchasing documentation are not available to confirm the accuracy of the cost price data for some general stores purchases including those made prior to 1993 and for explosive ordnance acquired prior to 1996; and
- pricing details were generally not separately identified for explosive ordnance inventory acquired as part of assets under construction contracts delivered between 1997 and 2000.

For these reasons, some uncertainty exists in the pricing of inventory. This uncertainty will reduce progressively as aged items are consumed or become obsolete.

The book value (after provision for obsolescence) of the general stores inventory subject to this uncertainty is in the order of \$610m. The book value of explosive ordnance subject to uncertainty is \$1.2b.

As part of developing a longer term resolution of this problem, Defence has further developed a systems review process that results in a lower untested net level of uncertainty. Further analysis will be undertaken in 2003-04 as a cost effective means of reducing the uncertainty.

<u>Note 7H:</u> <u>Other Non Financial Assets</u>		
Capital prepayments	419,939	410,467
Non capital prepayments	<u>298,609</u>	<u>153,957</u>
Total other non-financial assets	<u>718,549</u>	<u>564,424</u>

Other non-financial assets are represented by:

Current	405,178	526,510
Non-current	<u>313,371</u>	<u>37,914</u>
Total	<u>718,549</u>	<u>564,424</u>

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Note 8: Interest Bearing Liabilities		
<u>Note 8A: Leases</u>		
Finance lease commitments Payable:		
Within one year	35,487	35,868
In one to five years	141,690	143,286
In more than five years	425,202	475,639
Minimum lease payments	<u>602,379</u>	<u>654,793</u>
<i>Deduct: future finance charges</i>	<u>(258,641)</u>	<u>(294,522)</u>
Net lease liability	<u><u>343,738</u></u>	<u><u>360,271</u></u>
Lease liability is represented by:		
Current	9,774	8,914
Non current	<u>333,964</u>	<u>351,357</u>
Net lease liability	<u><u>343,738</u></u>	<u><u>360,271</u></u>
Finance leases exist in relation to property and equipment The leases are non-cancellable and for fixed terms. Defence guarantees the residual value of all assets leased.		
Note 9: Provisions		
<u>Note 9A: Employee Provisions</u>		
Australian Public Service (APS) employee provisions		
Salaries and wages	34,550	27,414
Leave	403,274	353,556
Superannuation	4,776	3,580
Separations and redundancies	1,617	609
Other	4,321	1,356
Aggregate APS employee entitlement liability	<u>448,538</u>	<u>386,516</u>
Australian Defence Force (ADF) employee provisions		
Salaries and wages	111,284	87,913
Leave*	1,072,386	1,041,015
Superannuation	19,306	17,155
Separations and redundancies	4,515	2,082
Other	66,318	77,523
Aggregate ADF employee entitlement liability	<u>1,273,810</u>	<u>1,225,687</u>
Military compensation	<u>1,595,362</u>	<u>1,342,400</u>
Aggregate employee benefit liability and related on-costs	<u><u>3,317,711</u></u>	<u><u>2,954,603</u></u>
Employee provisions are represented by:		
Current	1,168,407	1,025,044
Non-current	<u>2,149,304</u>	<u>1,929,559</u>
Total Employee provisions	<u><u>3,317,711</u></u>	<u><u>2,954,603</u></u>

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

	2002-03 \$,000	2001-02 \$,000
<p>*A systematic sampling review of Military employee leave entitlements undertaken by Defence in recent months has found errors exist in relation to Military Leave balances. In addition, supporting documentation could not be located within the timeframe of the review to support some leave transactions. These errors and potential errors, which are outside acceptable parameters, represent uncertainty in military annual leave and long service leave balances. The book value of the leave balances subject to this uncertainty is \$732m. This uncertainty will be reduced in 2003-04 and 2004-05 as a result of a continuing comprehensive data quality review of leave processes and balances. It should be noted that leave payments made on separation from Defence are subject to validation back to an individual member's personnel file resulting in the appropriate verification of payments made.</p>		
<u>Note 9B:</u> <u>Other</u>		
Provision for Asbestos related disease exposure	343,600	-
<i>Total other provisions</i>	<u>343,600</u>	<u>-</u>
Note 10: Payables		
<u>Note 10A</u> <u>Supplier Payables</u>		
Non capital trade creditors	830,767	652,534
Capital trade creditors	363,996	376,947
Other suppliers	5,303	4,263
<i>Total supplier payables</i>	<u>1,200,066</u>	<u>1,033,744</u>
Supplier payables are represented by:		
Current	1,196,242	1,033,744
Non-current	3,824	-
<i>Total supplier payables</i>	<u>1,200,066</u>	<u>1,033,744</u>
<u>Note 10B:</u> <u>Other Payables</u>		
Other payables	8,109	3,007
Payable to the Official Public Account	22,020	12,045
<i>Total other payables</i>	<u>30,130</u>	<u>15,052</u>
Other payables are represented by:		
Current	27,425	12,197
Non-current	2,704	2,855
<i>Total other payables</i>	<u>30,130</u>	<u>15,052</u>

Note 11: Analysis of Equity

Item	Accumulated Results		Asset Revaluation Reserve		Contributed Equity/Capital		Total Equity	
	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
Opening balance as at 1 July 2002	38,072,156	38,304,585	6,217,243	5,230,392	1,300,047	735,076	45,589,446	44,270,053
Net surplus/ deficit	4,159,857	4,410,020	-	-	-	-	4,159,857	4,410,020
Net revaluation increment/ decrement	-	-	1,002,431	986,851	-	-	1,002,431	986,851
Changes in accounting policies	(31,230)	-	-	-	-	-	(31,230)	-
Transactions with owner:								
<i>Distributions to owners:</i>								
Returns on Capital								
Dividends	-	(8,594)	-	-	-	-	-	(8,594)
Capital Use Charge	(5,056,094)	(4,633,854)	-	-	-	-	(5,056,094)	(4,633,854)
Returns of capital								
Restructuring	-	-	-	-	-	(6,834)	-	(6,834)
Returns of contributed equity	-	-	-	-	(484,239)	(103,397)	(484,239)	(103,397)
Contributions by owners:								
Appropriations (equity injections)	-	-	-	-	995,201	675,202	995,201	675,202
Transfers to (from) between reserves	-	-	-	-	-	-	-	-
Closing balance as at 30 June 2003	37,144,692	38,072,157	7,219,673	6,217,243	1,811,008	1,300,047	46,175,374	45,589,447
Less: Outside equity interests	-	-	-	-	-	-	-	-
Total equity attributable to the Commonwealth	37,144,692	38,072,156	7,219,673	6,217,243	1,811,008	1,300,047	46,175,374	45,589,447

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03	2001-02
	\$'000	\$'000
Note 12: Cash Flow Reconciliation		
Reconciliation of cash per Statement of Financial Position to Statement of Cash Flows		
Cash at year end per Statement of Cash Flows	<u>99,557</u>	<u>835,153</u>
Statement of Financial Position items comprising above cash: "Financial Assets - Cash"	<u>99,557</u>	<u>835,153</u>
Reconciliation of net surplus to net cash from operating activities:		
Net surplus	4,159,857	4,410,020
Depreciation and amortisation	2,863,416	2,526,197
Net gain on foreign exchange	(17,101)	(3,529)
Recognition of assets previously expensed	(866,295)	(694,050)
Change in accounting policy	(31,230)	-
Reallocation of inventory purchases	846,384	806,421
(Increase)/decrease in net receivables	(809,903)	(16,543)
(Increase)/decrease in net inventory	(258,680)	(294,816)
(Increase)/decrease in prepayments	(144,652)	(4,731)
Increase/(decrease) in other payables	2,827	(62,835)
Increase/(decrease) in other provisions	343,596	-
Net (gain) loss on sale of assets	(44,989)	(17,930)
Write down of assets	586,475	1,573,635
Increase/(decrease) in employee provisions	363,108	221,695
Increase/(decrease) in supplier payables	179,273	56,195
<i>Net cash from operating activities</i>	<u>7,172,085</u>	<u>8,499,730</u>

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 13: Contingent Liabilities and Assets

Quantifiable Contingencies

The Schedule of Contingencies reports contingent liabilities in respect of claims for damages/costs of \$132.9m (2002: \$127.5m). The amount represents an estimate of the Department's liability based on precedent cases. The Department is defending the claims.

The schedule also reports contingent assets in respect of claims for damages/costs of \$68.4m (2002: \$108.7m). The Department is expecting to succeed in claims against suppliers, although the cases are continuing. The estimate is based on precedent in such cases.

Unquantifiable Contingencies

Two hundred claims for damages have been made by former members of the crew (of approximately 974) of the former *HMAS Melbourne* arising out of the *HMAS Voyager/HMAS Melbourne* collision of 10 February 1964. Further claims for damages will probably continue to be made by other former members of the crew of *HMAS Melbourne*. It is not clear how many more claims will be made. To date, 80 claims have been settled.

A number of claims for damage by dependents of deceased former members of the *HMAS Voyager* have been foreshadowed in respect of the *HMAS Voyager/HMAS Melbourne* collision of 10 February 1964, but are not currently the subject of any legal proceedings. It remains unclear as to how many further dependency claims may be made in the future. The additional but currently unidentified dependency claims are unquantifiable at this time.

One claim for damages has been made by a former member of the crew (complement of approximately 1,300) of *HMAS Melbourne* arising out of the *HMAS Melbourne/USS Frank E Evans* collision of 3 June 1969. It remains unclear to what extent further claims might be made in respect of that collision.

The RAAF Board of Inquiry, covering the desealing and resealing of the F-111 fuel tanks at RAAF Amberley, has identified health issues that may be subject to future claims. To complement the inquiry, a comprehensive health study is currently being undertaken by the Department of Veterans' Affairs. Seventeen common law damages claims have been made to date. Completion of this study in 2003 may result in further claims for damages. The report will not be released until mid 2004.

On 5 May 1998 four crew members aboard *HMAS Westralia* died due to an on board fire. The coronial inquest into the incident is nearing completion. The Commonwealth has initiated proceedings in the Federal Court of Australia against ADI Ltd, Park Enzed Technologies Ltd, Jetrock Pty Ltd and Todd Hydrolics for damages relating to the fire. Confidential mediation of the claim is currently underway however there is no indication of the time frame for settlement.

There is an emerging pattern of claims of compensation from property owners resulting from training activities by the RAAF, operational activities at ordnance depots as well as firing range activities.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Defence redundancy obligations arise from known redundancy programs and ongoing market testing of various Defence activities. Provisions have been made for those redundancies already planned. Other redundancies are generally contingent upon the results of market testing and/or group restructures and cannot be quantified until a decision to outsource or downsize has been made and the number and levels of positions are identified.

Remote Contingencies

Defence carries an extensive range of guarantees, indemnities and undertakings, normally of a short-term nature, relating to business, training activities and other arrangements involving contracts, agreements and other Defence activities. Indemnities issued cover potential losses or damages for which the Commonwealth would be liable.

Contingencies relating to such guarantees, indemnities and undertakings issued by Defence are considered too remote to be included in the Schedule of Contingencies. Of these, there are 32 instances in the Defence Central Indemnity Register (2002: 25) that are either unquantifiable or uncapped, and 47 instances (2002: 6) of quantifiable contingencies to the value of \$1,124m (2002: \$582.6m).

There are many indemnities that are incorporated into major acquisition contracts. These uncapped indemnities, while remote, are potentially large but unquantifiable.

In addition, as at 30 June 2003, there were 97 cases (2002: 44) of remote or unquantifiable contingent losses arising from outstanding claims against Defence, and 8 cases (2002: 3) of remote or unquantifiable contingent assets. Of these 16 (2002: 37) are considered remote, with assessed liability of \$2.6m (2002: \$6.9m) and four (2002: 3) are considered remote with an assessed gain of \$98.8m (2002: \$0.022m).

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 14: Executive Remuneration

The number of executives who received, or were due to receive, total remuneration of \$100,000 or more are set out below.

Remuneration Band	2002-03	2001-02
	<i>Number of Executives</i>	<i>Number of Executives</i>
\$100,000 to \$109,999	9	7
\$110,000 to \$119,999	12	8
\$120,000 to \$129,999	13	15
\$130,000 to \$139,999	13	25
\$140,000 to \$149,999	26	22
\$150,000 to \$159,999	24	21
\$160,000 to \$169,999	20	25
\$170,000 to \$179,999	18	18
\$180,000 to \$189,999	19	19
\$190,000 to \$199,999	14	10
\$200,000 to \$209,999	13	13
\$210,000 to \$219,999	8	8
\$220,000 to \$229,999	13	7
\$230,000 to \$239,999	5	3
\$240,000 to \$249,999	6	3
\$250,000 to \$259,999	5	2
\$260,000 to \$269,999	2	4
\$270,000 to \$279,999	-	2
\$280,000 to \$289,999	4	-
\$290,000 to \$299,999	-	1
\$300,000 to \$309,999	1	2
\$310,000 to \$319,999	2	1
\$320,000 to \$329,999	1	2
\$360,000 to \$369,999	2	1
\$370,000 to \$379,999	1	1
\$380,000 to \$389,999	1	-
\$390,000 to \$399,999	1	1
\$400,000 to \$409,999	1	1
Total number of executives	234	222

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2003

	\$	\$
The aggregate amount of total remuneration of executives is shown above.	42,446,104	39,018,498
The aggregate amount of separation and redundancy/termination benefit payments during the year to executives shown above.	4,276,431	1,861,434

Remuneration for executives of Defence (being members of the Senior Executive Service or Military equivalent) is disclosed where the amount received or due and receivable for the financial year is \$100,000 or more.

Remuneration includes salaries, superannuation, redundancy payments, accrued leave, car parking, motor vehicle expenses, and other benefits. In addition, for the ADF it includes the value of health and housing assistance. However, it does not include:

- executives who were employed overseas for a period exceeding six months; and
- amounts in payment or reimbursement of out-of-pocket expenses incurred by the executives

A recent sampling review of military leave entitlement by Defence identified errors in relation to military leave balances (Note 9A refers). As a consequence of this review, it is possible that some of the leave entitlements used in the compilation of remuneration for military personnel in the above note maybe in error. The impact of any potential error could result in movement between the salary bands.

*Department of Defence***Notes To And Forming Part Of The Financial Statements**

for the year ended 30 June 2003

	2002-03	2001-02
Note 15: Remuneration of Auditors		
Financial Statement audit services are provided free of charge to the department.		
The fair value of the services provided was:	<u>\$ 1,950,000</u>	<u>\$ 1,850,000</u>
No other services were provided by the Auditor-General.		
Note 16: Average Staffing Levels		
The average staffing levels for the department during the year were:	<u>90,085</u>	<u>86,619</u>
Note 17: Act of Grace payments, Waivers and Defective Administration Scheme.		
The number of Act of Grace payments made during 2002-03 financial year pursuant to authorisation given under subsection 33(1) of the <i>Financial Management and Accountability Act 1997</i> was nil (2001-02: nil), and there are no amounts owing as at year end. The number of waivers provided during 2002-03 financial year pursuant to authorisation given under subsection 34(1) of the <i>Financial Management and Accountability Act 1997</i> was nil (2001-02: 3)	<u>Nil</u>	<u>9,562</u>
Thirty six payments were made during 2002-03 financial year under the Defective Administration Scheme (2001-02: 44)	<u>\$ 287,983</u>	<u>\$ 343,234</u>

Departmental – Other Disclosures

Note 18: Departmental Financial Instruments

(a) Terms, conditions and accounting policies

Defence's accounting policies, including the terms and conditions of each class of departmental financial asset, financial liability and equity instrument, both recognised and unrecognised as at 30 June 2003, are as follows

Financial instrument	Notes	Accounting Policies and Methods (including recognition criteria and measurement basis)	Nature of Underlying Instrument (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
FINANCIAL ASSETS		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	Refer to details below.
Cash	6A	Cash includes cash on hand and at bank, measured in nominal dollars. Cash held in foreign currencies is converted to AUD at the exchange rates applying at 30 June 2003.	Defence invests funds with the Reserve Bank at call and on term deposit. At call daily interest rates were 2% pa and term deposit interest rates ranged from 4.2% pa to 4.95% pa. Interest is credited to revenue as it accrues. Defence also holds balances with other financial institutions with an average weighted rate of 0.547% (2002: 1.01%). The department ceased to invest domestic funds in January 2003.
Receivables for goods and services and other receivables	6B	Receivables are carried at nominal amounts less a provision for doubtful debts. The provision is based on an analysis of the expected realisation of outstanding debts and write-off experience from prior years. Bad debts are written off as they are identified. Receivables is measured in nominal dollars. Receivables held in foreign currencies are converted to AUD at the exchange rates applying at 30 June 2003.	Receivables are with entities predominantly external to the Commonwealth. Credit terms are 30 days (2001-02: 30 days).
Receivables - Foreign Military Sales base-level funding	6B	The balance of the US Federal Reserve Bank account is held at nominal amounts in United States dollars (USD) and converted to AUD at 30 June 2003 at the exchange rates applying	Under the foreign military sales program, a prescribed amount is required to be maintained in the United States Federal Reserve Bank account. This currently stands at \$US40m or \$AUD59.719m. (2002: \$US 40m or \$AUD 71.684m).
Capital Use Charge Receivable	6C	This receivable opening balance recognises an overpayment of Capital Use Charge in the previous financial year.	The Government has decided that the Capital Use Charge will not operate after 30 June 2003, and accordingly, the final year charge has been set at a level that ensures budget neutrality.
Appropriations receivable	6B	These receivables are recognised at their nominal amounts.	Amounts appropriated by the Parliament in the current or previous years which are available to be drawdown by the Department . Also includes amounts to be appropriated by the Parliament in a future year for services provided in previous years under a purchasing workload or similar agreement.
Receivables - sale of capital assets	6B	Receivables for the sale of capital assets are carried at nominal amounts. Receivables held in foreign currencies are converted to AUD at the exchange rate applying at 30 June 2003	Terms and conditions are contractually determined at the time of sale.
FINANCIAL LIABILITIES		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	Refer to details below.
Finance lease liabilities	8a	Liabilities are recognised at the present value of the minimum lease payments at the beginning of the lease. The discount rates used are estimates of the interest rates implicit in the leases.	As at 30 June 2003 Defence had finance leases with an average lease term of 15 years (2001-02: 15 years). The interest implicit in the leases averaged 7.527% for 2002-03 (2001-02: 7.482%).
Suppliers and other payables	10A & 10B	Creditors and accruals are recognised at their nominal value, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	All creditors are entities that are not part of the Commonwealth legal entity. Settlement is usually made within 30 days (2001-02: 30 days).
Unrecognised Financial Liabilities			
Indemnities/ guarantees	13	All indemnities/ guarantees are considered remote and are reported in a separate note to the financial statements unless they have been specifically identified otherwise.	Indemnities issued cover potential losses for which Defence may otherwise be liable at law although the initial loss would accrue to the other party, or potential losses or damages for which Defence would not be liable without the indemnity.

Note 18 Departmental Financial Instruments (continued)

(b) Interest rate risk

Defence's exposure to interest rate risks and the effective interest rate of financial assets and liabilities are as follows:

Financial Instrument	Notes	Floating interest rate		Fixed interest rate						Non interest bearing		Total		Weighted average effective annual interest rate	
				1 year or less		1 to 5 years		> 5 years							
		2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 %	2001-02 %
Financial Assets															
Cash on hand	6A	-	-	-	-	-	-	-	-	3,364	1,565	3,364	1,565	N/A	N/A
Cash at bank ⁽¹⁾⁽²⁾	6A	115,972	487,999	-	-	-	-	-	-	(19,779)	(453,911)	96,193	34,088	0.547	1.01
Term deposits	6A	-	-	-	799,500	-	-	-	-	-	-	-	799,500	4.78	4.75
Receivables for goods and services (gross)	6B	-	-	-	-	-	-	-	-	77,321	177,138	77,321	177,138	N/A	N/A
Capital Use Charge receivable	6C	-	-	-	-	-	-	-	-	-	137,978	-	137,978	N/A	N/A
FMS base-level funding ⁽¹⁾	6B	59,719	71,684	-	-	-	-	-	-	-	-	59,719	71,684	N/A	N/A
Appropriations receivable	6B	-	-	-	-	-	-	-	-	870,201	-	870,201	-	N/A	N/A
Other receivables	6B	-	-	-	-	-	-	-	-	149,016	166,287	149,016	166,287	N/A	N/A
Total		175,691	559,683	-	799,500	-	-	-	-	1,080,123	(3,738)	1,255,814	1,355,445		
<i>Total Assets</i>												51,410,618	49,953,117		

Note 18 Departmental Financial Instruments (continued)

Financial Liabilities															
Finance lease	8A	-	-	9,774	8,914	46,699	42,669	287,265	308,688	-	-	343,738	360,271	7,53	7,48
Suppliers	10A	-	-	-	-	-	-	-	-	1,200,066	1,033,744	1,200,066	1,033,744	N/A	N/A
Other payables	10B	-	-	-	-	-	-	-	-	30,130	15,052	30,130	15,052	N/A	N/A
Total		-	-	9,774	8,914	46,699	42,669	287,265	308,688	1,230,196	1,048,796	1,573,934	1,409,067		
Total Liabilities												5,235,244	4,363,671		
Unrecognised Indemnity															
	13	-	-	-	-	-	-	-	-	1,123,699	582,600	1,123,699	582,600	N/A	N/A

Notes

- Interest earned is returned to the Official Public Account through the administered entity.
- The Department ceased to invest domestic funds in January 2003. The interest rate of 4.78% relates to July 2002 to January 2003.

*Department of Defence***Notes To And Forming Part Of The Financial Statements**

for the year ended 30 June 2003

Note 18 Departmental Financial Instruments (continued)**(c) Net fair values of financial assets and liabilities**

The aggregate net fair values of financial assets and financial liabilities, as at 30 June 2003, are as follows:

Financial Instrument	Note	2002-03		2001-02	
		Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
Departmental Financial Assets					
Cash	6A	99,557	99,557	35,653	35,653
Receivables – goods and services	6B	77,321	77,321	177,138	102,783
Receivables – FMS base-level funding	6B	59,719	59,719	71,684	71,684
Receivables – other	6B	149,016	149,016	166,287	133,491
Appropriations receivable	6B	870,201	870,201	-	-
Appropriations receivable – CUC	6C	-	-	137,978	137,978
Term deposit	6A	-	-	799,500	799,500
Total financial assets		1,255,814	1,225,814	1,388,240	1,355,444
Financial Liabilities (Recognised)					
Finance leases	8A	343,738	343,738	360,271	360,271
Suppliers	10A	1,200,066	1,200,066	1,033,744	1,033,744
Other payables	10B	30,130	30,130	15,052	15,052
Total Financial Liabilities (Recognised)		1,573,934	1,573,934	1,409,067	1,409,067
Financial Liabilities (Unrecognised)					
Unrecognised indemnities		1,123,699	1,123,699	582,600	582,600

The following assumptions are used to determine the net fair value of financial assets and liabilities:

Recognised Financial Instruments*Departmental Financial Assets*

For the departmental financial assets the carrying amounts approximate their fair values.

Financial Liabilities (Recognised)

Finance leases: the net fair value of finance leases is based on discounted cash flow analysis using current incremental borrowing rates for similar types of borrowing arrangements.

Suppliers and accruals: the carrying amount approximates net fair value.

Unrecognised Financial Instruments

Indemnities: the net fair values of indemnities are regarded as the maximum possible loss, which the Commonwealth faces while the indemnity remains current.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 18 Departmental Financial Instruments (continued)

(d) Credit risk exposure

Defence's maximum exposure to credit risk at the reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Statement of Financial Position. Defence has no significant exposures to any concentrations of credit risk. All figures for credit risk referred to do not take into account the value of any collateral or other security.

(e) Foreign exchange risk

Foreign currency transactions are recorded at the rate of exchange at the date of the transaction. Foreign currency receivables, payables and provisions are translated at exchange rates current at the balance date. Exchange gains and losses are brought to account in determining the operating result for the year. These exchange gains and losses are not speculative and no hedging is undertaken. Defence is exposed to foreign currency exchange rate risk through primary financial assets and liabilities. The following table summarises, by currency in Australian dollars, the foreign exchange risk in respect of recognised financial assets and financial liabilities.

	United States Dollars \$'000	New Zealand Dollars \$'000	Euro Dollars \$'000	English Pounds \$'000	Indian Rupee \$'000	Canadian Dollars \$'000	Swiss Francs \$'000	Other \$'000	Total \$'000
Financial Assets									
Cash	137,506	13	172	-	3,464	-	-	343	141,498
Receivables	73,473	22,779	-	22	-	-	1	-	96,275
	210,979	22,792	172	22	3,464	-	1	343	237,773
Financial Liabilities									
Suppliers	248,685	38	13,531	11,456	-	3,239	1,138	415	278,502

Departmental currency risk is minimised through budget supplementation for any adverse movements in exchange rates on financial assets and financial liabilities held in foreign currencies.

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03 \$'000	2001-02 \$'000
Note 19: Revenues Administered on Behalf of Government		
Interest		
Deposits	1,114	8,604
Dividends		
Commonwealth entities	373,525	88,636
Other Revenues		
Military superannuation contributions	551,849	607,195
Foreign governments and the United Nations	59,285	123,364
Assets now recognised - retention benefit prepayment	56,918	-
Australian Defence Force Academy	-	22,369
Other	-	81
<i>Total Revenues Administered on Behalf of Government</i>	1,042,691	850,249

Note 20: Expenses Administered on Behalf of Government		
Employees		
Other - retention benefits expense	21,162	30,560
Superannuation	2,477,497	2,240,395
Subsidies		
Defence Home Owner Subsidy	7,394	6,411
Net foreign exchange losses		
Non-speculative	2,045	12,269
Write down of assets		
United Nations*	78,855	-
Intercompany Receivable	5,384	-
Other		
Other Expenses	2,320	-
<i>Total expenses administered on behalf of Government</i>	2,594,657	2,289,635
* During 2002-03, Defence undertook a review of the United Nations receivable. As a result of the review, the amount was adjusted to correctly reflect the amount due from the United Nations under agreed arrangement.		

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Administered – Assets and Liabilities

	2002-03 \$'000	2001-02 \$'000
Note 21: Assets Administered on Behalf of Government		
Financial Assets		
Cash		
Cash at bank – Defence	43,354	121
Cash at bank – Comsuper	36,871	-
Total cash	<u>80,226</u>	<u>121</u>
Receivables		
Goods and services – United Nations	50,000	169,164
Other – accrued military superannuation contributions	946	932
Other – intercompany transfers within Defence	-	6,734
Total receivables (net)	<u>50,946</u>	<u>176,830</u>
Receivables (gross) are aged as follows:		
Not overdue	50,946	7,666
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
60 to 90 days	-	-
More than 90 days	-	169,164
Total receivables (gross)	<u>50,946</u>	<u>176,830</u>
Investments		
Commonwealth authorities – Defence Housing Authority*	1,258,883	1,258,883
Total investments	<u>1,258,883</u>	<u>1,258,883</u>
Non-financial assets		
Land and buildings	-	84,409
Prepayments – retention benefits	74,018	-
Total non-financial assets	<u>74,018</u>	<u>84,409</u>
Total assets administered on behalf of Government	<u><u>1,464,073</u></u>	<u><u>1,520,243</u></u>
<p>* The Commonwealth holds 100% interest in Defence Housing Authority. The principle activity of Defence Housing Authority is: - to provide total housing services that meet Defence operational and client needs.</p>		

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2003

	2002-03 \$'000	2001-03 \$'000
Note 22: Liabilities Administered on Behalf of Government		
Provisions		
Superannuation – DFRDB	21,600,000	21,100,000
Superannuation – MSBS	6,500,000	5,800,000
Total provisions	28,100,000	26,900,000
<i>Total Liabilities Administered on Behalf of Government</i>	28,100,000	26,900,000
Liabilities are represented by:		
Current	1,374,000	1,346,000
Non-current	26,726,000	25,554,000
	28,100,000	26,900,000
Note 23: Administered Reconciliation Table		
<i>Administered assets less administered liabilities as at 1 July</i>	(25,379,757)	(24,300,994)
Plus Administered revenues	1,042,691	850,249
Less Administered expenses	(2,592,611)	(2,277,366)
Administered transfers to/from Government		
Appropriation transfers from Official Public Account	1,392,998	1,173,513
Transfers to Official Public Account	(1,012,783)	(812,890)
Transfer of land and buildings to Sydney Harbour Federation Trust	(84,409)	-
Currency translation-gain/(loss)	(2,045)	(12,269)
<i>Administered assets less administered liabilities as at 30 June</i>	(26,635,927)	(25,379,757)
Note 24: Administered Contingent Liabilities and Assets		
Unquantifiable contingent liability		
University of New South Wales – Superannuation		
The Commonwealth has an agreement with the University of New South Wales to provide military education and training services at the Australian Defence Force Academy. The University has employees, or former employees, of the Australian Defence Force Academy who are members of the State superannuation schemes which are unfunded or partly funded. This gives rise to an unfunded superannuation contingent liability by the Commonwealth, in respect of the scheme for accrued benefit entitlements. The amount and timing of payments are dependent on a number of factors, which remain uncertain at this time. It is anticipated that a whole of government review will be undertaken during 2003-04 with the intention of quantifying this contingent liability.		

Note 25	<p>Administered Investments</p> <p>The Commonwealth holds a 100% interest in the Defence Housing Authority.</p> <p>The principal activity of Defence Housing Authority is: <i>To provide total housing services that meet Defence operational and client needs.</i></p>
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Note 26: Administered Financial Instruments			
(a) Administered terms, conditions and accounting policies			
The Department's accounting policies, including the terms and conditions of each class of administered financial asset, financial liability and equity instrument both recognised and unrecognised as at 30 June 2003, are as follows:			
Financial Instrument	Notes	Accounting Policies and Methods (including Recognition Criteria and Measurement Basis)	Nature of Underlying Instrument (Including Significant Terms and Conditions Affecting the Amount, Timing and Certainty of Cash Flows)
Financial Assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	Refer to details below.
Cash	21	Cash includes reserved money held in the Official Public Account.	The balance of the administered cash account is non-interest bearing.
Receivables	21	Receivables are carried at nominal amounts less a provision for doubtful debts. The provision is a percentage of outstanding non-Government receivables based on analysis of the recoverability of outstanding debts and write-off experience from prior years.	Receivables are with entities predominantly external to the Commonwealth. Credit terms are 30 days (2001-02: 30 days).

Note 26 Administered Financial Instruments (*continued*)

b) Administered interest rate risk

Financial Instrument	Notes	Floating Interest Rate		Fixed Interest Rate						Non Interest Bearing		Total		Weighted Average Effective Annual Interest Rate	
		2002-03 \$'000	2001-02 \$'000	1 Year or Less 2002-03 \$'000	1 Year or Less 2001-02 \$'000	1 to 5 Years 2002-03 \$'000	1 to 5 Years 2001-02 \$'000	> Than 5 Years 2002-03 \$'000	> Than 5 Years 2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000	2002-03 \$'000	2001-02 \$'000
Financial Assets															
Cash at bank	21	-	-	-	-	-	-	-	-	80,226	121	80,226	121	N/A	N/A
Receivables	21	-	-	-	-	-	-	-	-	50,946	176,830	50,946	176,830	N/A	N/A
Total financial assets		-	-	-	-	-	-	-	-	131,172	176,951	131,172	176,951		

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

(c) Administered net fair values of Financial Assets and Liabilities

The aggregate net fair values of financial assets and financial liabilities as at 30 June are as follows:

Item	Note	2002-03		2001-02	
		Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
Financial Assets					
Cash	21	80,226	80,226	121	121
Receivables	21	50,946	50,946	176,830	176,830
Total financial assets		131,172	131,172	176,951	176,951

The following methods and assumptions are used to determine the net fair value of financial assets and liabilities.

Recognised Financial Instruments

Financial Assets

Cash: the carrying amount approximates fair value because of its short-term to maturity.

Receivables: the carrying amount approximates fair value.

Note 27: Appropriations

As per Note 1.1, Defence had one outcome:

The defence of Australia and its national interests.

Accordingly, for tables A to C below, all items are attributable to the one outcome.

Note 27A: Cash basis acquittal of appropriations from Acts 1 and 3

Particulars (Note: FMA = Financial Management and Accountability Act 1997)	Administered Expense	Departmental Outputs	Total
Year ended 30 June 2003			
Balance carried from previous year	-	795,108,000	795,108,000
Appropriation for the reporting period - Act 1	181,000	18,235,351,000	18,235,532,000
Appropriation for the reporting period - Act 3	-	108,065,000	108,065,000
Adjustments by the Finance Minister	-	(113,091,000)	(113,091,000)
GST credits (FMA s30A)	-	869,958,782	869,958,782
Annotations to 'net appropriations' (FMA s31)	-	1,153,188,334	1,153,188,334
Transfers to/from other agencies (FMA s32)	-	-	-
Administered appropriation lapsed	(181,000)	-	(181,000)
Available for payments	-	21,048,580,116	21,048,580,116
Payments made	-	(20,016,766,716)	(20,016,766,716)
Appropriations credited to Special Accounts	-	-	-
Balance carried forward to next year	-	1,031,813,400	1,031,813,400
<i>Represented by:</i>			
Cash	-	99,557,152	99,557,152
Add: Appropriations receivable	-	870,201,000	870,201,000
Add: Receivables - Net GST receivable from ATO	-	114,667,409	114,667,409
Add: Net GST on customer receivables and supplier payables	-	(52,612,161)	(52,612,161)
Total	-	1,031,813,400	1,031,813,400

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 27A: Cash basis acquittal of appropriations from Acts 1 and 3 (continued)

Particulars	Administered SPPs and Other	Departmental Outputs	Total
Year ended 30 June 2002			
Balance as at 1 July 2001	-	80,045,000	80,045,000
Total annual appropriation	179,000	17,515,619,000	17,515,798,000
Adjustments and annotations to appropriations	-	350,984,000	350,984,000
Transfers to/from agencies (FMA s32)	-	(12,000,000)	(12,000,000)
GST credits (FMA s30A)	-	738,679,670	738,679,670
Annotations to 'net appropriations' (FMA s31)	-	566,039,330	566,039,330
Transfers to/from other agencies (FMA s32)	-	(11,126,000)	(11,126,000)
Administered appropriation lapsed	(179,000)	-	(179,000)
Available for payments	-	19,228,241,000	19,228,241,000
Payments made during the year	-	(18,433,133,000)	(18,433,133,000)
<i>Balance carried forward to next financial year</i>	-	795,108,000	795,108,000
<i>Represented by:</i>			
Cash	-	35,653,123	35,653,123
<i>Add: Appropriations receivable</i>	-	-	-
<i>Add: Receivables - Net GST receivable from ATO</i>	-	102,899,184	102,899,184
<i>Add: Investment in term deposit</i>	-	799,500,000	799,500,000
<i>Less: Net GST on Customer Receivables and Supplier Payables</i>	-	(142,944,307)	(142,944,307)
Total	-	795,108,000	795,108,000

Any amounts of administered appropriation for 2002-03 shown above as lapsed are estimates only as determinations are not made by the Minister for Finance and Administration until after the completion of these statements.

Note 27: Appropriations (continued)

Note 27B : Cash basis acquittal of appropriations from Act 2 and 4

Particulars	Administered SPPs and Other	Non-Operating				Total
		Equity	Loans	Previous years' outputs	Administered Assets and Liabilities	
Year ended 30 June 2003						
Balance carried from previous year	-	-	-	-	-	-
Appropriation for the reporting period - Act 2	-	1,090,415,000	-	-	-	1,090,415,000
Appropriation for the reporting period - Act 4	-	124,786,000	-	-	-	124,786,000
Adjustments determined by the Finance Minister	-	(220,000,000)	-	-	-	(220,000,000)
Amounts from Advance to the Finance Minister	-	-	-	-	-	-
Refunds credited (FMA s30)	-	-	-	-	-	-
GST credits (FMA s30A)	-	-	-	-	-	-
Transfers to/from agencies (FMA s32)	-	-	-	-	-	-
Administered appropriation lapsed	-	-	-	-	-	-
Available for payments	-	995,201,000	-	-	-	995,201,000
Payments made	-	995,201,000	-	-	-	995,201,000
Appropriations credited to special accounts	-	-	-	-	-	-
<i>Balance carried forward to next financial year</i>	-	-	-	-	-	-
<i>Represented by:</i>						
Cash	-	-	-	-	-	-
Appropriations receivable	-	-	-	-	-	-
Total	-	-	-	-	-	-

Particulars	Administered SPPs and Other	Non-Operating			Administered Assets and Liabilities	Total
		Equity	Loans	Previous years' outputs		
Year ended 30 June 2002						
Balance carried from previous year	-	-	-	-	-	-
Total annual appropriation	-	10,564,000	-	-	-	10,564,000
Adjustments and annotations to appropriation	-	743,611,000	-	-	-	743,611,000
Transfers to/from agencies (FMA s32)	-	-	-	-	-	-
Administered appropriation lapsed	-	-	-	-	-	-
Available for payments	-	754,175,000	-	-	-	754,175,000
Payments made during the year	-	(754,175,000)	-	-	-	(754,175,000)
Appropriations credited to Special Accounts	-	-	-	-	-	-
Balance carried forward to next financial year	-	-	-	-	-	-

Any amounts of administered appropriations for 2002-03 shown above have lapsed are estimates only as determinations are not made by the Finance Minister until after the completion of these statements.

Table 27C: Cash basis acquittal of special appropriations (unlimited amount)

Particulars of legislation providing appropriation (including purpose)	Outcome 1	
	2003	2002
<i>Defence Forces Retirement Benefits Act 1948, Defence Force Retirement and Death Benefits Act 1973</i>		
Budget estimate*	See footnote	See footnote
Payments made	(1, 162, 689, 701)	(1,290,378,416)
Appropriations credited to Special Accounts	-	-
Refunds credited (FMA s30)	-	-
Particulars of legislation providing appropriation (including purpose)		
<i>Military Superannuation and Benefits Act 1991</i>		
Budget estimate*	See footnote	See footnote
Payments made	(186, 032, 896)	(28,289,292)
Appropriations credited to Special Accounts	-	-
Refunds credited (FMA s30)	-	-
* The 2002 budget estimates of \$1,330,600,000 (2002: \$1,300,000,000) cannot be allocated between DFRDB and MSBS.		

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Particulars of legislation providing appropriation (including purpose)	Outcome 1	
	2003	2002
<i>Defence Force (Home Loans Assistance) Act 1990</i>		
Budget estimate	5,700,000	5,700,000
Payments made	(7,394,123)	(6,410,950)
Appropriations credited to Special Accounts		
Refunds credited (FMA s30)	-	-

Totals for unlimited special appropriations	Outcome 1	
	2003	2002
Budget estimate	1,336,300,000	1,305,700,000
Payments made	(1,356,116,720)	(1,325,078,658)
Appropriations credited to Special Accounts		
Refunds credited (FMA s30)	-	-
An amount of \$36,871,155 drawn-down from OPA on 30 June 2003 to meet liabilities incurred under these acts had not been disbursed at that date and was held in Defence's administered bank account.	36,871,155	-

Table 27D: Special Accounts

There were no special accounts drawing appropriations (2001-02: nil).

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 28 Special Accounts

Special Public Monies

For a number of years the Department has consistently reported on two special accounts, namely *Projects for Other Governments and International Bodies* and *Services for Non-Departmental Bodies*. However, the original determination issued by the Department of Finance and Administration in 1997 did not include the *Projects for Other Governments and International Bodies Account*. To ratify this problem, the Secretary of the Department of Defence advised the Secretary of the Department of Finance and Administration on 15 May 2003 that there was one account, *Services for Other Government and Non-Departmental Bodies*. As the accounts were operated on the basis that each was funded by a separate appropriation, it is considered that the Department breached section 48 of the *Financial Management and Accountability Act 1997*. Therefore the 2002-03 Financial Statements now reports on one account, *Services for Other Governments and Non-Agency Bodies Account*.

	2002-03	2001-02
	\$	\$
Defence - Services for Other Governments and Non-Agency Bodies*		
<i>Legal Authority:</i> Financial Management and Accountability Act 1997 s20		
<i>Purpose:</i> Payment for all costs in connection with specified activities on behalf of other governments and international bodies		
Balance carried forward from previous years	69,324,157	102,255,954
<i>Less adjustment of opening balance</i>	<u>(1,266,885)</u>	<u>(329,942)</u>
Restated cash balance from previous year	68,057,272	101,926,012
Receipts during the year	<u>90,685,870</u>	<u>44,832,264</u>
Available for payments	158,743,142	146,758,276
Payments made	<u>90,343,346</u>	<u>77,434,119</u>
<i>Balance carried forward to next year</i>	<u><u>68,399,796</u></u>	<u><u>69,324,157</u></u>

* This account was in prior years disclosed under two separate headings as follows:

- Defence - Projects for other governments and international bodies
- Defence - Services for non-departmental bodies

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Other Trust Monies

Legal Authority: Financial Management and Accountability Act 1997 s20

Purpose: For receipt of money temporarily held in trust

Balance carried forward from previous years	10,554,869	2,399,262
Receipts during the year	1,111,948	8,642,153
Available for payment	11,666,817	11,041,415
Payments made	781,506	486,546
<i>Balance carried forward to next year</i>	10,885,311	10,554,869

Young Endeavour Youth Scheme Operating Fund

Legal Authority: Financial Management and Accountability Act 1997 s20

Purpose: For the receipt and payment of money in connection with the operations and activities of the STS Young Endeavour, as specified by the Young Endeavour Youth Program Board of Management or by the Commonwealth.

Balance carried forward from previous years	1,503,529	932,784
Receipts during the year	648,744	676,028
Available for payments	2,152,273	1,608,812
Payments made	116,910	105,283
<i>Balance carried forward to next year</i>	2,035,363	1,503,529

Defence – Endowments

Assets Held in Trust

Legal Authority: Financial Management and Accountability Act 1997 s20

Purpose: For application in accordance with the conditions of each endowment.

Balance carried forward from previous years	565,838	551,875
Receipts during the year	14,276	18,150
Prior year adjustments	(294,506)	-
Available for payments	285,608	570,025
Payments made	21,700	4,187
<i>Balance carried forward to next year</i>	263,908	565,838

Fedorczenko Legacy Fund

Legal Authority: Financial Management and Accountability Act 1997 s20

Purpose: Residue of the estate of the late Petro Fedorczenko which is to be used for the defence of Australia.

Balance carried forward from previous years	152,451	149,812
Receipts during the year	6,259	11,087
Available for payments	158,710	160,899
Payments made	10,300	8,448
<i>Balance carried forward to next year</i>	148,410	152,451

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2003

Comcare Trust Account

Legal Authority: Financial Management and Accountability Act 1997 s20

Purpose : Monies held in trust and advanced to Defence by Comcare for the purpose of distributing compensation payments made in accordance with the Safety Rehabilitation and Compensation Act 1998.

Balance carried forward from previous years	1,001,415	852,839
Receipts during the year	<u>2,667,053</u>	<u>2,961,002</u>
Available for payments	3,668,468	3,813,841
Payments made	-	2,812,426
<i>Balance carried forward to next year</i>	<u><u>3,668,468</u></u>	<u><u>1,001,415</u></u>

Defence Support Centre - Woomera Account

This account has a nil balance as at 30 June 2003. There has been no movement in this account since 2000-01. On 25 June 2003, the Minister for Finance and Administration made a determination under sub-section 20(3) of the *Financial Management and Accountability Act 1997* that this account be abolished.

Note 29 Reporting of Outcomes

As per Note 1, Defence had only one outcome: *The defence of Australia and its national interests.*

The Department of Defence uses several different methods of attributing shared items. These methods are based upon the type of 'general business activity' undertaken by the respective Group. This distribution approach incorporates the use of staff numbers, task lists (specifically Defence Science & Technology Organisation), operational support and asset utilisation. The basis of the attribution in the following tables is consistent with the basis used for the 2002-03 Budget.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 29A: Net cost of outcome delivery				
	Outcome 1		Total Outcomes	
	2002-03	2001-02	2002-03	2001-02
	\$'000	\$'000	\$'000	\$'000
<i>Expenses</i>				
Administered expenses	2,594,657	2,289,635	2,594,657	2,289,635
Departmental expenses	16,009,781	14,580,610	16,009,781	14,580,610
Total Expenses	18,604,438	16,870,245	18,604,438	16,870,245
Costs recovered from provision of goods and services to the non-government sector				
Departmental ¹	15,112	-	15,112	-
Total costs recovered	15,112	-	15,112	-
<i>Other external revenues</i>				
Administered				
Interest	1,114	8,604	1,114	8,604
Dividends from Defence Housing Authority	373,525	88,636	373,525	88,636
Other sources of non taxation revenues	668,052	753,009	668,052	753,009
Total Administered	1,042,691	850,249	1,042,691	850,249
Departmental				
Goods and Services Revenue from Related Entities	4,198	5,177	4,198	5,177
Goods and Services Revenue from External Entities ¹	211,235	227,701	211,235	227,701
Interest	19,332	15,246	19,332	15,246
Revenue from sale of assets	685,537	-	685,537	-
Gain on sale of assets	-	17,930	-	17,930
Net foreign exchange gain	17,101	3,529	17,101	3,529
Assets now recognised	866,295	694,050	866,295	694,050
Other revenues	118,390	186,462	118,390	186,462
Total Departmental	1,922,088	1,145,095	1,922,088	1,145,095
Total other external revenues	2,964,779	1,995,344	2,964,779	1,995,344
Net costs (contribution) of outcomes ²	15,624,547	14,874,901	15,624,547	14,874,901

Notes

- In accordance with the Finance Minister's Orders 2002-03 Defence has disclosed above those cost recoveries as required by Finance Circular No 2002/02 *Cost Recovery by Government Agencies*. The specific elements that constitute the cost recoveries disclosed are; the sale of Navy Hydrographic maps and charts, and the provision of specific training provided to foreign forces. The cost recoveries identified are in accordance with the 'Commonwealth Cost Recovery Guidelines for Information Agencies' and therefore exclude intra and inter government services. The cost recoveries shown are Departmental in nature and are included as part of the Sale of Goods and Service total in the Statement of Financial Performance.
- The amounts shown for financial year 's 2002 are as published in that year's annual report (note 47). It is impractical to represent or reclassify comparative amounts due to a major restructure of the chart of accounts.

Intra-entity transactions with related parties:

	2002-03	2001-02
	\$'000	\$'000
Auditor-General	1,950	1,850
National Archives of Australia	163	207
Total related party transactions	2,113	2,057

Note 29: Reporting of Outcomes (continued)

Note 29B: Major classes of departmental revenues and expenses by Outputs

	Output 1		Output 2		Output 3		Output 4		Output 5		Output 6		Total	
	2002-03 \$'000	2001-02	2002-03 \$'000	2001-02	2002-03 \$'000	2001-02	2002-03 \$'000	2001-02	2002-03 \$'000	2001-02	2002-03 \$'000	2001-02	2002-03 \$'000	2001-02
Departmental expenses														
Employees	378,307	410,129	1,365,621	1,332,045	2,755,824	2,452,465	1,447,159	1,312,030	80,563	87,067	167,098	151,194	6,194,572	5,744,930
Suppliers	520,142	369,828	1,405,202	1,282,910	1,692,004	1,450,178	1,535,003	1,371,017	96,536	101,548	100,987	107,429	5,349,874	4,682,910
Grants	295	188	443	493	886	1,041	635	672	119	20,135	166	58	2,544	22,587
Depreciation & amortisation	66,251	23,564	888,766	914,160	533,631	571,046	1,330,872	948,584	3,719	5,167	40,177	63,676	2,863,416	2,526,197
Value of assets sold ²	18,275	-	138,335	-	273,043	-	203,024	-	2,023	-	5,849	-	640,549	-
Write down of assets	36,702	21,273	212,738	574,127	257,601	392,087	67,945	577,175	2,873	1,785	8,616	7,188	586,475	1,573,635
Other	21,118	227	75,578	261	154,698	454	80,150	238	4,645	537	9,407	53	345,596	1770
Borrowing costs expense	1,260	1,329	4,529	4,868	15,534	16,553	4,923	5,279	214	227	295	325	26,755	28,581
Total departmental expenses	1,042,350	826,538	4,091,212	4,108,864	5,683,221	4,883,824	4,669,711	4,214,995	190,692	216,465	332,595	329,923	16,009,781	14,580,610
Funded by:														
Revenues from Government ¹	699,969	1,150,485	5,740,792	5,678,971	5,568,606	5,068,165	5,664,544	5,358,014	212,837	192,235	345,690	397,664	18,232,438	17,845,534
Sale of goods and services	49,785	57,727	32,271	33,071	94,716	89,865	44,117	40,780	6,291	4,381	3,365	2,054	230,545	227,878
Interest	709	686	5,283	4,423	7,604	5,252	5,164	4,576	176	77	396	232	19,332	15,246
Revenue from sale of assets ²	22,096	-	165,334	-	310,775	-	179,240	-	2,267	-	5,825	-	685,537	-
Gains on sale of assets ²	-	733	-	3,878	-	8,657	-	4,371	-	97	-	194	-	17,930
Net foreign exchange gains	773	101	5,362	1,510	2,128	291	8,841	1,616	(49)	-	46	11	17,101	3,529
Assets now recognised	45,141	48,603	284,977	149,144	264,138	246,758	265,927	241,506	1,933	507	4,179	7,532	866,295	694,050
Other	54,733	28,581	29,814	32,977	22,492	68,841	8,300	46,736	1,251	3,618	1,800	5,709	118,390	186,462
Total departmental revenues	873,206	1,286,916	6,263,833	5,903,975	6,270,459	5,487,829	6,176,133	5,697,599	224,706	200,915	361,301	413,396	20,169,638	18,900,629

Note

- Total operating revenues by output include the allocation of the Capital Use Charge. However, in accordance with the disclosure arrangements for the financial statements, the operating expenses for outputs does not include the Capital Use Charge as it is not an operating expense in the end of year financial reports. The Capital Use Charge for financial year 2001-02 is \$4,633,854 and for financial year 2002-03 is \$5,056,094.
- In accordance with the Finance Minister's Orders 2002-03, Defence is required to separately disclose the 'Value of assets sold' and 'Revenue from sale of assets'. In previous years, these items were reported as a net result, either as gain/loss. The amounts shown for 2001-02 are as published in that year's Annual Report (note 47). It is impractical to represent or reclassify comparative amendments due to a major restructure of the chart of accounts.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 29C: Reporting of Outcomes (continued)
Table D: Major Classes of Administered Revenues and Expenses by Outcome

	Outcome 1	
	2002-03 \$'000	2001-02 \$'000
Administered Revenues		
Interest	1,114	8,604
Dividends from Defence Housing Authority	373,525	88,636
Other sources of non taxation revenues	668,052	753,009
Total administered revenues	1,042,691	850,249
Administered Expenses		
Employees	2,498,659	2,270,955
Subsidies	7,394	6,411
Net foreign exchange losses	2,045	12,269
Write-down of assets	84,239	-
Other	2,320	-
Total administered expenses	2,594,657	2,289,635

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2003

Note 30: Restructuring

	2002-03 \$'000	2001-02 \$'000
As a result of restructuring of administrative arrangements, the Department transferred responsibility for the Emergency Support Management Australia functions on 26 November 2001 to the Attorney- General's Department		
There was no restructuring in 2002-03		
In respect of the functions relinquished, the net book values of assets and liabilities transferred by the Department for no consideration were:		
Total assets relinquished	-	(7,869)
Total liabilities relinquished	-	1,035
Net assets relinquished	-	<u>(6,834)</u>
Net Distribution by Government as owner during the year	-	<u>(6,834)</u>

Note 31: Future Commitments

Defence has a procurement process relating to major projects. Once a project has been approved to proceed, tenders are called, evaluated and contracts awarded. The period between approval for the project to proceed and the awarding of contracts is the period of "future commitment".

Once a contract has been awarded, a "future commitment" becomes a "capital commitment" and is reported in the Schedule of Commitments. The amounts involved in "future commitments" are presented in phases over financial years in the same way as the Schedule of Commitments.

Maturity profile for future commitments

One year or less	1,174,813	1,060,223
From one to five years	3,865,347	3,761,364
Over five years	<u>2,677,270</u>	<u>2,966,062</u>
Total future commitments*	<u><u>7,717,430</u></u>	<u><u>7,787,649</u></u>

*Commitments are GST inclusive where applicable

CAPITAL BUDGET

DEFENCE CAPABILITY PLAN

The *Defence White Paper 2000* set out a new approach to capability planning. The Defence Capability Plan is a detailed plan for Australia's military capabilities with broad guidance on major investments over the decade to 2010-11. The plan is reviewed annually to take account of changing strategic circumstances, new technologies and changed priorities. It is currently being reviewed to take account of changed strategic circumstances since 2000.

THE CAPITAL INVESTMENT PROGRAM

The capital investment program is not exclusively developed on the basis of the Defence Capability Plan. While representing the key element, there are other components in the investment program, such as facilities and minor capital projects, purchase of repairable items, and other plant and equipment items which are valued above the capital threshold of \$10,000 (\$50,000 for grouped items). Total capital investment expenditure for 2002-03 was \$3.75b as summarised in Table 3.1 below.

TABLE 3.1: DEFENCE FINANCIAL PERFORMANCE FOR THE CAPITAL PROGRAM 2002-03⁽¹⁾

GROUP/ITEM DESCRIPTION	2002-03				
	BUDGET ESTIMATE	REVISED ESTIMATE	PROJECTED RESULT	RESULT	VARIANCE
	\$M	\$M	\$M	\$M	\$M
Not Yet Approved Major Capital Equipment (VCDF)⁽²⁾	277.9	224.6	24.6	0.0	-24.6
Capital Component (USDM)	3,014.5	3,033.2	2,569.2	2,571.3	2.1
Operating Component (USDM) ⁽³⁾	-	-	204.0	278.3	74.3
Approved Major Capital Equipment	3,014.5	3,033.2	2,773.2	2,849.6	76.4
Major Capital Facilities (DepSec CS)	355.0	369.0	336.6	352.3	15.7
Other Capital (Various Group Heads)	424.9	570.3	535.1	545.9	10.8
Total Capital Investment Program⁽⁴⁾	4,072.4	4,197.2	3,669.5	3,747.8	78.2
Net Capital Receipts (see Table 3.2)	40.3	63.2	109.5	181.5	72.0
Overall Capital Investment	4,032.1	4,134.0	3,560.0	3,566.3	6.2

NOTES

1. Since publication of the *Portfolio Additional Estimates Statements 2002-03*, Defence has changed the format in which it reports on the capital budget to reflect the way the capital program is managed by Defence and the accountability for each element of the investment program. The figures presented in Table 3.1 have been presented in this new format to align with the 2002-03 Projected Result contained within the *Portfolio Budget Statements 2003-04* (see page 133).

2. Government agreement was given for Defence to retain \$200m in Cash Reserves, quarantined specifically for reprogramming in the Defence Capability Plan, subject to further review and approval by Government in the 2004-05 budget.
3. To ensure that Defence's estimates and actuals are budgeted and reported in accordance with accounting standards, the Government has agreed to make a budget neutral adjustment to the existing capital operating mix contained in the Defence Capability Plan.
4. The Total Projected Result differs from Table 3.4 in the *Portfolio Budget Statements 2003-04* as a result of a change in the accounting treatment of operations funding from specialist military equipment to inventory (\$124m).

Total capital expenditure was \$78.2m greater than the projected result. Explanations for the variations in each category follow.

NOT YET APPROVED MAJOR CAPITAL PROGRAM (-\$24.6M)

In addition to the retained \$200m which is held in the cash receivable (see note 2 to Table 3.1), the 'Not Yet Approved Program' under spent against the projected result for 2002-03 by a further \$24.6m because of delays in the approval of Defence Capability Plan projects. The estimates methodology is being reviewed in the 2004-14 Defence Management and Finance Plan.

APPROVED MAJOR CAPITAL EQUIPMENT PROGRAM (+\$76.4M)

As the Australian dollar substantially appreciated during 2002-03, Defence was able to return \$220m of capital equipment funding which was no longer required to meet foreign commitments. Following this variation, the year-end result for the capital component of the Approved Major Capital Equipment Program exceeded the budget by \$76.4m including \$74.3m in relation to the Capital/Operating adjustment. Information in regard to the current status of specific projects is contained in the Major Capital Equipment section of this report.

Capital Operating Adjustment

In 2002-03, the mix between the capital budget and operating budget was adjusted to more accurately reflect the way in which funding for the major capital equipment program is actually spent and accounted for, in accordance with Australian accounting standards. To ensure that Defence's estimates and actuals were budgeted and reported correctly in 2002-03, an amount of \$204m in specialist military equipment funds was included as part of operating funds in the projected result in the *Portfolio Budget Statements 2003-04* (page 133). This was to cover operating expenditure for project office costs, studies, research and development, project maintenance contracts and other project overheads. In the event, total operating costs associated with the capital program totalled \$278m or \$74.3m higher than projected.

MAJOR CAPITAL FACILITIES PROJECTS (+\$15.7M)

Expenditure on Defence's Major Capital Facilities Program exceeded the projected result by \$15.7m. This result reflects variation in the cash flow requirement of a number of capital facilities projects, details of which are in the Capital Facilities section of this chapter.

OTHER CAPITAL PURCHASES (+\$10.8M)

This category of the investment program comprises purchases of other capital items including minor capital equipment projects, purchase of repairable items, other plant

and equipment exceeding the capitalisation threshold of \$10,000, and other property, plant and equipment, software and intangibles.

Expenditure on other capital items in 2002-03 was \$10.8m higher than the projected result. This variation is primarily due to variations in minor capital equipment projects, and higher levels of expenditure on repairable items in order to remediate shortfalls, the capital cost of the IBM Software Licence, and a change in accounting procedures for equipment purchases by the Defence Science and Technology Organisation.

SUMMARY

When account is taken of the re-programming of Not Yet Approved Capital funding (\$200m) and the foreign exchange savings (\$220m), the capital program exceeded the projected result by \$78.2m but was broadly in line with the revised estimates contained in the 2002-03 additional estimates.

CAPITAL RECEIPTS PROGRAM

Net capital receipts for 2002-03 totalled \$181.5m or \$72m more than the projected result. Details are shown in Table 3.2 with an explanation of the variations for each category shown below.

TABLE 3.2: DEFENCE CAPITAL RECEIPTS – 2002-03

CAPITAL RECEIPTS	2002-03				
	BUDGET ESTIMATE	REVISED ESTIMATE	PROJECTED RESULT	RESULT	VARIANCE
	\$M	\$M	\$M	\$M	\$M
Proceeds from the sale of specialist military equipment	-	-	22.9	29.7	6.8
Property Sales					
Proceeds from the sale of land and buildings	659.5	659.5	519.8	578.0	58.2
Less: Capital withdrawal (DoFA requirements)	659.5	659.5	473.5	473.5	-
Proceeds retained by Defence	-	-	46.3	104.5	58.2
Proceeds from sales of other property, plant and other equipment	40.3	63.2 ⁽¹⁾	40.3	47.3	7.0
Other capital receipts	-	-	-	-	-
Net Capital Receipts	40.3	63.2	109.5	181.5	72.0

NOTE

1. This amount includes \$22.9m later reclassified as proceeds from the sale of specialist military equipment.

SALE OF SPECIALIST MILITARY EQUIPMENT (\$+6.8M)

Although initially estimating nil proceeds in 2002-03, Defence realised \$29.7m from the sale of specialist military equipment, \$6.8m more than the projected result. This figure is predominantly due to higher than expected receipts from a program of sales of F/A-18 radar equipment back to the United States Navy.

PROPERTY SALES (\$+58.2M)

In finalising the 2003-04 Budget, the Government determined that it would not proceed with the sale of Russell Offices and accordingly, the property sale estimates were reduced, leaving a revised sales target of \$473.5m. The Government agreed that Defence could retain any proceeds in excess of \$473.5m. At the time of the 2003-04 Budget this was estimated to be \$46.3m. In the event, Defence received proceeds of \$578.0m which was \$104.5m more than the target, due to higher than anticipated sale prices. In accordance with incentive arrangements agreed by Government, Defence retained the \$104.5m.

OTHER PROPERTY, PLANT AND EQUIPMENT (\$+7.0M)

Other property, plant and equipment sales exceeded the projected result by \$7.0m. Included in this amount was \$4.5m for the sale of administrative assets that was not foreseen in the preparation of the 2002-03 Budget. The remaining variation relates mainly to higher than planned disposals of commercial vehicles.

MAJOR CAPITAL EQUIPMENT

The following table and descriptions provide details on the approved project cost, the cumulative expenditure to 30 June 2003 and the actual expenditure for 2002-03, of the top 20 (by 2002-03 expenditure) major capital equipment projects for Defence.

TABLE 3.3: TOP 20 PROJECTS BY ACTUAL 2002-03 EXPENDITURE

	APPROVED PROJECT COST	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
	\$M	\$M	\$M	\$M	\$M
Aerospace					
Airborne Early Warning and Control	3,623	1,026	404	464	567
F/A-18 Hornet Upgrade - Phase 1	292	254	35	44	33
F/A-18 Hornet Upgrade - Phase 2.1 and 2.2	1,606	533	222	207	194
P-3 Avionics Update Implementation	916	757	91	122	86
Anzac Ship Helicopter	1,030	850	72	67	57
Maritime					
Anzac Ship ⁽¹⁾	5,333	4,666	258	263	247
FFG Upgrade - Implementation	1,445	809	165	208	144
Evolved SeaSparrow Missile - Phase 2A	358	340	41	44	35
Evolved SeaSparrow Missile - Phase 2B/3	299	141	58	84	102
Replacement Heavyweight Torpedo Project	466	55	22	25	55
New Submarine	5,115	5,039	55	48	43
Lightweight Torpedo Replacement	293	41	42	43	38
Collins-class Submarines Sustainability and Reliability Improvements	349	75	102	106	36
Collins-class Submarines Replacement Combat System	454	26	0	30	26
Land					
Australian Light Armoured Vehicles	700	316	134	167	155
M113 Armoured Vehicles Upgrade	550	107	7	64	58

	APPROVED PROJECT COST	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
	\$M	\$M	\$M	\$M	\$M
Joint Logistics					
Air-to-Surface Stand-off Weapons Capability	449	300	78	97	61
Electronic Systems					
Jindalee Operational Radar Network	1,227	1,055	62	64	71
Military Satellite Communication – Military Satellite Payload	378	329	60	63	46
High Frequency Modernisation	587	270	83	44	30

NOTE

1. Project approval and cumulative expenditure figures are the net cost of the ten-ship program after deducting New Zealand revenue. 2002-03 figures are based on the ten-ship program estimates.

Fifteen of the projects in Table 3.3 constitute the top 20 projects by total approved project cost. Details concerning the remaining five projects which make up the top 20 by total approved project cost are provided later in this section.

TOP 20 PROJECTS BY 2002-03 EXPENDITURE

AIRBORNE EARLY WARNING AND CONTROL

Achieved

This project will provide an airborne early warning and control capability, with the provision of four aircraft and associated supplies and support. The contract was signed with the Boeing Company in December 2000 and the project remains on schedule, with a planned in-service date of 2007. The design for the airborne element is essentially complete.

The first Boeing 737 aircraft commenced modification activity in January 2003 and the second in May 2003. The first production radar commenced testing in November 2002 and was delivered to Boeing in September 2003. Preliminary design reviews for the mission support segment and mission simulator were completed successfully in April/May 2003 and Build 4 of the mission computing software entered test in June 2003. Construction of the squadron headquarters building commenced in May 2003 as part of Stage 1 of the RAAF Williamstown redevelopment.

The actual spend exceeded estimates due primarily to three significant system acquisition contract milestones being achieved and paid earlier than planned, resulting in the payments being recorded in 2002-03 rather than 2003-04.

F/A-18 HORNET UPGRADE – PHASE 1, 2.1 AND 2.2

Partially Achieved

Phase 1 modifications included new mission computers and radios, a global positioning system and new mission software for the F/A-18 fleet. Incorporation of Phase 1 in the F/A-18 fleet was achieved in June 2002, six months later than the original schedule. Residual Phase 1 activities, such as ground training system enhancement and technical manual amendment, are expected to be completed by late 2004. Phase 1 is planned to be closed by the end of 2005 once United States' Foreign Military Sales cases are closed.

Phase 2.1 provides new radars and upgraded mission software. The fleet modification commenced in June 2002. This reflected a delay of six months resulting primarily from the schedule slip in Phase 1 production. Some elements of Phase 3.1 structural refurbishment are now being included in the Phase 2.1 production to optimise overall aircraft availability. The Phase 2.1 aircraft modification was completed in August 2003.

Phase 2.2 is a further avionics upgrade that will increase the situational awareness of the pilot in the air combat role. It involves integration of a colour display, a digital moving map capability, a Link 16 data link and a helmet-mounted cueing system, together with a counter measures dispensing set. Aircraft critical design review was completed in March 2003. Phase 2.2 upgrades are scheduled to be completed by December 2007.

The lower than planned expenditure was due primarily to lower than anticipated Foreign Military Sales disbursements and the strong performance of the Australian dollar against the US dollar.

P-3 AVIONICS UPDATE IMPLEMENTATION

Partially Achieved

This project has delivered eight out of 18 upgraded AP-3 aircraft, and achieved supplementary type certification and full service release. The remaining ten production aircraft are scheduled for progressive delivery up until December 2004. The operational mission simulator was accepted in December 2002. The system engineering laboratory is not expected to be delivered until the last quarter of 2003.

The project did not achieve its 2002-03 revised expenditure estimate due to the delay in acceptance of the system engineering laboratory.

ANZAC SHIP HELICOPTER

Not Achieved

The program to acquire Super Seasprite helicopters has suffered major schedule slippage (three and a half years) due to problems with software systems development on the part of a major subcontractor. Given the mature state of airframe development, the contracting of the new software developers and the prospect of acceptance of a compliant product in December 2004, the current project continues to be the best option for acquiring the capability in the shortest time possible.

Contract changes were negotiated, and approved, in early 2003 for the future direction of the project. Revised payment schedules were formalised and an agreement was reached to make reduced payments against the in-service support contract until closer to commencement of flying. Acquisition contract payments were also changed to retain an increased sum until delivery of the full capability helicopter.

The Australian Government and the contractor Kaman are working towards provisional acceptance of an interim training helicopter capability in the second half of 2003.

ANZAC SHIP

Achieved

This project involves the delivery of ten Anzac-class frigates, associated shore facilities and logistic support. The ten Anzac-class frigates include two ships (02 and 04) for the Royal New Zealand Navy. Seven ships have been delivered, including both New Zealand ships. Ship 07 (*Parramatta*) was delivered in June 2003, ahead of contracted schedule, and Tenix plans the delivery of Ship 08 (*Ballarat*) ahead of contract in mid-2004. Ship 09 (*Toowoomba*) was launched successfully in May 2003. Capability enhancements, including the Nulka active missile decoy system, Milsatcom ships communications equipment and an upgraded air weapons magazine, continue to be progressively included in the ships.

FFG UPGRADE – IMPLEMENTATION

Partially Achieved

This project seeks to regain the Navy's six FFG guided missile frigates' comparative regional capability and to ensure that they remain effective and supportable through to their end of life in the period 2013-21. ADI commenced the upgrade of HMAS *Sydney* (FFG 03) at its Garden Island facility on 22 September 2003 and will conclude with HMAS Newcastle (FFG 06) in 2008.

There is an overall schedule delay of up to 24 months. A significant contributing factor for this schedule delay relates to the design, development and delivery of the combat system software. The critical design reviews for both the combat and platform systems design have now been conducted, with a number of minor design considerations still requiring further work. This did not affect the handover to the contractor of the lead ship (HMAS *Sydney*). Contractor delivery of the lead ship is planned for the fourth quarter of 2004.

The revised budget estimate was not achieved due to lower than anticipated Foreign Military Sales disbursements and spares down payments.

EVOLVED SEASPARROW MISSILE – PHASE 2A AND 2B/3

Achieved

This project involves the modification of selected Anzac ship combat system elements and the procurement of the Evolved SeaSparrow Missile and canisters for both Anzac and FFG classes of ship. The first Australian missile firing was conducted successfully

from HMAS *Warramunga* in January 2003 and further trials were successfully undertaken in September 2003.

Some manufacturer technical issues have delayed missile deliveries, which commenced in January 2003. Progressive missile deliveries will occur throughout 2003 and subsequent years. Anzac Ship 05 (*Warramunga*), Ship 06 (*Stuart*) and Ship 07 (*Parramatta*) are Evolved SeaSparrow missile capable. The remaining Anzac ships under construction are being modified to fire missiles and the in-service ships will be upgraded during future maintenance periods.

The actual spend exceeded estimates in Phase 2B/3 due primarily to a management strategy which saw payments for the 2003-04 missile contract occur earlier than originally planned as a method of achieving value for money. Phase 2A spending was less due to favourable United States exchange rates.

REPLACEMENT HEAVYWEIGHT TORPEDO PROJECT

Achieved

This project seeks to acquire a replacement heavyweight torpedo for the Collins-class submarines. The new weapon will replace the United States Navy Mark 48 Mod 4 torpedo currently in service. The new torpedo will be acquired by collaboration between the Australian and United States' navies. Defence signed a memorandum of understanding with the United States Navy in March 2003 to jointly develop, produce and support the torpedoes. This approach offers a range of benefits, including substantial savings through using existing United States' production lines and contracts.

The scope of Phase 2 includes the acquisition of the weapons, associated logistic support, weapon system interface equipment, operational support and test equipment and transition into service. The in-service date for the torpedoes is scheduled for 2006-07.

The actual spend exceeded estimates due to greater than originally anticipated Foreign Military Sales mobilisation payments.

NEW SUBMARINE

Achieved

All six submarines have been delivered and provisionally accepted by the Navy. The sixth submarine, HMAS *Rankin*, was delivered in March 2003, with the class shock trial completed in June 2003. The first two submarines, HMAS *Collins* and HMAS *Farncomb*, have completed their first operational cycles and are presently undergoing full-cycle dockings at the Australian Submarine Corporation's premises in Adelaide. The other four in-service submarines have been participating successfully in local and overseas exercises and trials, as well as undergoing periodic maintenance at their base in Western Australia.

LIGHTWEIGHT TORPEDO REPLACEMENT

Partially Achieved

The new MU90 lightweight torpedo will be integrated into all ADF anti-submarine warfare platforms (Anzac ships, FFG frigates, AP-3 maritime patrol aircraft, Seahawk and Seasprite helicopters). The lightweight torpedo project is managed under an alliance agreement among the Australian Government, Eurotorp and Thales Underwater Systems Pty Limited.

Anzac Ship 07 (*Parramatta*) received the MU90 lightweight torpedo capability as part of its build program. Integration into the FFG frigates has been delayed to avoid interference with the FFG upgrade program and will now be conducted on an opportunity basis during depot-level maintenance periods commencing in 2004. Integration into the AP-3 aircraft has also been delayed. This delay is due to dependencies on other initiatives under the P3-C continuing upgrades to mission hardware and software. The initial batch of MU90 lightweight torpedoes will be manufactured in Europe, with planned acceptance in July 2005.

The revised estimate was not fully achieved due to the later than anticipated signing of the alliance agreement.

COLLINS-CLASS SUBMARINES SUSTAINABILITY AND RELIABILITY IMPROVEMENTS

Partially Achieved

This project is providing platform and weapon system reliability and sustainability improvements to the Collins-class submarines. A number of individual enhancements are being implemented in HMAS *Collins* and HMAS *Farncomb* during their current full-cycle dockings.

The project was interrupted by delays in decisions on the related replacement combat system and heavyweight torpedo projects and intellectual property issues with the submarine designer, Kockums. Consequently, the planned expenditure for the year was not achieved. Implementation will be achieved during full cycle dockings, and hence is dependant on submarine availability.

COLLINS-CLASS SUBMARINES REPLACEMENT COMBAT SYSTEM

Partially Achieved

This project is to provide a replacement combat system for the Collins-class submarines. This will contribute to the development of the submarines' full capability, in conjunction with other phases of the Collins-class through-life improvement project that implement a program of modifications and enhancements to the submarine platform.

The second of the initial design studies conducted in conjunction with Australian companies and the United States Navy has been completed. A major part of the system is being procured from the United States Navy, initially via a Foreign Military Sales case signed in June 2003, and later via an armaments cooperative project. The first of four major contracts with Australian industry was signed in June 2003.

Remaining contracts will be signed during the third and fourth quarters 2003. Installation of the first replacement combat system is planned for 2006, with all submarines to be upgraded by the end of the decade.

AUSTRALIAN LIGHT ARMoured VEHICLES

Achieved

This project is for the acquisition of wheeled light armoured vehicles that provide the basis of the Army's armoured reconnaissance and surveillance capability.

As a result of previous phases, the Army has a fleet of 113 vehicles in service. Primarily, these vehicles equip 2 Cavalry Regiment which is located in Darwin and 2 Cavalry Brigade vehicles have been deployed successfully to East Timor and Iraq. Phase 3 of the project includes incomplete elements of Phase 2 (surveillance suite, gunnery trainer and commander's weapon station) and the acquisition of an additional 144 vehicles. These vehicles will be used to equip both 2 Cavalry Regiment and 2/14 Light Horse Regiment, which is located in Brisbane. Phase 3 is proceeding on schedule. Vehicle deliveries to units will commence in late 2003.

M113 ARMoured VEHICLES UPGRADE

Achieved

This project is upgrading 350 of the Army's fleet of M113 armoured vehicles to improve protection, firepower, mobility and habitability. A contract for the upgrade was signed in July 2002 and the project remains on schedule, with two demonstration vehicles nearly completed. Full production is to commence in 2005 and the first Company group of vehicles is due into service in 2006.

AIR-TO-SURFACE STAND-OFF WEAPONS CAPABILITY

Partially Achieved

The project is intended to bring into service the AGM-142E stand-off weapon for fitment to the F-111C fleet. Aircraft integration is being undertaken by Boeing Australia Limited at RAAF Amberley in Queensland. The missiles have been delivered and are either in storage in the United States or Australia. Delivery of support and test equipment is continuing. The project schedule and expenditure achievements have been delayed due to difficulties with software integration.

JINDALEE OPERATIONAL RADAR NETWORK

Achieved

In May 2003, Defence commenced full unconditional operational use of the Jindalee Operational Radar Network. The network consists of the radar network coordination centre at RAAF Edinburgh near Adelaide and two over-the-horizon radars: one near Longreach in Queensland, the other outside Laverton in Western Australia. These radars allow coverage of the approaches to Australia in an arc from Cairns in Queensland around to Geraldton in Western Australia at ranges of 800 to 3,000 kms, and are now key contributors to the ADF's capability for wide-area surveillance.

In May 2003, final acceptance of the acquisition phase of the contract was completed and the project moved into its maintenance and support phase. The radar network is now in full operational service within the ADF.

MILITARY SATELLITE COMMUNICATION – MILITARY SATELLITE PAYLOAD

Substantially Achieved

Defence established contracts with Optus in October 1999 for supply and support of a Defence-owned payload on board the shared Optus and Defence C1 communications satellite, together with fixed terrestrial infrastructure for control and management of the Defence payload and associated communications networks. Defence and Optus are sharing the costs, benefits and risks of acquiring, launching and operating the shared C1 communications satellite.

The C1 communications satellite was launched successfully in June 2003. Dependent upon operational requirements Defence can now commence operational use of the satellite following completion of post-launch test and evaluation activities.

The revised estimate was not achieved due to deferred contract payments because of a delay in the C1 satellite's launch.

HIGH FREQUENCY MODERNISATION

Not Achieved

This project will replace naval high-frequency radio stations in Canberra, Darwin, Exmouth, Sydney, Cairns and Perth and the Air Force high-frequency radio stations in Sydney, Townsville, Darwin and Perth. The new network will provide enhanced high-frequency radio communications capabilities and will provide compatible high-frequency equipment in selected ADF mobile platforms. The project will deliver the new capability in two stages. The first stage will replace the existing facilities. The second stage will build on the first and provide increased levels of automation, improved capability and enhanced security and survivability. It will also reduce operating staff numbers and incorporate the new equipment into the mobile platforms.

Integration and system testing of the first stage system components, scheduled for 2003-04, will not be achieved due to continuing contractor delays in software development and integration, and is now scheduled to occur in 2004-05. The transition of Navy and Air Force radio network operational capability and staff to the integrated system is scheduled for 2004-05. The second stage is planned to be introduced progressively during the period from 2005 to 2007.

Due to the delays incurred the contractor is now accruing a liability for liquidated damages. Contractual payments were stopped in mid-2002 for failure to achieve a critical milestone and are not expected to resume until the end of 2003.

REMAINING TOP 20 PROJECTS BY TOTAL APPROVED PROJECT COST

TABLE 3.4: REMAINING TOP 20 PROJECTS BY TOTAL APPROVED PROJECT COST

	APPROVED PROJECT COST	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
	\$M	\$M	\$M	\$M	\$M
Aerospace					
Armed Reconnaissance Helicopter	1,879 ⁽¹⁾	140	176	23	15
Strategic Airlift Capability	1,097	963	21	21	10
Lead-In Fighter Capability	1,020	926	26	26	11
Maritime					
Minehunter Coastal Project	1,245 ⁽²⁾	1,085	61	66	24
Armidale-class Patrol Boat	350-450	4	0	3	4

NOTE

1. The figure of 1,869 was published in the *Portfolio Budget Statements 2003-04*. This was an error.
2. The figure of 1,242 was published in the *Portfolio Budget Statements 2003-04*. This was an error.

ARMED RECONNAISSANCE HELICOPTER Achieved

The program to acquire 22 Eurocopter Tiger armed reconnaissance helicopters has suffered minor schedule slippage due to early problems experienced with the execution and initialisation of the contract. Consequently, nine out of a planned 23 milestone payments were made by 30 June 2003. Not achieving all 23 milestone payments will result in the milestone not being offset against the advance payment as early as originally expected. The scheduled introduction-into-service date of December 2004 for the first two helicopters remains achievable. The two helicopters delivered will be used to achieve Australian military type certification and for training purposes. The original expenditure estimate of \$176m was developed before finalisation of the contract and payment schedule. This was revised to \$23m post contract. The reduced expenditure of \$15m reflects minor delays in acquisition of Government furnished equipment from the United States and Europe.

STRATEGIC AIRLIFT CAPABILITY

Partially Achieved

The C-130J Hercules is now fully integrated into the Airlift Group, where it is currently certified for the roles of air logistic support, search and survivor assistance, Papua New Guinea operations and restricted medical evacuation.

The Department of Defence and the United Kingdom Ministry of Defence have commenced a collaborative long-term venture involving full-scale fatigue testing of the C-130J wing assembly and a modified (used) C130K fuselage.

Deliveries of aircraft spares, ground servicing equipment and mission planning systems are continuing, but delays have been encountered due to longer than previously anticipated delivery lead times.

The lower than expected expenditure in 2002-03 was due primarily to the longer lead times for spares and a delay in procurement of mobile engine test stands.

LEAD-IN FIGHTER CAPABILITY

Partially Achieved

This project involves the acquisition of 33 Hawk 127 aircraft to perform the lead-in fighter and ADF support roles. Aircraft delivery was completed in October 2001 and the upgrade to meet advanced training requirements was completed in January 2002. The third and final level of contracted capability, which includes radar simulation and emulation for the ADF support role, has been delayed due to difficulties with the proposed technical solutions. Radar emulation development is under way, with initial capability expected to be achieved in mid-2004. The initial radar simulation capability is planned for 2005.

The lower than expected expenditure in 2002-03 was due primarily to delays in the delivery of full contracted capability.

MINEHUNTER COASTAL PROJECT

Achieved

The project involves the acquisition and through-life support of six Huon-class minehunter coastal vessels and associated supplies, including combat system and platform trainers. The sixth and final ship, HMAS *Yarra*, was provisionally accepted in December 2002 and is home-based with the other five vessels at HMAS Waterhen in Sydney. Extant configuration changes and remaining functionality have continued to be incorporated into the other ships to bring them up to the HMAS *Yarra* configuration baseline. Current expectations are for the project to close in June 2004.

Actual expenditure was less than estimated due to the redirection of resources to the delivery of HMAS *Yarra*. In addition, a proportion of the delivery payment for HMAS *Yarra* was withheld, and a revised payment schedule developed, for the rectification of defects and remaining capability. The project is now 98 per cent complete.

ARMIDALE-CLASS PATROL BOAT

Achieved

This project will deliver a new patrol boat, to be known as the Armidale-class patrol boat, to replace the 15 ageing Fremantle-class patrol boats. The single contract for acquisition and support is planned to be signed in late 2003, with the first boat to be delivered in 2004-05, in accordance with the White Paper. The contractor will also

provide associated through-life support to provide required levels of availability for a 15-year minimum operating term.

In total, the new vessels will provide an availability of 3,000 days per year to Defence, plus a surge capacity of up to 600 days per annum available on notice. The new boat will be larger than the Fremantle-class, some 57m in length, and capable of operating effectively in higher sea states.

The table below provides details on those projects that were reported as top 20 projects in the *Defence Portfolio Budget Statements 2002-03* and *Portfolio Additional Estimates Statements 2002-03* but whose expenditure was not sufficient to be included in the previous tables.

FORMER TOP 20 PROJECTS

TABLE 3.5: FORMER TOP 20 PROJECTS

	APPROVED PROJECT COST	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
	\$M	\$M	\$M	\$M	\$M
Maritime					
Collins-class Submarine Augmentation	229	182	40	34	20
Underwater and Surface Warfighting Upgrade	174	58	43	34	26
Land					
Bushranger Infantry Mobility Vehicles	329	87	60	18	17
Joint Logistics					
Air to Air Weapons Capability ⁽¹⁾	507	332	96	100	23
Electronic Systems					
E-Defence	107	49	50	43	22
Tactical Air Defence Radar Systems	207	126	42	23	9

NOTE

1. Incorporates the Air-to-Air Weapons Follow-On Buy project that was listed separately in the *Portfolio Budget Statements 2003-04* (page 136).

COLLINS-CLASS SUBMARINE AUGMENTATION

Substantially Achieved

This project is providing combat system augmentation and propeller and hull improvements to specified submarines to bring them to an improved level of operational capability. HMAS *Collins* (submarine 01) completed initial hull improvements in August 1999. Work to upgrade two further submarines (submarine 04, HMAS *Dechaineux* and submarine 05, HMAS *Sheean*) was completed to schedule in

December 2000. Progressive improvements to the combat system commenced in August 2002. The second phase has been completed in HMAS *Sheean*, and HMAS *Dechaineux* subject to satisfactory completion of sea trials planned for November 2003. Work to bring submarine 06, HMAS *Rankin*, to the same level of platform improvements was completed prior to delivery in March 2003. Actual expenditure was less than estimated due primarily to agreed changes in the implementation schedule.

UNDERWATER AND SURFACE WARFIGHTING UPGRADE

Substantially Achieved

The Underwater and Surface Warfighting Upgrade project will enhance the Anzac ships' surface and sub-surface warfare capabilities. This phase of the project has been split into three sub-phases:

Phase 3A – Harpoon anti-ship missile launch system is the standard ADF anti-ship missile used by other Navy and Air Force platforms. The Harpoon launch capability is being acquired through the Anzac ship alliance between the Australian Government, Tenix Defence Systems and Saab Systems. Equipment delivery commenced in mid June 2003 and the capability will enter service in late 2004. Missiles will be acquired under a separate joint project.

Phase 3B – Sea Defender torpedo self defence system. This phase has been deferred for consideration due to it being considered a lower priority than the Petrel mine and obstacle avoidance sonar. Phase 3B is now expected to be considered during 2005-06.

Phase 3C – Petrel mine and obstacle avoidance sonar. This phase was approved in the 2003-04 budget. Installations are planned to commence in late 2004 and delivery of the capability in the first Anzac ship is expected in mid-2005. The Petrel system is also being fitted to the guided missile frigates under the FFG Upgrade project.

BUSHRANGER INFANTRY MOBILITY VEHICLES

Achieved

Project Bushranger Phase 3 aims to acquire 299 infantry mobility vehicles. The vehicles, when delivered, will provide two motorised infantry battalion groups to the Army. The infantry mobility family of vehicles will consist of six variants: troop, command, assault pioneer, mortar, direct fire weapons and ambulance. Twelve troop variants will also be provided to Airfield Defence guards.

The infantry mobility vehicle underwent reliability qualification testing from October to December 2002. The vehicle passed the required reliability levels of this testing and the project has entered the low rate initial production stage of the contract. This and the next three vehicles will begin further reliability and acceptance testing in October 2003. The final result of this testing will be known early in 2004 and if successful, will result in the commencement of full rate production in the second half of 2004.

AIR-TO-AIR WEAPONS CAPABILITY

Partially Achieved

This project seeks to maintain a credible air-to-air weapons capability for F/A-18 aircraft through the acquisition and integration of new beyond-visual-range and within-visual-range missiles.

The second batch of beyond-visual-range missile deliveries was affected by a reduced United States' military airlift to Australia during the war in Afghanistan and Iraq. A partial delivery was achieved in April 2003. The development of a costed proposal for the establishment and operation of in-country software and maintenance support for the within-visual-range missile commenced in January 2003. The proposal will not be completed, nor a decision on these capabilities made, until later in 2003. Initial integration and test of the within-visual-range missile on the F/A-18 aircraft was achieved, with the final testing elements to be completed in the second half of 2003.

The prime contract was re-baselined in October 2002 and resources have been directed towards achieving introduction into service of the missile. This has resulted in the delay of some elements that contribute to the in-service support of the delivered capability which, in turn, accounts for a major portion of the underspend in expenditure. Another factor in the underspend was the lower than anticipated Foreign Military Sales disbursements for the beyond-visual-range missiles and related F/A-18 launches and support equipment.

E-DEFENCE

Partially Achieved

The e-Defence project seeks to provide a secure (trusted) email based military messaging system that would replace the Defence integrated secure communications network. E-Defence also provides an authentication framework and directory to support secure email/military messaging, and internal and external e-Business/e-Commerce capability. Included in these capabilities are messaging services, corporate directory, gateways and smart cards.

The project has developed and piloted a secure email capability, corporate directory, and a supporting certificate management infrastructure. Full-scale rollout of the corporate directory is now complete and enhanced corporate directory functionalist is under development and scheduled to be implemented by the end of 2003. A core gateway product will complete functional testing in November 2003, and is scheduled for common criteria security evaluation to security level 4 by June 2004.

Further major procurement activities have been paused, pending a review of the latest available options for the provision of email based secure military messaging, and e-Business/e-Commerce capabilities. The review is to be completed by October 2004. As a result of this delay, the existing messaging system will need to remain in service.

The project has yet to achieve its core scope. Delays have occurred due to a number of internal Defence issues yet to be resolved, the unavailability of appropriate proven military messaging solutions, the slower than expected take-up of e-Business

technologies by business, and the higher than anticipated support costs of e-Business technologies.

TACTICAL AIR DEFENCE RADAR SYSTEMS

Partially Achieved

This project will acquire four tactical air defence radar systems to replace existing RAAF air defence radars. It will also procure heavy-lift trucks to provide a ground transport capability for the new systems, as well as a satellite communications interface between the new systems and the fixed regional air defence sites.

Good advances have been achieved in delivery of the heavy-lift trucks, but progress for the tactical electronic components of the project that support the radars has been limited during 2002-03. Final system assembly and integration have been delayed considerably due to the United States prime contractor experiencing significant management and technical difficulties with its major Australian sub-contractor. Because the time needed to correct the contractor's problems could not be retrieved within the current project schedule, Defence has recently negotiated a new schedule with the prime contractor to extend the delivery dates of the four systems by up to an additional 24 months. In return, the Australian Government has received significant financial and in-kind consideration that will enable Defence to appropriately mitigate the impact of the delay on existing systems.

Because of this delay, the contractor has not been paid at the planned level, resulting in a significant underspend against the estimates for 2002-03. Relevant milestone and progress payments have been rescheduled into 2003-04 to match the new schedule. An aggressive test and evaluation program for the radar systems commenced in September 2003. Operational evaluation of the radar and communications systems is now planned to be finalised in late 2004, with final acceptance occurring in early 2005.

CAPITAL FACILITIES

In 2002-03, Defence introduced a new infrastructure asset development process in order to improve transparency and accountability to the Government, provide better scope definition, more robust cost estimates, better risk consideration and mitigation, and improved whole-of-life and ecologically sustainable development of projects. As part of this process, projects are now subject to more detailed development and costing before they are submitted for Government or departmental approval. In the transition to the new process, a number of projects which were initially brought forward at a much earlier stage of development, and thus listed in previous portfolio budget statements, have been reconsidered and processed through the new system. One of the effects of this change is that programmed expenditure on many projects has been delayed in the transition to the new process.

SIGNIFICANT CURRENT FACILITIES PROJECTS

The following table and descriptions provide details on progress and expenditure in 2002-03 for major facilities projects, ie for those projects with a budget exceeding \$6m.

TABLE 3.6: APPROVED MAJOR CAPITAL FACILITIES PROJECTS BY STATE AND FEDERAL ELECTORATE

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE \$'000	CUMULATIVE EXPENDITURE TO 30 JUNE 2003 \$'000	2002-03 BUDGET ESTIMATE \$'000	2002-03 REVISED ESTIMATE \$'000	2002-03 ACTUAL \$'000
NEW SOUTH WALES					
Eden-Monaro					
Eden – Naval Ammunitioning Facility	40,000	31,088	14,000	30,100	17,786
Gilmore					
Nowra – HMAS Albatross Base Redevelopment	110,000	100,050	5,100	13,400	3,634
Macquarie					
Richmond – Reinvestment ⁽¹⁾	35,000	0	3,000	740	0
Parramatta					
Ermington – Pre-Disposal Site Works	33,106	5,386	7,600	7,600	2,394
Paterson					
Williamtown – RAAF Williamtown – Eastern Regional Operations Centre ⁽²⁾	18,000	16,916	1,100	602	37
Williamtown – RAAF Williamtown Redevelopment Stage 1 and Airborne Early Warning and Control works	149,000	3,388	10,000	9,300	3,388
Total New South Wales	385,106	156,828	40,800	61,742	27,239

Chapter Three

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE \$'000	CUMULATIVE EXPENDITURE TO 30 JUNE 2003 \$'000	2002-03 BUDGET ESTIMATE \$'000	2002-03 REVISED ESTIMATE \$'000	2002-03 ACTUAL \$'000
VICTORIA					
Maribyrnong					
Albion – Decontamination Works ⁽²⁾	28,635	25,181	670	283	91
Melbourne Ports					
Fishermans Bend – Relocation of Defence Science and Technology Organisation's Platforms Sciences Laboratory	61,200	30,962	35,000	38,670	23,017
Total Victoria	89,835	56,143	35,670	38,953	23,108
QUEENSLAND					
Blair					
Amberley – RAAF Amberley – Base Redevelopment Stage 1 ⁽²⁾	77,400	76,501	2,600	1,720	833
Forde					
Canungra – Defence Intelligence Training Centre	17,400	8,817	15,900	12,132	7,963
Groom					
Oakey – Oakey Base Redevelopment	76,200	24,499	35,000	20,005	20,997
Herbert					
Townsville – Lavarack Barracks Redevelopment Stage 2 ⁽²⁾	151,587	148,534	250	877	693
Townsville – Lavarack Barracks Redevelopment Stage 3	170,649	54,439	40,467	41,676	44,405
Townsville - RAAF Townsville Redevelopment Stage 1 ⁽³⁾	70,100	69,462	5,730	7,364	2,783
Townsville – RAAF Townsville Redevelopment Stage 2	72,546	38,860	29,444	35,715	35,005
Total Queensland	635,882	421,112	129,391	119,489	112,679
SOUTH AUSTRALIA					
Bonython					
Edinburgh – RAAF Edinburgh Redevelopment Stage 1	39,887	27,440	22,000	26,000	24,680
Total South Australia	39,887	27,440	22,000	26,000	24,680

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE \$'000	CUMULATIVE EXPENDITURE TO 30 JUNE 2003 \$'000	2002-03 BUDGET ESTIMATE \$'000	2002-03 REVISED ESTIMATE \$'000	2002-03 ACTUAL \$'000
WESTERN AUSTRALIA					
Pearce					
Bullsbrook - RAAF Pearce - Facilities for Lead-In Fighter ⁽²⁾	6,936	6,606	200	200	1
Total Western Australia	6,936	6,606	200	200	1
NORTHERN TERRITORY					
Solomon					
Darwin - Robertson Barracks Joint Army Deployment Facility Development Stage 2 ⁽²⁾	268,300	228,876	250	700	445
Darwin - Larrakeyah Barracks North Australia Naval Infrastructure Stage 1 ⁽²⁾	12,600	12,586	127	43	29
Darwin - 1 Aviation Regiment Relocation ⁽⁴⁾	75,000	0	10,000	2,000	0
Darwin - RAAF Darwin - Development of Operational Facilities Project ⁽²⁾	60,408	59,391	1,000	1,500	1,959
Darwin - RAAF Darwin Base Redevelopment Stage 1	11,670	6,929	3,600	1,900	437
Lingiari					
Timber Creek - Bradshaw Field Training Area Infrastructure	64,783	12,816	27,000	10,000	3,454
Katherine - RAAF Tindal - Perimeter Security Fence ⁽⁴⁾	9,250	0	4,250	4,250	0
Total Northern Territory	502,011	320,598	46,227	20,393	6,324
AUSTRALIAN CAPITAL TERRITORY					
Canberra					
Canberra - Defence Network Operations Centre	19,600	16,474	15,000	15,000	16,429
Canberra - Construction of Army Multi-User Depot ⁽⁵⁾	13,500	36	0	10	36
Total Australian Capital Territory	33,100	16,510	15,000	15,010	16,465
TOTAL MAJOR BUILDINGS AND WORKS	1,692,727	1,005,237	289,338	281,787	210,496

NOTES

1. Due to departmental processing delays, the project was heard by the Joint Standing Committee on Public Works in September 2003. The project scope and funding has been reduced to \$35m.
2. These projects are practically complete, with only minor expenditure expected through the defects liability period.
3. An incorrect cumulative expenditure figure was reported in the *Portfolio Additional Estimates Statements 2002-03*. The project had spent \$66.7m at 30 June 2002 as reported in *Defence Annual Report 2001-02*. The project is now complete.
4. Project processing and development delayed Joint Standing Committee on Public Works consideration to July 2003.
5. The project was considered by the Joint Standing Committee on Public Works in May 2003 and approved in June 2003.

MAJOR WORKS

The following summaries only refer to those projects that have had significant expenditure in 2002-03.

EDEN, NEW SOUTH WALES – NAVAL AMMUNITIONING FACILITY

Partially Achieved

This project provides a naval ammunitioning facility to replace the former facility at Newington on the Sydney Olympics site. The project objectives for 2002-03 were to continue construction of the wharf and commence construction of the ammunition storage depot. Construction of the wharf commenced in March 2002 and is scheduled to be completed in September 2003. Work commenced on the ammunition storage facilities in February 2003 and is scheduled for completion in late October 2003. While expenditure during the year was significantly less than the revised forecast, which was based on an unachieved accelerated program, the facility remains on track for completion this year.

NOWRA, NEW SOUTH WALES – HMAS ALBATROSS BASE REDEVELOPMENT

Partially Achieved

This two-stage project aims to replace existing facilities and services that are beyond economical repair and to redevelop the operational and administration support facilities. The project objectives for 2002-03 were to largely complete the two outstanding works items – the engineering services and the flight deck procedural training facilities. Engineering services were delayed due to issues associated with refining the scope of work. Construction of the flight deck procedural trainers has been delayed due to siting issues.

ERMINGTON, NEW SOUTH WALES – PRE-DISPOSAL SITE WORKS

Partially Achieved

The aim of these works is to prepare the 20-hectare site on the Parramatta River for disposal. The work involves progressive site filling and stabilisation and the installation of trunk infrastructure to enable the site to be sold progressively as a series of 'super lots'. Development approval was expected in December 2002 but is now not expected until November 2003.

WILLIAMTOWN, NEW SOUTH WALES – RAAF WILLIAMTOWN REDEVELOPMENT STAGE 1 AND AIRBORNE EARLY WARNING AND CONTROL WORKS

Partially Achieved

This project will provide a range of new and redeveloped facilities and infrastructure necessary for the introduction into service of the airborne early warning and control capability to be based at RAAF Williamtown. The project was approved by Parliament in September 2002. Construction of 2 Squadron Headquarters commenced in May 2003 as a separate head contract to permit completion by January 2004. Appointment of the managing contractor for delivery of the balance of the work has been delayed due to the introduction of new Defence processes and revised contracts, but project completion remains on schedule for the end of 2006.

FISHERMANS BEND, VICTORIA – RELOCATION OF DEFENCE SCIENCE AND TECHNOLOGY ORGANISATION'S PLATFORMS SCIENCES LABORATORY

Partially Achieved

This project will relocate science and technology functions from Maribyrnong to Fisherman's Bend. The project includes the integration of common functions and the construction of enhanced research and laboratory facilities and will permit the subsequent disposal of the Maribyrnong site. Cost overruns necessitated reduction in the project scope and the majority of the reduced scope was expected to be delivered in 2002-03. Wet weather, some industrial action and contractor delays associated with tendering in an overheated construction market resulted in the program falling short of forecast.

CANUNGRA, QUEENSLAND – DEFENCE INTELLIGENCE TRAINING CENTRE

Substantially Achieved

This project will provide new working accommodation for the headquarters, administration, instruction and course development elements. The majority of the works, less fit out, were planned to be completed in 2002-03. Wet weather caused significant delays to the program but recent progress has been good. The project is due for completion in late 2003.

Oakey, Queensland – Oakey Base Redevelopment

Achieved

This project will redevelop the base for optimal support of Army rotary wing flying training. The revised program was achieved and construction should be completed by mid-2004.

TOWNSVILLE, QUEENSLAND – LAVARACK BARRACKS REDEVELOPMENT STAGE 3

Achieved

This project provides new working facilities for Army units at the barracks. New facilities for 2nd Battalion the Royal Australian Regiment are now complete. Similar new facilities for 1st Battalion the Royal Australian Regiment commenced construction in January 2003 and will be completed by November 2004. Good progress has been achieved on the project resulting in a slight acceleration of the program.

TOWNSVILLE, QUEENSLAND – RAAF TOWNSVILLE REDEVELOPMENT STAGE 1

Achieved

This project provided new facilities, including ordnance loading aprons and aircraft and vehicle support infrastructure. Major elements of the project were programmed for completion by August 2002 and this was achieved.

TOWNSVILLE, QUEENSLAND – RAAF TOWNSVILLE REDEVELOPMENT STAGE 2

Achieved

This project provides a range of new facilities to contemporary standards to replace existing facilities. Transit accommodation was completed in July 2003. Other major new facilities currently under construction include the main base entrance and physical fitness, air movements and combined messing facilities. Progress on the project has been good and all of these works will be completed by February 2004.

EDINBURGH, SOUTH AUSTRALIA – RAAF EDINBURGH REDEVELOPMENT STAGE 1

Achieved

This project will provide new administrative, workshop and warehousing facilities and an aircraft shelter, as well as an upgrade of engineering services. Construction has progressed well with most facilities completed. The warehousing facility is scheduled for completion in October 2003.

DARWIN, NORTHERN TERRITORY – RAAF DARWIN BASE REDEVELOPMENT STAGE 1

Partially Achieved

This project provides enhanced support facilities at RAAF Darwin. The majority of the facilities have been completed and are in use. The program was not achieved during 2002-03 due to delays in finalising the scope of the base medical facilities and firefighting water supply. These are now in the design stage and will be completed by mid-2004.

TIMBER CREEK, NORTHERN TERRITORY – BRADSHAW FIELD TRAINING AREA INFRASTRUCTURE

Partially Achieved

This project will provide engineering services and infrastructure to allow the use of Bradshaw as a field training area for 1 Brigade. Initial works to construct a bridge over the Victoria River allowing access to the Bradshaw property were completed in October 2002. Estimated expenditure was not achieved due to delays in negotiating the indigenous land use agreement. With the signing of the agreement in July 2003, contracts for civil works, including road and airfield construction, will be let by the end of 2003 subject to registration of the agreement. Construction is now expected to commence in early 2004 and be completed by the end of 2005.

CANBERRA, AUSTRALIAN CAPITAL TERRITORY – DEFENCE NETWORK OPERATIONS CENTRE

Achieved

This project provides facilities at HMAS Harman to allow for installation of a range of communications activities. Due to good contractor performance, the program was accelerated slightly. The forecast achievements were met, with completion of the facility in July 2003.

TABLE 3.7: APPROVED MEDIUM CAPITAL FACILITIES PROJECTS BY STATE AND FEDERAL ELECTORATE

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
NEW SOUTH WALES					
Gilmore					
Nowra - HMAS Albatross - Commander Australian Naval Aviation Group Office Refurbishment*	2,270	2,267	300	1,800	2,267
Nowra - Defence Materiel Organisation Naval Aviation Systems Program Office Relocation*	3,950	3,944	300	742	730
Hughes					
Holsworthy - Interim Special Forces*	5,500	5,336	0	4,174	4,010
Kingsford-Smith					
Randwick - Pre-disposal Site Works	4,600	1,783	0	4,600	1,783

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
Lindsay					
Werrington (formerly Penrith) – Construction of Army Multi-User Depot ⁽¹⁾	5,286	248	5,102	2,010	7
Macquarie					
Richmond – RAAF Richmond – Fuel Farm Upgrade ⁽²⁾	3,000	28	2,900	1,400	28
Richmond – RAAF Richmond – Reclad Hangar 422* (Regional Office Delivery)	2,025	1,300	1,000	1,000	1,300
North Sydney					
Waverton – HMAS Waterhen – Wharf Power Infrastructure*	906	866	168	417	479
Waverton – HMAS Waterhen – Defence Materiel Organisation Mine Warfare and Clearance Diving Systems Program Office Relocation ⁽²⁾	2,025	0	1,000	1,000	0
Waverton – HMAS Waterhen – DSTO Maritime Operations Division Relocation ⁽³⁾	5,600	0	3,000	0	0
Paterson					
Williamstown – RAAF Williamstown – Building Extension for Computer Services*	1,500	1,456	1,300	1,400	35
Williamstown – RAAF Williamstown – Lead-In Fighter Works ⁽¹⁾	965	336	835	965	336
Williamstown – RAAF Williamstown – Duckhole Hill Radar Works*	1,300	1,286	900	900	1,273

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
Williamtown - RAAF Williamtown - Install Dehumidifiers to Aircraft Shelters	483	177	410	410	160
Williamtown - RAAF Williamtown - Salt Ash Perimeter Fence ⁽¹⁾	500	0	500	500	0
Williamtown - RAAF Williamtown - Defence Materiel Organisation Tactical Fighter Systems Program Office Relocation*	2,757	2,630	50	50	39
Williamtown - RAAF Williamtown - Weapons Training Simulation System*	1,000	997	100	844	791
Williamtown - RAAF Williamtown - Child Care Facility ⁽¹⁾	2,000	45	2,000	1,000	45
Riverina					
Kapooka - Weapons Training Simulation System*	850	742	0	584	564
Sydney					
Garden Island Dockyard - Waste Management Systems	3,500	1,122	0	3,300	1,122
Mosman - Headquarters Training Command Army Relocation*	6,225	6,188	1,600	3,179	3,147
Warringah					
Balmoral - 1 Commando Company Collocation ⁽³⁾	5,600	0	2,500	200	0
Total New South Wales	61,842	30,751	23,965	31,475	18,116
VICTORIA					
Ballarat					
Ballarat - Construction of Army Multi-User Depot	5,830	3,009	5,790	4,111	2,967
Bendigo					
Bendigo - Construction of Army Multi-User Depot*	5,017	4,651	5	168	179

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
Corangamite					
Fort Queenscliff - Soldier Career Management Agency Relocation to Fort Queenscliff*	5,800	5,307	600	1,200	1,597
Corio					
Geelong - Construction of Army Multi-User Depot ⁽¹⁾	4,000	159	2,534	1,500	131
Gippsland					
East Sale - East Sale Child Care ⁽¹⁾	1,800	186	1,800	1,500	186
Indi					
Bandiana - Rebuild Building 304*	1,500	1,269	0	1,500	1,269
Jagajaga					
Watsonia - Regional Training Centre Facilities ⁽²⁾	5,813	0	1,500	100	0
Lalor					
Laverton - RAAF Band ⁽²⁾	4,100	0	3,100	200	0
Laverton - Defence International Training Centre ⁽¹⁾	2,440	65	2,440	400	65
McEwan					
Puckapunyal - Puckapunyal Child Care Centre ⁽¹⁾	1,700	0	1,700	100	0
Puckapunyal - Regional Training and Simulation Centre Facilities ⁽²⁾	2,440	186	2,000	1,000	186
Melbourne					
South East Melbourne - Construction of Army Multi-User Depot*	4,953	4,572	50	145	192
Melbourne - Victoria Barracks - Defence Materiel Organisation Land Systems Division Relocation*	5,650	5,094	100	800	984

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
Melbourne Ports					
Fishermans Bend - Defence Science and Technology Organisation Rationalisation*	1,700	1,653	0	1,450	1,653
Total Victoria	52,743	26,151	21,619	14,174	9,409
QUEENSLAND					
Blair					
Amberley - RAAF Amberley - Defence Materiel Organisation Strike Reconnaissance Systems Program Office Relocation*	5,960	5,390	4,960	4,800	5,333
Amberley - RAAF Amberley - Fire and Security School*	2,400	2,307	2,400	2,375	2,288
Amberley - RAAF Security and Fire School Working Dog Accommodation*	1,305	1,248	850	850	1,248
Amberley - RAAF Amberley - Weapons Training Simulation System*	1,000	997	100	844	791
Forde					
Canungra - Water Project	4,000	2,192	0	4,000	2,192
Herbert					
RAAF Townsville - 25m Range*	726	669	460	471	580
Townsville - Lavarack Barracks Tactical Training Simulation Capability*	4,900	4,411	4,400	4,382	4,311
Townsville - Lavarack Barracks 10 FSB Q-Store*	2,500	2,431	2,300	2,500	2,431
Townsville - Combat Training Centre (Live)	5,800	1,405	2,400	2,400	1,405
Townsville - Vehicle Shelters and Paving*	1,923	1,923	37	37	37

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
RAAF Townsville – Flight Deck Procedural Training Facility ⁽⁴⁾	2,310	0	10	0	0
Townsville – Lavarack Barracks Regional Training Centre North Queensland Facilities ⁽²⁾	3,000	0	500	100	0
Townsville – Halifax Bay Range Relocation ⁽²⁾	3,000	0	10	10	0
Townsville – Special Operations Forward Mounting Facility ⁽²⁾	2,500	0	1,500	500	0
Mount Stuart – Mount Stuart Training Area Grenade Range Construction ⁽²⁾	400	0	400	200	0
Total Queensland	41,724	22,973	20,327	23,469	20,616
SOUTH AUSTRALIA					
Bonython					
Edinburgh – RAAF Edinburgh – Airfield Defence*	3,635	3,410	3,400	3,400	3,410
Edinburgh – DSTO Hybrid Torpedo Simulator Facility	1,716	1,052	1,600	1,600	1,052
Edinburgh – Systems Simulation Centre Extension	2,384	1,463	2,400	2,400	1,460
Edinburgh – DSTO Virtual Ship	840	580	850	850	580
Edinburgh – Uninterrupted Power Supply Electronic Warfare Building	1,400	709	1,300	1,300	662
Edinburgh – Aerial Test Field Relocation*	1,874	1,824	1,800	1,800	1,824
Edinburgh – Refurbish DSTO Land Operations Division Facilities	5,600	4,672	200	100	224

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
Edinburgh – Defence Materiel Organisation Over the Horizon Radar Systems Program Office Relocation ⁽¹⁾	5,039	788	4,300	4,300	759
Edinburgh – Corporate Services and Infrastructure Centre ⁽⁵⁾	2,350	497	0	0	497
Edinburgh					
RAAF Edinburgh –Defence Materiel Organisation Maritime Patrol Systems Program Office Relocation ⁽⁶⁾	1,716	0	1,200	1,200	0
Wakefield					
Port Wakefield – Ammunition Breakdown Facility ⁽¹⁾	4,500	71	4,800	200	52
Total South Australia	31,054	15,066	21,850	17,150	10,520
WESTERN AUSTRALIA					
Brand					
Garden Island - HMAS Stirling – Periscope Workshop Facility ⁽¹⁾	2,600	196	2,300	2,300	164
Garden Island – HMAS Stirling – Armoury, Magazine and Gunners Store*	1,050	984	850	950	963
Garden Island – HMAS Stirling – Wharf Services Upgrade ⁽¹⁾	5,850	782	4,900	3,300	782
Garden Island - HMAS Stirling – DSTO Submarine and Surface Combatants Science and Technology Facility Extension ⁽¹⁾	2,550	56	2,200	1,600	56
Garden Island – HMAS Stirling – Torpedo/Underwater Target Teams Facility ⁽²⁾	1,500	0	0	0	0

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
Curtin					
Swanbourne – 4 Signal Troop Facilities ⁽¹⁾	3,210	122	2,800	1,000	122
Total Western Australia	16,760	2,140	13,050	9,150	2,087
NORTHERN TERRITORY					
Lingjari					
Bathurst Island – Radar Facilities Upgrade ⁽¹⁾	4,486	2	2,000	1,000	0
Katherine - RAAF Tindal – Approach Control Facility*	1,800	1,617	100	45	42
Katherine – RAAF Tindal – 400m Range	4,380	1,139	2,900	1,200	1,137
Katherine – RAAF Tindal – Living-In Accommodation	5,800	2,467	4,700	3,500	2,400
Katherine – Delamere Radar Facilities ⁽²⁾	2,000	0	2,000	0	0
Katherine – RAAF Tindal – Vehicle Shelters ⁽¹⁾	1,000	0	1,000	1,000	0
Solomon					
Darwin – Robertson Barracks Tactical Training and Simulation Site ⁽¹⁾	5,500	601	4,775	4,000	578
Darwin - RAAF Darwin – Central Emergency Power Station*	4,600	4,569	250	180	150
Darwin - Married Quarters Electrical Upgrade ⁽¹⁾	3,600	174	2,600	500	75
Darwin – RAAF Darwin Child Care Facility*	1,000	923	0	600	923
Darwin – RAAF Darwin Cryogenics Facility ⁽⁵⁾	520	122	0	0	122
Palmerston – Robertson Barracks Armouries Upgrade*	1,600	1,578	0	1,240	1,578
Darwin – Special Operations Forward Mounting Facility ⁽²⁾	2,500	0	1,500	500	0
Darwin – Vehicle Shelters ⁽²⁾	3,000	0	3,000	2,000	0

PROGRAM OF WORKS (STATE, FEDERAL ELECTORATE AND LOCALITY)	TOTAL ESTIMATED EXPENDITURE	CUMULATIVE EXPENDITURE TO 30 JUNE 2003	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
*PROJECT SUBSTANTIALLY ACHIEVED	\$'000	\$'000	\$'000	\$'000	\$'000
Palmerston – 1 Brigade Military Operations in Urban Terrain Facility Construction	5,500	0	2,000	1,000	0
Darwin – Robertson Barracks – Emergency Response Facilities ⁽³⁾	4,000	0	3,000	0	0
Total Northern Territory	51,286	13,192	29,825	16,265	7,005
AUSTRALIAN CAPITAL TERRITORY					
Canberra					
Deakin Offices Refurbishment	1,500	310	0	1,500	310
Fraser					
Jervis Bay – Beecroft Peninsula Public Risk Works	1,700	313	0	1,700	313
Jervis Bay – HMAS Creswell – Waterfront Facility for 4RAR ⁽¹⁾	2,410	25	2,400	500	6
Jervis Bay – Remediation of Mary Creek	1,100	127	100	100	37
Total Australian Capital Territory	6,710	775	2,500	3,800	666
OTHER					
Project Ninox – Training, Storage and Maintenance for Night Fighting Equipment – Various Locations*	5,857	5,670	2,500	2,473	2,287
Air Traffic Control Systems – Various Locations	3,258	2,893	50	50	16
RAAF Butterworth – Building Upgrades ⁽²⁾	5,000	8	2,000	500	0
Total Other	14,115	8,571	4,550	3,023	2,303
TOTAL MEDIUM BUILDINGS AND WORKS	276,234	119,619	137,686	118,506	70,722

NOTES

1. Project has been delayed in transition to new processes and will be considered for departmental approval in 2003-2004.
2. Project has been delayed by departmental processing delays.
3. Project being reconsidered and re-prioritised.
4. Project cancelled.
5. Project was approved after the 2002-03 additional estimates.
6. Project has been rolled into Major Projects.

ASSET MANAGEMENT

Defence manages some \$51.5b in total assets of which the largest shares are \$31b in specialist military equipment, \$14b land, buildings, plant, equipment and infrastructure and approximately \$4b in inventories. Other assets under Defence's management include intangibles and heritage and cultural assets.

In 2002-03, Defence continued implementation of an improved asset management and reporting framework which began in February 2001. The framework seeks to better:

- integrate asset planning, management and disposal decisions into corporate planning processes;
- ensure that asset planning decisions are based on evaluation of alternatives, including life-cycle costs, benefits and risks of ownership;
- assign responsibility and accountability for asset management policy development, accounting and reporting; and
- increase the involvement of senior Defence committees in balance sheet management of key assets.

This framework is consistent with the Australian National Audit Office (ANAO) *Asset Management Handbook*, published in 1998. A key objective of the framework is to assist the department in complying with section 44 of the *Financial Management and Accountability Act 1997* which specifies that the Chief Executive is responsible for promoting the efficient, effective and ethical use of resources.

2002-03 ACHIEVEMENTS

During 2002-03, the responsibility for reporting all specialist military equipment was transferred from the various capability managers to the Defence Materiel Organisation. This transfer implemented a critical element of the Defence business model that identified the Defence Materiel Organisation as the specialist military equipment asset owner and manager for Defence. As part of this new asset management responsibility, workshops were conducted during the year with all systems project offices in the Defence Materiel Organisation to explain the implications of this new role, particularly in terms of financial reporting and improved understanding of the cost of asset ownership. The consolidation of specialist military equipment asset management into a single organisation enables improved visibility of both financial management issues and cost of ownership performance.

The Defence Capability and Investment Committee played an increasing role in the management of key assets, particularly major military platforms, with the Defence Capability Plan being integral to Defence asset management and planning. The Defence Capability Committee reviews annually the expected lifecycles and planned withdrawal dates for all major items of specialist military equipment.

The asset acquisition process, including whole-of-life costs, is being refined through a strengthening of the planning, estimation, risk assessment and approval process prior to acquisition. This will provide improved management of asset acquisition, including

cost and delivery delay aspects. An improved capability costing model is being developed.

2002-03 also saw the commencement of the transfer of the management and reporting of all non-specialist military equipment assets to the Corporate Services and Infrastructure Group. This process involves the consolidation of registration of all assets into Defence's primary asset register, the Resource and Output Management Accounting Network. It has improved the accuracy of records and supported decision making in regard to asset acquisition and divestment programs. This consolidation process should be substantially completed by the end of 2003-04. Land, building and infrastructure assets continue to be progressively revalued on a three-year cycle by the Australian Valuation Office.

Work continued on inventory management to address ANAO concerns. This is an extensive task which is likely to take several years or more given the very large number of line items in inventory and the consequent resources required.

Over the past two years, position accounts that record holdings of repairable items (part of specialist military equipment) on the Standard Defence Supply System have been subject to review as part of a Defence Materiel Organisation strategy to verify all fixed assets recorded in that system. A significant amount of work has been undertaken in 2002 and 2003 and the integrity of repairable item holdings has improved. Further work is progressing, as areas of uncertainty still remain. The upgrade of the supply system in July 2003 assisted in maintaining the accuracy of these holdings.

Management of leases has been improved with the creation of a centralised lease register and a process for review of classifications and values. A new Chief Executive's Instruction has been developed providing direction on the management of leases and with the aim of improving the quality of reporting. Leases represent forward commitments for Defence and the Commonwealth. They can act as an alternative financing vehicle for assets and may involve the sale and leaseback of an asset previously owned by Defence.

The Defence estate is currently subject to a strategic review to identify opportunities for rationalisation of Defence bases, sale of surplus property and reduction in facility operating costs.

PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEFENCE HOUSING AUTHORITY

Defence and the Defence Housing Authority have two formal agreements: the Services Agreement for Housing and Related Requirements (the Services Agreement) and the Relocation Services Agreement. The agreements formalise the relationship between Defence (as purchaser) and the Defence Housing Authority (as provider).

In the closing stages of negotiation of the Services Agreement, which was signed in August 2000, Defence recognised the potential advantages for ADF members and their families if Defence transferred other housing-related responsibilities to the Defence Housing Authority. These services include housing allocation and re-occupation (including cleaning and maintenance on vacation of property), itinerary management and removals.

The progressive transfer of these activities commenced in July 2000, with a formal contract signed in December 2002. The Relocation Services Agreement is a commercial arrangement with detailed key performance indicators, a performance incentive scheme and specific periods of review.

The first review of the Relocations Services Agreement was completed at the beginning of March 2003. Defence used its discretion to extend the agreement to 2006 as the Defence Housing Authority's performance satisfied the key performance indicators.

Further reviews of the Authority's performance against the Relocations Services Agreement will be undertaken in 2006 and 2008. The contract will be extended at the end of these phases, subject to the Authority meeting the agreed key performance indicators. The current agreement can be extended until 2010.

The June 2003 Australian National Audit Office report on Defence Housing and Relocation Services (Audit Report No. 51) made recommendations relating to the purchaser-provider arrangements contained in the Service Agreement. Defence has agreed to adopt all recommendations contained in the report.

DISCRETIONARY GRANTS

TABLE 3.8: GRANTS AWARDED IN 2002-03

GRANT PROGRAM	GRANT AMOUNT		
	2000-01 ACTUAL	2001-02 ACTUAL	2002-03 ACTUAL
	\$'000	\$'000	\$'000
Army Military History Research Grants Scheme	50	50	50
Defence Family Support Funding Program	938	1,134	1,107
Grant to the Royal United Services Institute of Australia	75	75	70
TOTAL	1,063	1,259	1,227

ARMY MILITARY HISTORY RESEARCH GRANTS SCHEME

This scheme supports and encourages research into the role and involvement of the Army in the development of the nation. Recipients of grants are shown in the table below.

TABLE 3.9: ARMY MILITARY HISTORY RESEARCH GRANTS SCHEME EXPENDITURE

GRANTEE	GRANT AMOUNT \$	TITLE OF RESEARCH
Mr Harvey Broadbent	7,000	<i>Turks and Anzacs: Gallipoli Campaign Documents</i>
Lieutenant Colonel John Blaxland	6,500	<i>Imperial Siblings</i>
Dr June Factor	6,000	<i>Friendly and Enemy Aliens</i>
Dr Jeff Kildea	5,000	<i>Called to Arms: Australian Soldiers and the Easter Rising</i>
Mr Brad Mandera	5,000	<i>Retimo Force: Australians in the Battle for Crete</i>
Dr Michael Tyquin	5,000	<i>History of the Royal Australian Army Medical Corps</i>
Dr Niall Barr	5,000	<i>Three Battles in the British Army</i>
Associate Professor Fran DeGroen	4,000	<i>Australian POWs in Korea</i>
Sergeant Blair Tidey	3,000	<i>Analysis of 1 Australian Task Force Intelligence Operations in Vietnam</i>
Corporal Cameron Simpson	3,000	<i>Kitchener's Fighting Scouts in the South African War</i>
Lieutenant Colonel Robert Likeman	500	<i>History of 9th Field Ambulance</i>

DEFENCE FAMILY SUPPORT FUNDING PROGRAM

This program provides funds to support projects and services initiated by Defence families. It is also available to existing groups in the community composed of, or benefiting, Defence families. The 2002-03 budget estimate identified \$1.25m available for the program, of which \$1.1m was available for direct grants. The remaining \$0.15m was targeted to family support assistance and necessary administration of the program. The 2002-03 result refers to direct expenditure on grants, which totalled \$1.107m, as identified in the following table.

TABLE 3.10: DEFENCE FAMILY SUPPORT FUNDING PROGRAM EXPENDITURE 2002-03⁽¹⁾⁽²⁾

STATE	ORGANISATION	GRANT \$
AUSTRALIAN CAPITAL TERRITORY		
	Allen Main Memorial Pre School	2,545
	Butterworth Support Group	5,940
	Canberra Service Wives Craft Group (operating as Capital Crafters)	2,483
	Duntroon Community Centre Inc	37,907
	Gungahlin Defence Families Playgroup	1,878
	Total Australian Capital Territory	50,753
NEW SOUTH WALES		
	Anklebiters Playgroup	2,120
	Banksia House Interest Group	14,701
	Coffee, Craft, and Chat	2,617
	Defence Special Needs Support Group (Hills Area)	1,300
	Defence Special Needs Support Group (Williamstown)	910
	Dona Maria Pre and Postnatal Support Network	577
	Family Welcome Service	1,940
	Forest Hill Craft Coffee & Chat Community Group	2,108
	Gan Gan Family Centre	874
	Glenbrook Family Support Group Inc	8,071
	High Flyers Gym Club Incorporated	2,500
	Kapooka Community Centre Management Committee Incorporated	29,495
	Kapooka Early Childhood Centre Inc	10,492
	Kidzplay Playgroup	2,253
	Kissingpoint Cottage Inc	34,189
	Little Diggers Playgroup	3,217
	Little Learners Toy Library	500
	RAAF Richmond Playgroup	7,573
	SAMSN Inc	14,119

STATE	ORGANISATION	GRANT \$
	Service Wives Initiating Self Help (SWISH)	3,767
	Shoalhaven Defence Families Association Inc	31,069
	Tiny Time Incorporated	3,119
	Wagga Wagga Defence Newsletter	11,950
	Williamtown Craft Group	710
	Williamtown RAAF Playgroup	3,211
	Williamtown TLC Network	10,475
	Total New South Wales	203,857
NORTHERN TERRITORY		
	Creative Craft Club	664
	Defence Special Needs Support Group (Darwin)	925
	Katherine Toy Library	2,000
	Larrakeyah Neighbourhood House Inc	27,846
	Network Tindal Inc	2,500
	North Australia Area Family Support Committee Inc Lil Croc	2,196
	North Australia Area Family Support Committee Inc	40,745
	RAAF Base Darwin Community Centre	31,225
	Robertson Barracks Family Centre	5,824
	Stitch and Yarn	2,131
	The Good Neighbours Scheme	14,304
	Top Ender Tri Services Newsletter Inc	37,224
	Wulagi Community School Council Inc	2,950
	Total Northern Territory	170,534
QUEENSLAND		
	Amberley Community Preschool and Kindergarten Inc	1,503
	Amberley Playgroup	7,000
	Canungra Community Kindergarten	11,275
	Defence Community and Recreation Centre	45,359
	Defence Special Needs Support Group (Brisbane)	1,170
	Defence Special Needs Support Group (Cairns)	879
	Defence Special Needs Support Group (Darling Downs)	1,180
	Family Community Centre	33,268
	Gaythorne Community Kindy & Limited Hours Care & Playgroup	9,810
	Katunga Playgroup	3,975
	Kokoda Barracks Community Association	9,035
	Kokoda Barracks Toy Library	2,090
	Pine Rivers Family Association Inc	12,133
	Pine Rivers Welfare Association Inc	1,600
	Playgroup Association of Queensland Inc	3,607
	SOS Playgroup	4,120
	Toowoomba Defence Families Support Association Inc	15,022

STATE	ORGANISATION	GRANT \$
	Tri-Service Defence Families Support Association Inc	32,505
	The Vincent Neighbourhood House Group Inc	37,428
	Vincent Neighbourhood House Craft Group	4,275
Total Queensland		237,234
SOUTH AUSTRALIA		
	Defence Special Needs Support Group (Woodside)	1,180
	Edinburgh Community Centre	34,540
	Edinburgh Craft Group	655
	North East Defence Community	18,508
	RAAF Edinburgh Playgroup	4,264
	SA Connection	20,830
	Woodside Defence Families Association	12,684
Total South Australia		92,661
TASMANIA		
	Dowsing Point Community Centre	28,224
Total Tasmania		28,224
VICTORIA		
	Albury Wodonga Defence Families Group Pac-A-Picnic	3,890
	Bandiana Neighbourhood House Inc	4,979
	Baranduda Community Centre	398
	Central Gippsland Health Service	6,325
	Crib Point Pre-school	1,854
	Defence Family Centre, RAAF Williams	2,526
	Defence Families Group	3,155
	Defence Special Needs Support Group (East Sale)	450
	Defence Special Needs Support Group (Melbourne West)	1,500
	Defence Special Needs Support Group (Melbourne North East)	750
	Defence Special Needs Support Group (National)	53,305
	East Sale Family Group Inc	3,825
	East Sale Kindergarten Inc	650
	Little Macs and Affiliated Playgroups	797
	Mactier Community Centre Inc	1,000
	Mactier Craft and Secret Stitches	2,580
	Marjorie Hall Kindergarten	6,800
	Necana Association Inc	13,410
	Puckapunyal & District Neighbourhood Centre Inc	34,325
	Puckapunyal Kindergarten Association Incorporated	11,456
	Puckapunyal Playgroup Inc	1,300
	RAAF East Sale Playgroup	1,714
	RAN Family and Friends Association Incorporated	23,472
	Simpsons Voice Newsletter	8,143
	Werribee Defence Community House Inc	31,479

STATE	ORGANISATION	GRANT \$
	Willie Wagtails Rostered Playgroup Inc	5,595
	Wippa Snappas Playgroup	1,680
Total Victoria		227,358
WESTERN AUSTRALIA		
	Army Families (WA) Inc	22,490
	Bullsbrook Playgroup Inc	3,651
	Clan WA Inc (Community Link and Network)	1,301
	Combined Ships Contact Group	3,420
	Karrakatta Community House Inc	25,646
	Kimberley Defence Support Group	2,180
	Little Smarties Playgroup	660
	Marilla House Community Centre Inc	26,110
	Rockingham Womens Health and Information Association (Inc)	6,050
	Special Air Service Regiment Auxillary Inc	4,530
Total Western Australia		96,038
GRAND TOTAL		1,106,659

NOTES

1. Totals may not add due to rounding.
2. Amounts are exclusive of GST.

ROYAL UNITED SERVICES INSTITUTE OF AUSTRALIA

The grant provides assistance to the Royal United Services Institute of Australia in promoting the discussion of national security and defence matters, and improving public awareness and understanding of such matters through:

- the Institute's program of internal seminars;
- ongoing lecture programs in all states and territories; and
- publication of a national journal, addressing strategic, defence and national security issues.

The grant also provides continuing support for the Institute's national secretariat.

VICE CHIEF OF THE DEFENCE FORCE

This section outlines owner support achievements and activities performed within the Vice Chief of the Defence Force Group. The role of the Vice Chief of the Defence Force is to act as the Chief of the Defence Force in his absence and routinely to act as Deputy Commander supporting the Chief of the Defence Force in his command of the ADF. Strategic Operations Division supports the Chief of the Defence Force's operational functions and Capability Systems Division is responsible for the sponsorship, development and the provision of advice to the Government on appropriate options for current and future Defence capability. The Group also has specific and discrete responsibilities for oversight of Reserve policy, Cadet policy, the Headquarters Australian Theatre Project and the Australian Defence Force Parliamentary Program.

STRATEGIC OPERATIONS

The major military operation during 2002-03 in support of Government policy, Operation Bastille/Falconer (preparation for, and actual operations in Iraq), was planned and successfully executed in the required timeframe. Planning for Operation Catalyst (Australia's contribution to the rehabilitation of Iraq) was also undertaken. Other military operations in support of Australia's global foreign policy objectives and national sovereignty interests included:

- Operation Citadel (operational support to United Nations Mission in support of East Timor),
- Operation Slipper (support to the war on terror in the Middle East area of operations),
- Operation Relex (the deterrence of unauthorised arrivals entering northern Australia by sea), and
- Operation Bel Isi (Peace Monitoring Group in Bougainville).

CAPABILITY SYSTEMS

Notable projects progressed for Government approval during 2002-03 included air-to-air refuelling aircraft, electronic self-protection for tactical aircraft, space-based surveillance, equipment for Special Operations Command, mine and obstacle avoidance sonar for Anzac ships, and system design and development funding for the new air combat capability.

Other initiatives undertaken in support of capability development included:

- discussions with the United States, the United Kingdom and New Zealand to advance dialogue on general interoperability issues and on the exploration of specific opportunities for achieving greater harmonisation of capability requirements and greater interoperability of defence equipment;
- improvement of cost estimation of capability projects by placing greater emphasis on forming integrated project teams to give early visibility of cost

aspects of capability proposals, and conducting training in financial management, including cost estimation. The Division's links with industry also provided access to valuable information on current and emerging technologies and costs of new equipment;

- the release, in November 2002, of a new edition of the Capability Systems Life Cycle Management Manual. This is the key staff guidance document on the processes and issues for consideration in the development of capability requirements; and
- the development and trial of a new information system for tracking and reporting capability development projects. When mature, this system will provide a powerful tool for tracking progress of projects, assisting in the development of project-related documentation and analysing the potential implication of changes to one project on other related projects.

RESERVE POLICY

Defence regulations were drafted that create new categories of Reserve service, following changes to Reserve legislation.

The *Defence (Personnel) Amendment Regulations 2002*, which came into effect on 1 December 2002, consolidated the existing regulations relating to personnel matters contained in the *Naval Forces Regulations 1935*, the *Australian Military Regulations 1927* and the *Air Force Regulations 1927*. These regulations also consolidated some of the former provisions of the *Naval Defence Act 1910* and the *Defence Act 1903* relating to personnel matters.

The regulations simplified administration and introduced common terminology across the Services. The regulations also established new categories of Reserve service:

- High Readiness Active Reserve;
- High Readiness Specialist Reserve;
- Active Reserve;
- Specialist Reserve; and
- Standby Reserve.

All currently serving Reservists were transferred into one of the new categories.

For permanent and Reserve ADF members appointed or enlisted after 1 July 2003, transfer to the Standby Reserve will now be part of a member's service. All members will serve in the Standby Reserve, except if the member has reached retirement age, or circumstances have occurred which have resulted in the prior discharge of the member.

Other new initiatives introduced by the regulations included:

- the concept of a provisional appointment, whereby permanent and Reserve members are able to undertake appointment or enlistment on a provisional basis. The member can be appointed or enlisted on the basis that certain specified matters are completed within a specified time; and
- increasing the maximum retirement age to which permanent or regular and Reserve members may be extended to 65. Additionally, the compulsory retirement age for Army and Air Force Reserve members (ie the normal retirement age in the absence of an age extension) was increased to 60 which is consistent with the compulsory retirement age for Naval Reservists.

Defence Determination 2002: Employer Support Payments, relating to the ADF Reserves Employer Support Payment Scheme, was amended by the Minister for Defence on 17 June 2003, with the revised arrangements for the scheme taking effect from 1 July 2003. These revised arrangements provide better support for ADF capability requirements.

AUSTRALIAN DEFENCE FORCE CADETS

The ADF Cadets is a combination of the Australian Navy Cadets, the Australian Army Cadets and the Australian Air Force Cadets.

The Government committed in 2002-03 to further enhance the ADF Cadets, through programs aimed at improving access to uniforms and equipment, administrative support including computerisation, the management and operation of cadet activities, and the quality of experience for cadets in a military-like environment.

In more than 400 communities throughout Australia, more than 26,000 young people are participating as Navy, Army or Air Force cadets. Over 2,450 adult volunteers lead and supervise personal development and training activities for cadets. Former cadets continue to make up a significant proportion of recruits into the ADF (full-time and part-time) and are more likely to stay in the ADF over the long term.

The cadets enhancement program enables the ADF Cadets to build upon its success as a community-based organisation that provides positive links into the Australian community. The enhancement program represents a range of initiatives designed to improve the quality of the cadet experience and, in so doing, promote Defence to young people and their communities as an organisation worth belonging to, or supporting.

Results achieved through the Cadet enhancement program during 2002-03 included:

- improving the safety management system through the release of the ADF Cadet Occupational Health and Safety Policy Manual in mid-2003;
- delivering a more skilled and effective cadet corps workforce. A dispute resolution process, grievance process and a staff performance management system were all introduced during the year;
- undertaking a range of training and development activities under the cadet-initiated activities scheme. This scheme provides cadets with the

opportunity to submit proposals for funding of training and development activities;

- working towards accrediting cadet training within the Australian quality training framework, including developing certificate 1 and 2 level recognition for cadets;
- improving cadet accommodation, with functionality and maintenance works carried out in 150 cadet facilities around Australia;
- having cadets electronically connected, with 463 computers, printers and modems having been installed in cadet units and headquarters across Australia. The ADF Cadets web portal at www.Cadetnet.gov.au was launched in December 2002 and all cadet units across Australia now have email access; and
- establishing indigenous participation pilot projects in north Queensland and the Northern Territory. Approximately 130 indigenous cadets and adult staff are currently participating in these two regions. The indigenous participation action plan 2002-2004, for the delivery of cultural awareness training to cadet staff from national, state and local levels, is complete.

During the year, research was conducted into the recruitment and retention of ADF cadet members into the ADF. The analysis revealed:

- the conversion rate from recruitment inquiry to ADF application is high among cadets and there is a higher success rate in enlisting cadets in comparison to non-cadets;
- cadets who inquire about an ADF career are three to four times more likely to enlist successfully than non-cadets; and
- in 2003, 122 of 313 (39 per cent) Australian Defence Force Academy cadets were former cadets.

DEFENCE SCIENCE AND TECHNOLOGY

The Defence Science and Technology Organisation has focused on implementing the directions outlined in the White Paper and *Defence Update 2003* by seeking to make best use of technology and expanding the skills required to exploit technology to Australia's advantage. This included major contributions to Defence outputs and the Government's national research priorities¹, such as *safeguarding Australia* and *frontier technologies for building and transforming Australian industries*, as well as improving the organisation and developing its people.

CONTRIBUTION TO DEFENCE OUTPUTS

OUTPUT 1 - DEFENCE OPERATIONS

The research conducted during the year in support of Defence operations included:

- **Command of Operations** - improving the effective application of information technologies in a collocated headquarters, and technical support to enhancing a continuous situation awareness capability for command decision making. The organisation also conducted research into facilitating secure information exchange with allies and coalition partners; provided technical advice on command support systems integration issues; and provided technical support to improve network-enabled collaboration by developing collaborative tools and information systems architectures.
- **ADF Military Operations and Exercises** - deploying personnel to the United Nations Monitoring, Verification and Inspection Commission in Iraq to assist in the detection and identification of chemical, biological, nuclear and radiological materials. The organisation also deployed field operations research sections to support both the United Nations Mission in support of East Timor, and ADF elements deployed in the Middle East area of operations. Additionally, the organisation provided technical support to network-enabled warfighting information architectures and systems for joint and coalition operations.
- **Contribution to National Support Tasks** - providing support and technical advice to national security agencies including Customs, Coastwatch and emergency services.

¹ National research priorities are coordinated by the Department of Education, Science and Training. Additional information is available at: <http://www.dest.gov.au/priorities/priorities.htm>

OUTPUT 2 - NAVY CAPABILITIES

The maritime science and technology research program included research by DSTO in the following areas:

- **Amphibious Lift and Afloat Support** – providing advice on through-life issues for amphibious and afloat support vessels and on proposed enhancements to both the fleet-in-being and the future fleet.
- **Collins-class Submarine** – providing advice on the replacement combat system and on issues relating to the structural integrity of the hull and propulsion systems. The organisation provided the Navy with operational analysis support to joint exercises and assisted in offensive and defensive tactics-development. The organisation also developed a structural integrity research program aimed at extending the lives of the existing propellers until third-generation propellers become available. An urgent response was provided following the failure of hoses on HMAS *Dechaineux*. The cause of the failure was identified and mitigation steps put in place.
- **Major Surface Combatants** – providing support to the Anzac anti-ship missile defence upgrade; research into the Nulka active missile decoy's effectiveness, signature reduction and operational tactics; and using the virtual ship simulation facility to evaluate options for future platforms and network-enabled warfare concepts. The organisation conducted research into reducing the cost of ownership for the Anzac and guided missile frigate platforms, conducted capability options analysis studies in support of the air warfare destroyer project and provided analytical support to the Navy's wargaming of future fleet concepts.
- **Patrol boats** – providing advice on crewing and other human factors issues, and supporting the replacement patrol boat project's tender evaluation process.
- **Mine Warfare** – developing new concepts for operations and capability management and improving mine detection techniques.
- **Naval Aviation Operations** – providing advice on managing the structural integrity of the aircraft fleet and on reducing the time expended on aircraft maintenance.

OUTPUT 3 - ARMY CAPABILITIES

The land science and technology research program included research by DSTO in the following areas:

- **Special Forces Operations** – optimising the mobility, firepower and survivability of the special forces vehicle fleet, improving counter-surveillance and signature management techniques, and assisting in developing counter-terrorism capabilities.

- **Mechanised Operations** – developing landmine survivability enhancement kits for operational 6x6 Land Rover and long range patrol vehicles and providing technical advice on current fleet upgrades.
- **Light Infantry Operations** – providing advice on enhancing the soldier combat system, supporting collective training by improving manoeuvre capability, and research into conducting military operations in urban terrain.
- **Army Aviation Operations** – providing science and technology support to the acquisition and introduction into service of the armed reconnaissance helicopter. Technical advice was also provided on improving helicopter night vision devices and head-mounted displays, reducing the risk of premature failure of components in Black Hawk engines, and safe envelopes for helicopter-slung loads operations.
- **Regional Surveillance** – improving battlespace visualisation, planning and decision-support systems. The organisation also conducted research into land-based acoustic surveillance systems and hyperspectral surveillance.
- **Protective Operations** – supporting the Incident Response Regiment in expanding the mobile analytical laboratory, improving verification technologies for alleged chemical or biological weapons, and research into contamination control and biomedical defence.

OUTPUT 4 - AIR FORCE CAPABILITIES

The air science and technology research program included research by DSTO in the following areas:

- **Air Strike/Reconnaissance** – providing support to the F-111 sole operator program including structural integrity advice on the short-wing replacements, advice on the operational tactical deployment of weapons and on electronic warfare and radar systems.
- **Tactical Fighter Operations** – providing technical advice on F/A-18 airframe life management strategies required to reach planned withdrawal date and on the management of the propulsion system. The organisation also provided advice on improving the effectiveness of the radar, support to the acquisition and introduction into service of air-to-air missile systems, including an assessment of their performance, and support to Australian participation in the Joint Strike Fighter system design and development phase.
- **Strategic Surveillance** – providing technical advice on improving ground-based surveillance systems and aerial surveillance capability, including developing options on how unmanned aerial vehicles can best be utilised to augment the existing force structure; and support to the acquisition of the airborne early warning and control aircraft. The organisation also conducted research into force development and simulation using the virtual air environment.
- **Maritime Patrol Aircraft Operations** – undertaking capability analysis for the replacement of the maritime patrol and response capability, providing technical

advice and support to extend the life of the current airframe and engine systems, and providing advice on enhancing the avionics and sensor systems.

- **Airlift** – providing acquisition support for replacement of the air refuelling capability, technical advice on propulsion systems and aircrew workloads, and research into developing and validating countermeasure techniques using simulation.

OUTPUT 5 - STRATEGIC POLICY

The research conducted and support given to Strategic Policy by DSTO included:

- **Strategic and International Policy, Activities and Engagement** – maintaining effective relationships with other countries via The Technical Cooperation Program with the United States, the United Kingdom, Canada and New Zealand, and also separate bilateral arrangements with countries such as the United States, the United Kingdom and France. The organisation also promoted interaction with regional countries, provided advice to regional defence forces on sustainment and logistical issues, supported regional countries' combined operations with the ADF and promoted dialogue on science and technology issues of mutual interest. In addition, the organisation provided technical advice and support to United Nations disarmament and arms control initiatives.
- **Military Strategy and Command** – conducting research into strategic-level decision making and providing advice on future warfare, military strategy and capability planning issues.
- **Command, control, communications, computing, intelligence, surveillance and reconnaissance capabilities** – evaluating architectural solutions for information flows and analysis capabilities, assessing the Defence integrated surveillance system, and providing technical advice and support on developing a range of sensors and radar systems.

OUTPUT 6 - INTELLIGENCE

The research conducted and support given to Intelligence by DSTO included developing and delivering network analysis and protection tools for Defence, further research into assessing computer networks and protecting system integrity, and technical advice and support on multi-level security issues.

MAKING THE BEST USE OF SCIENCE AND TECHNOLOGY AND AUSTRALIAN INDUSTRY

DSTO continued to implement change strategies and organisational improvement initiatives during 2002-03. Achievements included:

- increasing support for Defence's capability analysis and decision making through establishing a new Scrutiny and Analysis Branch;

- developing closer customer partnerships through continuing liaison coordinated via the Defence Materiel Organisation/Defence Science and Technology Organisation board;
- broadening the organisation's technical base through the Government's national research priorities initiatives;
- developing and implementing new people strategies including the continuing education initiative; and
- reviewing the organisation's science and technology base through developing and reviewing the technology plan.

The organisation's technology plan, developed in 2002, was refined in 2003 to provide strategic guidance to the science and technology program over the next five to ten years. The technology plan aligns the organisation's future science and technology priorities with client needs in light of defence technology trends and the organisation's expertise in both the ADF environment and science and technology domains.

The Prime Minister's Science, Engineering and Innovation Council acknowledged that a new organisation was needed to coordinate scientific support for national counter-terrorism efforts. The Prime Minister announced in June 2003 that a new science, engineering and technology unit would be established, during 2003-04, in the Department of the Prime Minister and Cabinet. The Defence Science and Technology Organisation will be represented in the unit.

NETWORK SECURITY AND REVOLUTION IN MILITARY AFFAIRS

Significant effort was applied during the year to research in 'revolution in military affairs' technologies and to researching network security and communications in support of network-centric warfare. Robust, secure communications and control networks are a pre requisite for the conduct of any network-centric operations. Network security is essential in protecting the national information infrastructure and countering a variety of forms of asymmetric threats. Research activities in this area included enhancing and developing security architectures, technical support to improve evaluation methodologies for computer networks, and a significant collaboration with the United States via the Defense Advanced Research Projects Agency in new methods for securing extremely large networks. Australian-researched prototype technology from the organisation has been made available to the United States Government and is undergoing tests for both functionality and the ability to scale to massive networks. Other work included developing secure communication network systems to support tactical and mobile communications.

BACKING AUSTRALIA'S ABILITY - INDUSTRY INVOLVEMENT

The organisation continued to implement the Government's 2001 innovation statement *Backing Australia's Ability* through contributing to national research priorities. The organisation's research program included:

- improving national support for *transformational defence technologies* by introducing a number of new initiatives including research programs in counter-terrorism, network-centric warfare, battlespace automation, joint experimentation, reducing the costs of ownership, and better support to operations and equipment acquisition; and
- enhancing Defence capability through developing *frontier technologies for building and transforming Australian industries* by adopting initiatives to address *smart information* use and network-centric warfare capabilities, and strengthening current working arrangements with National Information and Communications Technology Australia.

The organisation's commitment to national wealth creation was evidenced through strengthening links with industry, other government research organisations, cooperative research centres and universities.

Further licences to transfer dual use defence technologies to industry were also approved. These included a licence agreement with Daronmont Technologies to commercialise the 'Blue Owl' advanced radio frequency surveillance technology, and an intellectual property licence with Applied Explosives Technology to allow the company to access Defence explosive ordnance disposal technology.

Research agreements with universities and other centres of expertise around Australia were further developed and expanded with two additional memorandums of understanding being signed with industry.

The organisation continued to support Australian industry through undertaking research and development under contract in areas where industry holds unique facilities or capabilities, particularly under its outsourcing program of technical support service contracts.

PEOPLE MATTER

DSTO consolidated several people initiatives introduced in the last reporting period and developed and implemented a number of new ones.

The single science and technology career structure, introduced in 2001-02, is currently being evaluated to ensure it provides a broad range of opportunities for staff and supports longer-term change strategies.

The feedback and development scheme, under the single career structure, was consolidated and enhanced by the introduction of a number of workshops to assist managers and staff to develop interpersonal skills and enhance self-management and self-awareness. Staff participation in postgraduate science and technology studies continued to grow under the continuing education initiative, introduced in 2001-02.

PROTECTIVE SECURITY IN DEFENCE

SAFEBASE

The Defence protective security framework continued to ensure that Defence is equipped appropriately to deal with future security threats. After the terrorist attacks of 11 September 2001, Defence implemented Safebase, an improved security alert system. Following the Bali bombings, the Safebase alert system continued to provide an appropriate, standardised set of incremental protective security measures that could be implemented after changes to the threat levels. Safebase was used successfully throughout Defence's contribution to the war in Iraq. Alert levels at a number of sites were upgraded to provide a higher level of protection to Defence operations, establishments and personnel at a time of high operational tempo. Safebase policy was also enhanced to provide for security inspections of Defence employees' carried items and private or official vehicles, upon entry into any Defence premises. A comprehensive communications strategy supported this change.

Protective security enhancements to Defence bases and establishments during the year were informed by vulnerability assessments across Australia that had been completed in 2001-02. Funding was provided by the Government to improve security infrastructure around bases and establishments and was used to upgrade armouries, alarm systems, security fencing, signage, mail scanning and barricades. Additional Government funding was provided to support heightened security measures for Defence personnel and facilities, including increased guarding and patrolling.

ONGOING SECURITY REFORM

The Defence Security Authority is responsible for the development of security policy, security training and awareness across Defence, security performance assessment programs, serious and complex security investigations and processing of the majority of Defence's security clearances. Service Chiefs and civilian Group Heads remain responsible to the Secretary and the Chief of the Defence Force for security in their areas. The Defence Security Authority works with the Navy, Army and Air Force, Defence intelligence agencies and unit security officers across Defence to fulfil its responsibilities.

The Authority aims to make security 'everybody's business'. Security has been incorporated into organisational performance agreements and the charter letters between the Service Chiefs and Group Heads and the Secretary and the Chief of the Defence Force.

PERFORMANCE TARGETS

The Defence Security Authority works with the Service Chiefs and civilian Group Heads to meet the five strategic themes that guide the performance of the Authority; namely, to provide clear and comprehensive policy and high-quality selected services, strengthen Defence's security culture, exceed stewardship expectations, strive for business excellence and build a resilient and adaptive security authority.

Defence's capability to provide protective security is reported below against these themes with reference to both the Defence Security Authority and the wider Defence organisation.

PROVIDE CLEAR AND COMPREHENSIVE POLICY AND HIGH-QUALITY SELECTED SERVICES

Partially Achieved

Defence developed policy to clarify security inspection procedures for entry to any Defence premises. Security guidance and instructions were developed to address emerging technologies becoming more prevalent in the workplace such as Personal Digital Assistants and multifunctional devices.

Defence continued to have a significant backlog of personnel security vetting requests. The backlog affected both negative and positive clearance requests. The basis for negative vetting is that a clearance will be granted unless the inquiry process reveals information prejudicial to the subject's suitability. Positive vetting requires that the checking process continue until suitability has been established beyond reasonable doubt.

The deployment of Australian forces to the Middle East in 2003 prompted an increase in the number of both negative and positive vetting requests. Resources were diverted to clear relatively small numbers of people in a very short time, without compromising the quality of the clearance process.

A number of initiatives were taken to assist in the management of the negative vetting clearance backlog. For largely historical reasons, the workload and resources across the Defence Security Authority state and territory offices have varied considerably, with some offices having built up large backlogs over time. A national program was instituted to redistribute cases between offices. In addition, the partial outsourcing of security clearance requests from the Australian Capital Territory/southern New South Wales office has been on trial since April 2003. New in-house benchmarking will help to enable more accurate reporting of productivity and trends and electronic vetting packs will be available by the end of the year. The 2003 Vetting Practitioners' Manual aims to enhance the quality of the security clearance process by ensuring that a consistent approach is taken to the completion of security clearances throughout Defence.

The Defence Intelligence Group positive vetting area is responsible for managing Defence's positive vetting clearances. Additional case officers, psychologists and clerical support staff were recruited. The vetting process was improved through the introduction of accredited training for case officers and revised psychological suitability assessments for applicants.

Defence's internal security policy, embodied in the Defence Security Manual, was aligned with Australian Government security policy and released electronically to all Defence members. The manual is designed to be consistent with the 2000 Commonwealth Protective Security Manual.

In order to improve Defence's capability to protect its people, information and assets, the capacity of the Security Investigations Unit was enlarged by a significant increase in staff over the last year. All investigators have achieved the nationally-recognised minimum standard in investigations.

The security performance assessment program is in the final stages of development and will provide an assurance service to the Defence senior leadership group on security

performance across Defence using self-assessment methods, evaluations of Defence-wide sites and specific performance reviews.

STRENGTHEN DEFENCE'S SECURITY CULTURE

Partially Achieved

Permanent training officer positions were established within each state and territory office. This led to 330 personnel receiving security officer training and 90 security awareness presentations for 6,694 personnel being conducted over six months. Security specific questions were incorporated into the 2002 annual Defence attitude survey for the first time and approximately 94 per cent of the sampled group indicated that they understood their security responsibilities within Defence.

EXCEED STEWARDSHIP EXPECTATIONS

Partially Achieved

Defence reported on its protective security status to several Government security forums over the last year, including the Inter-Agency Security Forum and the Protective Security Policy Committee. Overviews were provided on Defence's progress in implementing recommendations from the Inspector-General of Intelligence and Security, staff attitudes to security, agency security issues, security audits and investigations and Defence's compliance with the Commonwealth Protective Security Manual. Monthly balanced scorecard reporting to the Defence Committee ensured that the visibility and status of security within Defence was regularly monitored at the highest level.

STRIVE FOR BUSINESS EXCELLENCE

Partially Achieved

The Defence Security Authority uses a business process alignment program to ensure consistent practices across its state and territory offices. The program is used to develop uniform business processes across all areas of security including vetting, physical security, training and awareness and industrial security. The security authority continues to work with the Navy, Army and Air Force through security directors' meetings to ensure that Defence security issues and policy are addressed in line with Service-specific requirements and that single-Service policy and practice remain consistent with Defence and Government-wide security policy and requirements.

BUILD A RESILIENT AND ADAPTIVE AUTHORITY

Substantially Achieved

The Defence Security Authority's national recruitment campaign, launched in 2001, succeeded in recruiting an additional 125 personnel, taking the yearly average of full-time equivalent personnel to 209. Individuals with experience in the private sector and the wider public service, as well as former ADF members and Defence civilians, were recruited to create a flexible workforce of both security specialists and generalists. A rolling program of orientation sessions during October and November 2002 provided all new starters with an introduction to the Defence Security Authority, whole-of-Government security and their responsibilities as public officials. Staff continued to be supported through training courses from a variety of areas.

PUBLIC AFFAIRS AND CORPORATE COMMUNICATION

OVERVIEW

Public Affairs and Corporate Communication Division provided specialist communication advice and services to the conduct of a range of Defence activities, including military operations. The division deployed personnel and guided the public affairs handling of Defence involvement in the coalition operations in Iraq and Afghanistan, as well as a number of other continuing military operations. The year also saw a realignment of the division's services and products, with issues management and support to military operations the highest priority.

OBJECTIVES

The *Defence Overarching Organisational Communications Strategy* was updated in 2003-03, reflecting the changing priorities and operational commitments for Defence. Covering the period 2001-04, the strategy provides Defence's long-term public affairs and corporate communication objectives. The following details Public Affairs and Corporate Communication's key results against the goals of the strategy.

RESULTS FOR 2002-03

GOAL 1 - RAISED AWARENESS OF THE GOVERNMENT'S DEFENCE POLICY AND INCREASED COMMUNITY UNDERSTANDING OF, AND CONFIDENCE IN, DEFENCE

Achieved

- Provision of a comprehensive media liaison function, with approximately 19,000 media inquiries and 800 media releases and alerts.
- Deployment of public affairs teams to several international locations and provision of direct public affairs support to military operations, embedding military public affairs specialists at the strategic, operational and tactical level of command. This facilitated the production of 42 live-to-air media briefings in support of Operation Falconer.
- Implementation of the *Defence 2020 Education Resource Program*. The program was developed in association with teachers and utilises Defence 'case studies' to give students a greater understanding of the broader functions of Defence and defence-related issues. Fourteen one-day Youth Challenges, where students are presented with hypothetical scenarios, were run as part of the program and were well received by both students and teachers. Copies of the resource program were distributed to more than 3,100 secondary schools.

- Delivery of the Defence 'Below the Line'¹ recruiting program. The campaign supported a cohesive, integrated and strategic approach to external Defence recruitment communication and included the production of recruitment articles for local and regional newspapers, coordination of sponsorship and recruiting exhibitions. ADF recruitment has improved throughout the life of this program.
- Support to more than 64 career-oriented trade shows, public displays and media launches.
- Support to more than 600 events and community relations activities, including official farewell and welcome home events for troops deployed to Afghanistan and Iraq and the national 'welcome home' marches in Sydney and Perth.
- Coordination of a 'messages to the troops' facility that resulted in more than 18,000 email messages of support and a similar facility for messages of support to families.
- Response to more than 3,500 public inquiry calls.
- Management of the Defence Internet site, which recorded 1.96 million visits.
- Implementation of improved processes for receipt and dispatch of digital imagery, with approximately 1,000 image task requests managed.
- Compilation of approximately 250 hours of vision provided in response to TV station and production house requests. Production of 105 Defence video releases in support of public affairs activities.

Substantially Achieved

- Redesign of the Defence Internet site in accordance with National Office of the Information Environment requirements. The new site will be launched in 2003-04.
- Refinement of a deployable public affairs capability through the conduct of an 18-month trial beginning in January 2002. Much of the trial was conducted during ADF operations, due to the nature of the ADF's commitments during the trial phase. While the trial has resulted in changes to structure and personnel preparation that have been implemented, work continues to update the ADF doctrine for public affairs in operations. The doctrine update is expected to be completed by the end of 2003-04.

¹ 'Below the Line' communication refers to activities that vary from traditional media advertising, which is referred to in the media industry as 'above the line'. The program includes a range of initiatives and activities to further target, inform, educate and attract recruits to careers within the ADF including, for example, community events and newspaper articles.

Partially Achieved

- Partly because of operational tempo, the active roll-out of base public affairs plans has slowed.
- A review of competencies for personnel posted to military public affairs positions.

GOAL 2 - IMPROVED COMMUNICATION WITH THE GOVERNMENT AND STAKEHOLDERS

Achieved

- Implementation of a more effective method for distributing media summaries, which improved responsiveness on whole-of-government issues, particularly for operations.
- Development of more than 80 strategies and plans for responding to emerging issues.

Partially Achieved

- Development of an 'On Line Media Centre'. This web-based project will eventually offer media agencies Australia-wide a one-stop shop to answer commonly asked questions and offer more detailed fact sheets that will assist in the construction of stories. It will contain general statistical information, as well as the latest media alerts and releases and up-to-the-minute newsbreaks. All material will be collated to enable ease of access. Implementation is planned for 2003-04.

GOAL 3 - MORE EFFECTIVE MULTI-DIMENSIONAL INTERNAL COMMUNICATION THAT HELPS US DO OUR JOB

Achieved

- Expansion of a range of activities designed to broaden the exposure of Defence personnel at all levels to organisational communication, with an increased emphasis on personnel training.
- The division facilitated 49 recruiting category videos. The responsibility for producing recruiting and retention visual material passed to the Defence Force Recruiting Organisation from 1 July 2003.
- Enhanced integration of Service newspapers, maximising cost and content benefits through common printing tenders, common marketing and a common editorial approach.
- Redesigned Service newspaper websites, incorporating consistent themes and allowing a full search function.

Substantially Achieved

- Establishment of editorial boards for internal Defence publications to set policy and have oversight of content.

Partially Achieved

- Development of processes to assist staff in media liaison with responding to inquiries.

MEASUREMENT

A critical aspect of the *Defence Overarching Organisational Communications Strategy* was the development of a dedicated research capability. The research program has completed a second full year of data gathering, providing a baseline level for comparative findings.

The research program contributed to planning and evaluation of Defence organisational communication through studies of community attitudes to national security and Defence issues.

Community attitudes research was conducted in two stages in 2002-03, first in November 2002 and again in April 2003. The research involved the conduct of phone polls and focus group discussions to produce quantitative and qualitative results. Phone poll participants responded to a series of questions, while focus group participants were involved in detailed discussions about specific Defence topics. The major results are shown below:

- Most indicators of community support for Defence and ADF deployments remained high. Community pride in the ADF has returned to 86 per cent, equal to the highest level recorded (April 2002) since this research began in the 1980s.
- Support for most ADF deployments and Defence tasks remains above 70 per cent. November 2002 research indicated, however, that this support was unevenly distributed among demographic and age segments, with younger, tertiary educated and higher socio-economic level Australians having the least favourable view of Defence.
- Focus group research noted increased public attention to national security and defence issues and the role and performance of the ADF, reflecting concern about terrorism. Focus groups also revealed confusion about the different roles of Defence and other national security agencies in areas such as counter-terrorism and coastal surveillance.

External analysis of 43,149 items of mainstream Australian news media coverage on national security and Defence issues during 2002-03 rated the overall coverage as more than two-thirds favourable to Defence's reputation.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

Section 516A of the Environment Protection and Biodiversity Conservation Act 1999 requires departmental annual reports to include details on the effect of a department's actions on the environment, measures to minimise that impact and mechanisms to ensure that those measures are effective; on how the actions and administration of legislation accorded with ecologically sustainable development; and on how the Government's desired outcomes for departments contributed to ecologically sustainable development.

Defence is entrusted with the stewardship of over 34 million hectares of land, much of it conserving the natural landscape of Australia's unique environment. Some areas are also recognised nationally and internationally for their environmental, cultural and heritage values. Defence is also responsible for managing over 16 million square kilometres of oceans in Australia's Exclusive Economic Zone. Defence observes its environmental obligations in military operations overseas, in places ranging from Afghanistan to Bougainville. In this context alone, Defence faces significant challenges in understanding the environmental issues so that it can effectively managing its everyday activities over such a large part of the earth.

Defence recognises that its activities can have significant impacts on both the environment and local communities. The challenge for Defence is to obtain the right balance between providing for both security and conservation to sustain its capability to operate while minimising its environmental footprint. To achieve this balance, Defence is committed to ensuring that ecologically sustainable development principles are incorporated into all activities.

Defence achieved considerable progress over the last year in striving to become a leader in sustainable environmental management. A range of initiatives are being undertaken throughout Defence to deliver the Government's economic and environmental agenda under the National Strategy for Ecologically Sustainable Development.

These include significant achievements in areas such as heritage management, environmental risk management, the protection of unique flora and fauna that inhabit Defence sites, land contamination management, natural resource consumption and the consideration of ecologically sustainable development in infrastructure planning. Defence has achieved its commitment to develop a corporate environmental management system and associated initiatives which build on the continual improvement element of the ISO 14001 standard for such systems.

Defence recognises that there is always a large amount of work to be done to demonstrate commitment to achieving sustainable environmental management.

DEFENCE ENVIRONMENTAL STRATEGIC PLAN

Released in December 2001, the Defence environmental policy outlined the approach for management of the environment and stewardship of assets on behalf of the Commonwealth. Defence has developed a strategic plan to guide implementation of this policy.

The *Defence Environmental Strategic Plan 2002-2005* has recently been endorsed by the Parliamentary Secretary. This plan will guide Defence in achieving its environmental vision to be 'a leader in sustainable environmental management' and outlines the commitments made in the Defence environmental policy to be implemented throughout the organisation.

The plan highlights the range of environmental issues Defence faces, and prioritises these issues through a risk assessment process. The plan adopts a proactive approach to meeting Defence's environmental obligations and reducing environmental risks, by outlining objectives, targets and indicators that Defence has committed to over the next three years.

During the year, Defence commenced a number of initiatives aimed at achieving the strategic environmental objectives and targets. The initiatives are discussed in the remainder of this section of the report. Further information can be found at www.defence.gov.au/environment.

SUSTAINABLE MANAGEMENT OF ECOSYSTEMS

LAND MANAGEMENT (INCLUDING USE OF DEFENCE TRAINING AREAS AND DEFENCE TRAINING ON NON-DEFENCE LAND)

In pursuing best practice environmental management, Defence completed draft guidelines for the development of soil conservation plans in 2002-03. Those aspects which should be included in bushfire management planning for its properties will be reviewed in 2003-04.

Progress has also been made on developing guidelines for other key areas, including the management of weeds, feral animals and overabundant native species, and identifying indicators for monitoring the environmentally sustainable use of Defence properties.

INTERACTION WITH MARINE AND AQUATIC ENVIRONMENT

Defence has maintained momentum as a leader in sustainable use of the environment through continuing development of environmental management plans for the Navy's ships and maritime exercise areas. These plans aim to provide definitive advice to exercise planners and ship commanders about how to conduct activities at sea in an environmentally sustainable manner, in accordance with Defence's legislative environmental obligations.

Consistent with the Australian Government's wetlands policy, Defence has contributed to the government's wetlands inventory, providing information on wetland biodiversity associated with properties owned or managed by Defence. Two Defence sites, Port Wakefield SA, and Bunderra Sinkhole WA, are currently being

considered for listing as wetlands of international significance under the Convention on Wetlands ('Ramsar' Convention).

Defence is also incorporating principles of ecologically sustainable development into capability acquisition. For example, the Armidale-class patrol boats that will replace the Fremantle-class include:

- consideration of efficiency in construction and operation of the boats (for energy and water savings);
- waste minimisation and avoidance of disposal to the marine environment both at sea and when docked; and
- avoiding hazardous and intractable materials, for example in hull anti-fouling coatings.

FLORA AND FAUNA INTERACTION

Threatened species management

Across Australia, Defence owns large tracts of high-quality remnant vegetation which, when considered together with Defence's significant use of Australia's oceans and airspace, provide both opportunities and challenges for the maintenance of threatened species and ecological communities. In 2002-03, in partnership with a number of Australian Government and state agencies and academic institutions, Defence played a significant role in conservation efforts for a number of threatened species listed under the *Environment Protection and Biodiversity Conservation Act 1999* including:

- funding independent scientific research into the behaviour, biology and distribution of the Blue Whale (*Baleanoptera musculus*) off the Western Australian coast; and
- undertaking a comprehensive fox control program on the Murray Bridge Army Range in South Australia aimed primarily at protecting newly hatched Mallee Fowl (*Leipoa ocellata*) chicks.

Overabundant species management

In common with other land management agencies, Defence has a responsibility to minimise the environmental impacts resulting from overabundant native animal populations. In 2002-03, in consultation with relevant Victorian authorities, Defence took action to reduce the number of kangaroos on the Puckapunyal training area. Detailed scientific surveys were undertaken to determine the number of animals that needed to be removed in order to minimise environmental impacts from overgrazing, and maintain the area in a fit state for continued training purposes.

Defence has also been participating in cooperative programs investigating reproductive physiology as a possible means of maintaining an environmentally sustainable kangaroo population on Defence properties into the future.

NATURAL RESOURCE CONSUMPTION

Energy use

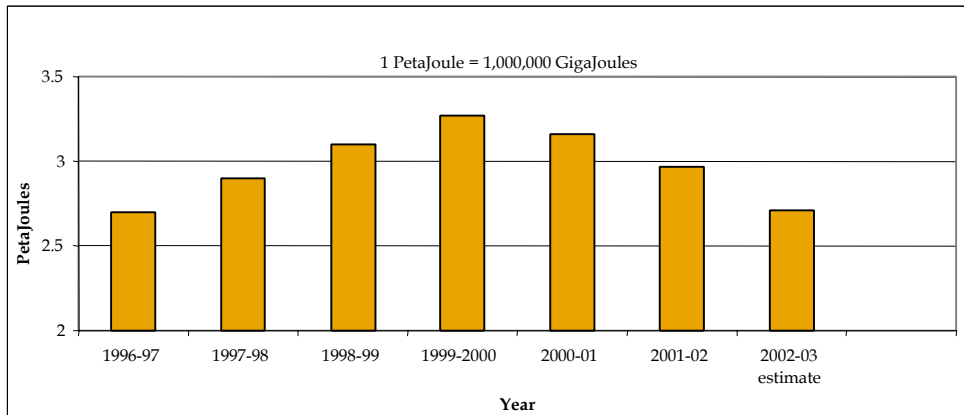
Defence has continued to improve its energy performance despite ongoing resource constraints and operational demands on the organisation. Energy consumption in Defence establishments and office buildings is estimated to have fallen for the third year in a row in 2002-03.

The three-year Defence savings target set by the Defence Energy Efficiency Plan was 545,000 gigajoules (GJ). Defence completed energy conservation measures resulting in energy savings (as at 30 June 2003) of 559,000 GJ, exceeding the target by 2.6 per cent. This represents an estimated saving of 330,835 GJ over the 2001-02 figure.

Defence energy performance against set energy reduction targets will be reported to the Government in the annual whole-of-government energy report.

Chart 3.1 shows the annual energy consumption of Defence establishments from 1996-97 to 2001-02. Data for 2002-03 comprises nine months actual, extrapolated to 12 months. The forecast usage by Defence was 2,713,379 GJ, which was slightly above Defence's Government-set energy usage target of 2,500,000 GJ (to be achieved by June 2003), but it is expected that this figure will continue to trend downwards.

CHART 3.1: ANNUAL ENERGY CONSUMPTION OF DEFENCE ESTABLISHMENTS



Defence developed an updated energy management strategy in 2002-03, which will be implemented in 2003-04. Development focused on:

- increased energy education and awareness training for Defence personnel and contractors;
- development and implementation of regional and site energy management plans;
- nomination of site 'energy champions' to promote good energy work practices;
- establishment of energy working groups/committees;
- identification and installation of additional metering in selected buildings;

- incorporation of energy provisions in Defence contracts, and consideration of energy efficiency in the design and planning phases of Defence projects; and
- identification of new energy targets to drive energy efficiency and reduce energy usage in Defence regions.

The strategy has been designed to promote sustainability and provide Defence personnel with a framework for making further energy savings through management initiatives at the regional and site level across Defence.

Water use

In 2002-03, Defence budgeted approximately \$13.3m for water and waste water services. Defence recognises the environmental and economic benefits of achieving more efficient use of water. To this end, Defence has developed a sustainable water management strategy and had it reviewed by an independent expert. The strategy will be implemented in 2003-04.

The strategy aims to minimise the use of potable water by recycling waste water, reducing overall water consumption and lessening the environmental impact of Defence activities on water supplies and bodies.

A range of initiatives to conserve water has already been implemented. In Western Australia, \$100,000 was invested on water conservation measures at HMAS Stirling, RAAF Pearce and key Army sites in the Perth metropolitan area. Conservation measures included the identification of appropriate system applications where the use of flow-control devices will achieve meaningful energy and water conservation benefits.

Waste generation

Waste reduction, management and recycling pose complex challenges. To improve Defence's performance, a waste minimisation and recycling strategy was developed during 2002-03. A discussion paper and draft framework for the strategy were independently reviewed by an external expert in June 2003. The strategy will be finalised and implemented during 2003-04.

The draft waste minimisation and recycling strategy will require Defence to change its operational and disposal activities to use primary resources more efficiently, to generate less waste, and to reuse and recycle more of those materials currently disposed of as wastes.

The strategy will cover all Defence activities and services that produce wastes, including hazardous materials. It will focus on minimising waste generation as well as better managing wastes.

POLLUTION PREVENTION

Soil and water contamination

During 2002-03, Defence began a number of initiatives in the area of contaminated land management, including the development of:

- the Defence contaminated land management strategy, to provide guidance on the identification of contamination risk and minimisation measures and the management of existing contaminated Defence land, surface water and groundwater;
- the Defence contaminated land management manual, to provide guidance to site managers on appropriate and cost-effective management approaches for contaminated sites; and
- a contaminated sites register to provide data and information to support the contaminated land management strategy, and assist decision makers at the regional and corporate level. The prototype will be trialled over the next 12 months.

National pollutant inventory

In 2002-03, 22 Defence sites began assessment for potential national pollutant inventory reporting. At 30 June 2003, there were nine inventory reports publicly available at www.npi.gov.au.

Waste treatment and disposal

The Defence Environmental Strategic Plan 2002-05 identified the development and implementation of waste treatment and disposal strategies at site level as an important issue. During 2002-03, a position paper was produced outlining initial investigations into performance, potential risks, regional approaches to waste treatment and disposal, the ability to meet waste treatment and disposal regulations, and legislative requirements.

Air emissions

In May 2003, Defence began developing an air quality strategy in an effort to identify and better understand the issues associated with air pollutants. The strategy will include a list of management actions and reference material for environmental planning purposes.

Noise, vibration and electromagnetic radiation generation

In 2002-03, Defence began to develop a strategy to determine how Defence should best manage effects of noise, vibration and electromagnetic radiation on the natural environment. The strategy summarises current national, international and Defence guidance and will recommend future actions towards effective management of noise, vibration and electromagnetic radiation in Defence. The primary implementation focus will be through the ongoing rollout of site environmental management systems.

CLIMATE CHANGE AND OZONE DEPLETION

Use of ozone depleting substances

In 2002-03, Defence began implementing policy on ozone depleting substances to reflect new greenhouse legislation anticipated in 2003-04.

The Defence Halon Bank remains at the Defence National Storage and Distribution Centre. The Navy, Army and Air Force continued to receive essential uses permits for halon during 2002-03. Groups and Services, especially those with a logistics focus, are increasingly aware of the requirement to obtain Environment Australia approval for the importation and exportation of controlled substances.

Greenhouse gas emissions

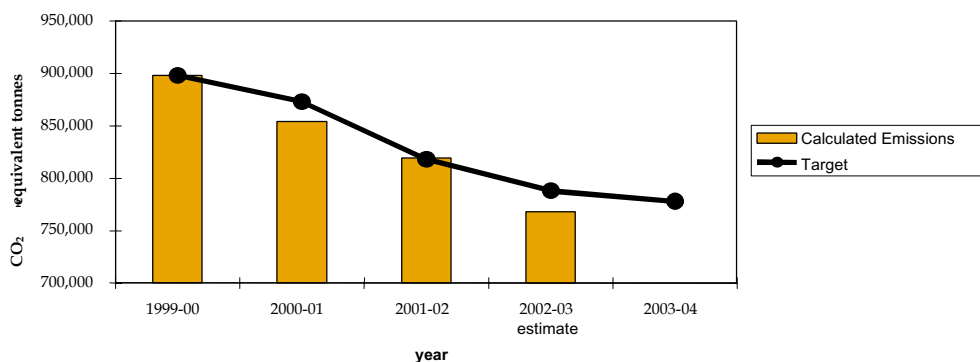
In January 2003, the Defence greenhouse strategy was endorsed. The strategy provides a framework for the pursuit of a range of initiatives to promote sustainability and achieve reductions in greenhouse gas emissions.

Linked to Defence’s emissions reductions are energy savings, which have largely been achieved through the Defence energy efficiency program. Further reductions in greenhouse gas emissions will be realised with the implementation of key strategies identified in the Defence greenhouse strategy and through a range of sustainable energy management initiatives being pursued under the Defence Energy Management Program.

The estimated emissions for 2002-03 were 768,385 CO₂ tonnes, a decrease of 50,745 on 2001-02 emissions and under the target of 788,000 CO₂ tonnes.

Chart 3.2 displays Defence greenhouse gas emissions and targets for 1999-00 to 2003-04. The 2002-03 column data is based on nine months actual consumption data, extrapolated to 12 months.

CHART 3.2: GREENHOUSE GAS EMISSIONS



Defence will continue to see further greenhouse reductions achieved in future with initiatives in the regional establishments to purchase low greenhouse gas emission appliances. Defence will also consider energy solutions based on renewable energy sources.

Examples include the replacement of electric boiler units with high-efficiency staged boiler units operating on natural gas and the installation of gas clothes dryers during the refurbishment of living-in accommodation blocks at Gallipoli Barracks in Brisbane. Solar energy was also integrated into existing services during a pool heating upgrade incorporating solar arrays at Randwick Barracks in Sydney, and the Australian Defence Force Academy upgraded to solar hot water systems in living-in accommodation.

STEWARDSHIP

Procurement and acquisition

Ecologically sustainable development policy

Defence has been actively considering how it can develop and implement an overarching ecologically sustainable development policy that will adequately cover the range of diverse activities it conducts as well as ensuring current decisions and policies do not unduly impair economic, social and environmental outcomes in the future. For example, as pilot projects, Defence has been considering how it can achieve ecologically sustainable outcomes during the acquisition of major defence materiel such as the Armidale-class patrol boats project and the potential to procure 'green' ammunition.

Green procurement

The environmental chapter of the Defence Procurement Policy Manual was revised in 2002-03 to include further guidance to Defence purchasing officers on environmental considerations in the procurement of goods and services.

In early 2003, Defence also circulated a draft Commonwealth Environmental Purchasing Guide and checklists from Environment Australia to all Defence Groups and Services and promoted the guide to raise further awareness of the importance of purchasing 'green' throughout Defence.

Defence Environmental Panel

Since its establishment in 2000, the Defence Environmental Panel has provided support to Defence at both the corporate and regional levels. Tasks undertaken at a corporate level included impact assessments, management plans, contaminated site assessments, due diligence reporting and environmental management system implementation. Regionally, the panel has been engaged in areas such as environmental planning, environmental monitoring and the preparation of documentation for impact assessment processes under the *Environment Protection and Biodiversity Conservation Act 1999*. During the period August 2002 to April 2003, the panel completed work to the value of \$10.0m. Details of the projects carried out by the current environmental panel since its commencement in September 2000 are outlined in Table 3.11.

**TABLE 3.1 1: DEFENCE ENVIRONMENTAL PANEL PROJECTS
SEPTEMBER 2000 – APRIL 2003⁽¹⁾**

CATEGORY	NUMBER	VALUE \$M
Statutory review	55	1.747
Environmental consultancy	151	5.207
Environmental management system	26	0.931
Assessment	155	4.644
Environmental planning	99	4.109
Monitoring	79	3.464
Audit	34	0.589
Asbestos	50	0.807
Heritage	48	1.107
Environmental works	81	2.479
Works management	22	1.213
Other	22	0.494
Total	822	26.791

NOTE

1. Statistics are calculated every three months.

A new Environment and Heritage Panel will replace the Defence Environmental Panel in early 2004. The new panel will have an expanded focus to include overt recognition of heritage to reflect the increasing significance of heritage management issues in Defence.

Infrastructure development and support**Ecologically sustainable development in infrastructure**

Defence is developing guidelines to provide more specific and technical guidance for infrastructure planners and other key stakeholders within Defence Groups and outlining performance measurements, targets and management practices. These guidelines will be implemented in 2003-04.

Two web-based training modules have been developed to provide basic awareness of ecologically sustainable development to Defence members. The first module explores the fundamentals of ecologically sustainable development and the second module discusses ecologically sustainable development in the built environment. It is anticipated that these modules will begin in 2003-04.

Green Building Council

Defence became a founding board member of the Green Building Council of Australia in October 2002. Council membership has facilitated greater understanding of the linkages between Defence facilities development and sustainable development principles.

The council provides a useful means for Defence to remain up to date on industry trends regarding 'green' buildings, as well as providing a vehicle for advancing the acceptance of ecologically sustainable development in the construction industry. Coupled with Defence's large investment portfolio, this is helping to persuade

industry to consider 'greener' options, thereby improving the environmental quality of products and services available to Defence.

Ecologically sustainable development in business processes

Defence efforts to achieve ecologically sustainable development are assisted by the incorporation of ecologically sustainable development principles into key business processes, including in the revised Defence suite of contracts and the infrastructure asset development approval process. Ecologically sustainable development is identified in the earliest stages of planning, design and disposal in order to realise real costs and identify innovation for long-term environmental, economic and social benefits. Specific examples in 2002-03 include:

- developers at RAAF Townsville and Oakey conducting a 'Subcontractor of the Month' award that encourages subcontractors to incorporate ecologically sustainable development into their business practices;
- the first stage of the redevelopment at RAAF Williamstown, which is expected to achieve a 4.5 star Sustainable Energy Development Authority rating; and
- the design of the Army Headquarters Training Command at Victoria Barracks in Sydney, which demonstrates good ecologically sustainable development principles by incorporating such features as natural ventilation, natural lighting, energy efficiency and heritage considerations. The building recently received an architecture award and an ecologically sustainable development award for the use of a 'mixed mode' of ventilation and air-conditioning.

Stakeholder management

Administration of legislation

Legislation administered by Defence generally relates to internal management and administration of the Defence organisation. The *Explosives Act 1961* was one exception identified. Defence demonstrates consideration of ecologically sustainable development in the administration of this Act through the continued application of the Handling of Explosive Ordnance Manual, which covers the transport, disposal, use and storage of explosives. The manual incorporates environmental considerations in the handling of explosives.

Defence is undertaking many initiatives which will facilitate the consideration of ecologically sustainable development in all Defence activities, including the administration of legislation. In particular, an updated Defence Instruction (General) on Environmental and Heritage Management in Defence is being developed under section 9A of the *Defence Act 1903*. This proposed instruction will provide guidance to Defence personnel on meeting their environmental obligations and will reflect the principles of ecologically sustainable development.

Training and awareness

In 2001-02, the Defence environmental education strategy was developed to ensure Defence personnel were aware of their obligations under the *Environment Protection and Biodiversity Conservation Act 1999*. One aspect of this strategy was an environmental awareness training program, which began in 2001-02 and continued throughout 2002-03.

In 2002-03, environmental awareness training was delivered to a wide range of staff throughout Defence. A sample of 28 key Defence sites revealed that up to 80 per cent of Defence personnel has been exposed to environmental awareness training in the last twelve months. Presentations were delivered to specific central office divisions in Defence, including approximately 120 staff in Infrastructure Division of the Corporate Services and Infrastructure Group, with other divisions targeted for 2003-04. Training was also carried out in the regions which focused on commanding officers, managers and contractors, and the training program will continue in accordance with the environmental management system roll-out.

Training modules have been updated to reflect the changes and improvements to Defence structures, instructions and business practices. The on-line environmental awareness training module continues to operate on the Defence intranet. The environment and heritage internet website also provides Defence staff and the general public with up-to-date information on Defence environmental policies and programs.

Public environment report

Defence released its first public environment report in September 2003. The aim of the report is to communicate to the public, and Defence personnel, the organisation's environmental performance in terms of its major achievements in environmental management.

The report captures key environmental issues and challenges, as well as initiatives and achievements.

Business practices

Strategic-level engagement

The Defence Infrastructure Sub-Committee comprises senior executive representatives from across Defence. The sub-committee's focus is on the development of Defence's enabling infrastructure and related services. The new infrastructure asset development approval process will ensure that all infrastructure investment proposals presented to the sub-committee have comprehensively considered whole-of-life issues, including environment, heritage and ecologically sustainable development.

The Defence Environmental Management Forum was established in November 2002, comprising managers from Defence Groups and Services who meet at least once a year to provide senior level review, coordination and direction of Defence's performance in implementing environmental management across Defence.

Risk management

During 2002-03, a Directorate of Risk Management was established to support the introduction of a more structured and coordinated approach to environmental and infrastructure risk management in Defence.

The Directorate provides advice, system and process support to Defence on the application of risk analysis and risk management for asset development proposals and projects, property disposals, environmental and heritage planning and stewardship. Developments included:

- an environmental risk management framework to better integrate, manage and monitor Defence’s environmental risks; and
- an environmental risk tool to facilitate identification, analysis, evaluation and treatment of environmental risks on a site-by-site basis or through thematic environmental reviews.

Work is continuing to further align and integrate the environmental risk management framework with the Defence environmental management system and performance reporting framework.

Environmental risk management has been integrated into the infrastructure asset development and approval process introduced in 2002-03. The process ensures that environmental risks are considered at every phase of asset procurement, from conception to disposal.

Incident reporting

During 2002-03, a review of environmental incident reporting in Defence was conducted, identifying the need to improve reporting, reduce double handling of information, and provide feedback and continuous improvement capabilities. A new environmental incident reporting system was also developed, incorporating linked databases at the site, region and national levels. The system will be piloted at three sites in September 2003 and then rolled out to other Defence sites during 2003-04.

The table below summarises the incidents reported during 2002-03.

TABLE 3.12: NUMBER OF ENVIRONMENTAL INCIDENTS REPORTED IN 2002-03

CATEGORY	NO. OF INCIDENTS
Emissions	3
Interaction with Flora and Fauna	8
Accidental Release/Leaks and Spills	11
Disturbance	3
Interaction with Heritage	1
Total	26

Defence Environmental Management System

Defence developed the Defence environmental management system to manage its environmental risks and to sustain the future capability of the ADF through continued access to quality training areas and facilities across Australia.

The system is modelled on the international standard ISO 14001, the most widely accepted international standard for environmental management systems. The system covers the entire Defence organisation by incorporating environmental management

into the business of Defence and is integrated into all levels. This ensures consistent application of environmental management across the organisation and allows for environmental values and sound environmental practices to be integrated into Defence business processes and day-to-day management.

Government policy required all departments and agencies to have a corporate environmental management system in place by December 2002. In addition, a large site had to be certified to the ISO 14001 standard by December 2003. Defence has achieved the first requirement. An independent audit concluded that the Defence system documentation met the requirements of the standard. Defence is on track to achieve the second objective, with RAAF Townsville and Puckapunyal Military Area progressing towards site certification by December 2003.

During the year, Defence invested approximately \$840,000 on development and implementation of the system, including diagnostic tools.

In 2002-03, the following progress was made in implementing the system across Defence:

- A number of Defence Groups and Services were targeted for integration of the Defence system into their business at headquarters level.
- 18 sites began implementing the Defence system, with a further 12 sites scheduled to begin this process in 2003-04.

Eighteen environmental management plans and 12 partial environmental management plans were developed prior to implementation of the system.

With system implementation, environmental management plans are gradually being phased out. The Defence system builds on the environmental management work previously undertaken through these plans.

Environmental Performance Reporting Framework

The environmental performance reporting framework has been developed as a response to requirements within the Defence environmental management system, and Defence environmental policy objective five: 'Measuring and reporting environmental performance as a part of a process of continuous improvement.'²

The intention of the framework is to monitor, measure, report and improve Defence's management of the environment. Long-term benefits of the framework include:

- sustainability for capability, specifically longevity of use of training areas through sound environmental management;
- increased savings through greater efficiency and proactive environmental management;
- active environmental management review leading to further improvement;

² Defence's environmental policy objectives are listed on page 227 of the *Defence Annual Report 2001-02*.

- greater transparency in environmental performance, including meeting legislative and policy obligations; and
- strengthened stakeholder relationships, both internal and external.

Since the start of a pilot program in August 2002, 28 key Defence sites have been participating in an 18-month trial. Performance against over 70 environmental indicators is collected from the pilot sites each quarter. The results are aggregated into ten key issue objectives and presented as an environmental 'balanced scorecard' for each site. A straightforward red-amber-green traffic light scoring system is used to represent environmental performance against the ten key issue objectives.

At present, the environmental performance results are being utilised at the site level to influence changes in environmental management on a site-by-site basis. Results are also being used to drive environmental policy changes more centrally.

In time, more strategic environmental performance indicators will be developed for use within Defence Groups and for whole-of-Defence performance monitoring. The roll-out of the framework will be a unique achievement for Defence.

Heritage Management

The Defence Heritage Management Section was established in 2000-01 to oversee administration of more than 200 Defence sites listed on the Register of the National Estate and several properties influenced by World Heritage Listings.

In 2002-03, the section defined clear objectives to assist with the task of managing Defence heritage. Broadly, the objectives focused on the development of management support systems, ensuring adequate resources, guidance and training is available in support of heritage management, and strengthening relationships with heritage-related government departments and industry leaders.

Key achievements in 2002-03 against these objectives included:

- development of the Defence Heritage Asset Register to provide information on all Defence owned or controlled heritage assets listed on Commonwealth or state registers;
- financial and technical support for the development of heritage management plans at various sites including RAAF Richmond (NSW), HMAS Creswell (NSW) and Harold E Holt Naval Base (WA);
- assisting in ensuring heritage values were considered and cared for during the disposals of Pt Cook and Pt Nepean (Vic), and other property disposals;
- increasing awareness of Defence's heritage by developing a Defence heritage calendar and establishment of the Defence Heritage website, www.defence.gov.au/environment/heritage;
- developing tools, information and resources for managers of heritage;
- providing funding and technical support for the development of a concept study for the Kokoda Barracks (Sth Qld) visitor centre and museum to help tell the valuable story of our military heritage at that site;

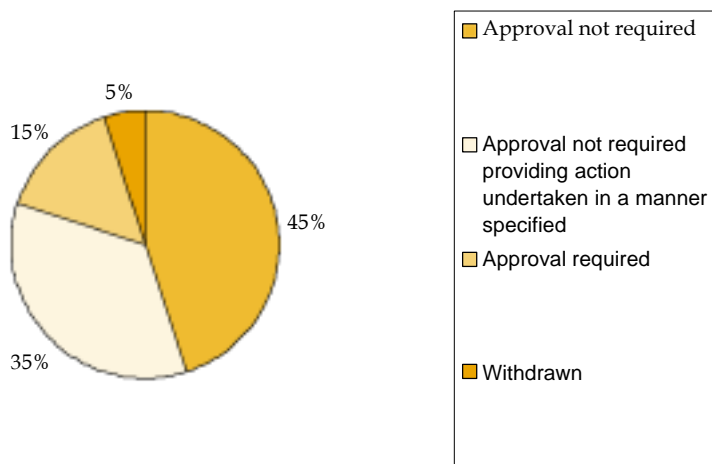
- development of a concept paper identifying ways to promote and increase access to Defence heritage for the Australian public; and
- in consultation with the ‘heritage industry’, development of heritage documentation for Defence that is as meaningful and usable as possible.

Environmental Accountability

The environmental accountability framework establishes clear lines of responsibility to meet Defence environmental management objectives across its major bases and sites. The accountability framework reflects the need for Defence to meet its obligations under the *Environment Protection and Biodiversity Conservation Act 1999*.

Under the Act, Defence is obliged to consult with the Department of Environment and Heritage through a formal legislative process to ensure that any of its activities that will have, or are likely to have, a significant impact on the environment, only proceed with the approval of the Minister for Environment and Heritage. In the period July 2000 to June 2003, Defence formally referred 20 actions to the Minister for Environment and Heritage for approval. The break-up of his determinations is shown in Chart 3.3.

CHART 3.3: DEFENCE REFERRALS UNDER THE ENVIRONMENTAL PROTECTION AND BIODIVERSITY CONSERVATION ACT JULY 2000 – JUNE 2003



During 2002-03, Defence referred eight actions, listed in the table below:

TABLE 3.13: DEFENCE REFERRALS IN 2002-03

REFERRAL TITLE	REF NO	DATE	DECISION / DETERMINATION	STATUS OF REFERRED ACTION
Royal Australian Navy, Evans Head Site A and Tasman Sea off Broken Bay NSW. Navy mine countermeasures training.	2002/812	25 September 2002	Approval not required, providing activities involving detonation of explosives are not undertaken during peak whale migration periods and measures to minimise risks to whales, as outlined in the final environment management plan, are implemented.	Environmental management plan under development as part of the environmental management plan for Australian maritime exercise areas.
Kingsford NSW, Defence land subdivision and redevelopment.	2002/852	6 November 2002	Approval not required, providing measures are implemented to protect areas of eastern suburbs Banksia scrub ecological community.	Eastern suburbs Banksia scrub has been fenced for protection from infrastructure work such as roads and drainage. Other areas have been remediated for further construction and future sale.
RAAF Richmond, Mobile Engine Test Stand replacement.	2002/882	27 November 2002	Approval is not required	The project has not yet started as other options for engine maintenance are being investigated.
Shoalwater Bay training area, RAAF Scherger, Townsville field training area and the Coral Sea, Qld, Crocodile 03 military training exercise.	2002/888	29 November 2002	Approval was required. Environment Australia to assess environmental impacts of the exercise using preliminary information provided by Defence.	Exercise Crocodile 03 commenced in August 2003.

REFERRAL TITLE	REF NO	DATE	DECISION / DETERMINATION	STATUS OF REFERRED ACTION
Establishment of eleven 'Sneaker' ranges in the Jarra Creek and impact sectors of the Tully training area, Qld.	2002/896	16 December 2002	Approval not required, providing undertaken in accordance with mitigation measures described in referral.	Defence is now assessing the project on safety issues including the position of the range.
Randwick, NSW. Undertaking fire protection measures for the bushland regeneration of the Randwick environmental park.	2003/959	17 February 2003	Approval not required.	All fire protection measures are now complete.
Sale or lease of Commonwealth property, Mornington Peninsula Vic, divestment of Norris Barracks.	2003/963	20 February 2003	Approval not required.	The Minister for Defence will consider a short list of interested purchasers.
Portsea, Vic Controlled burn, understorey clearance and removal of unexploded ordnance.	2003/1030	16 April 2003	Approval not required, providing Defence submits a final fire management plan and weed management plan to Environment Australia.	Fire and weed management plans are in preparation.

One project, consideration of the introduction of the Hawk Lead-in-Fighter at RAAF Williamstown and Salt Ash Air Weapons Range, completed its assessment under transitional provisions introduced under the *Environment Protection and Biodiversity Conservation Act 1999*. This project commenced assessments under the now repealed Environment Protection (Impact of Proposals) Act of 1975. The Minister for Environment and Heritage provided his recommendations to Defence during the second quarter of 2002-03. As at 30 June, the recommendations were with the Minister for Defence for consideration.

Defence continues to use environmental clearance certificates as mechanisms to impose environmental mitigation measures where activities are unlikely to have a significant impact on the environment, but some degree of environmental

management is still required. The certificates are issued by Defence environmental managers for a wide range of environmental activities, including:

- general work (for example, building and range construction/demolition, fire management, wash-down facilities);
- Army, Navy and Air Force exercises (from driver training to underwater demolitions); and
- foreign force activities (Australian/international combined).

Environmental obligations are also written into standard operating procedures for routine activities and environmental management plans developed for training areas and bases.

ADMINISTRATION OF COMMONWEALTH POLICY ON THE MANAGEMENT OF LAND AFFECTED BY UNEXPLODED ORDNANCE

Defence continues to provide advice to Commonwealth, state, territory and local government authorities on the policy, commercial and technical aspects of unexploded ordnance management. A summary of the Defence unexploded ordnance program is set out below, including an outline of public awareness activities, the relationship with private firms operating in the unexploded ordnance field and the main areas of activity in Queensland, New South Wales, Western Australia and on Defence property.

The Defence register includes over 1,100 sites that are potentially affected by unexploded ordnance, more than 300 of which pose significant hazard levels. Of this number, the Commonwealth occupies or controls only approximately ten per cent, with the balance controlled by states, territories, local authorities and private land holders. The focus of Defence's activities is to gather and disseminate information that will assist in the safe management of land that may be affected by unexploded ordnance. The risk categorisation of a number of sites is being reassessed and refined as part of the development of an unexploded ordnance risk assessment model. Two categories of risk, which trigger appropriate advices for land management and planning authorities, have been identified for land used for military purposes that may have resulted in unexploded ordnance contamination. These categories are:

- significant or substantial unexploded ordnance risk where unexploded ordnance assessment and/or remediation should occur before a change in land use; and
- minor or slight unexploded ordnance risk that only requires warning to occupiers and workers on the land that residual unexploded ordnance may be present.

Defence estimates that it will take in the order of ten years to complete a national program of detailed assessments of unexploded ordnance sites categorised as significant. The significance of sites and their relative priority would be based primarily on the magnitude of human exposure determined through the application of the risk assessment model and through consultations with the states and territories.

Full-page unexploded ordnance warnings were placed in police child safety handbooks in all states as a means to increase public awareness of unexploded ordnance hazards. In Queensland, additional public awareness activities were undertaken in areas of higher risk.

One unexploded ordnance related injury occurred in 2002-03. A civilian suffered minor injuries by following an unexploded ordnance remediation task at Puckapunyal, Victoria when an item of ammunition malfunctioned in a scrap metal yard in Melbourne.

The Defence Unexploded Ordnance Panel, which comprises private unexploded ordnance contractors and consultants, continues to provide an efficient and effective means to deliver Defence-sponsored investigative surveys and remediation projects. The panel arrangement facilitates the commercial and technical relationship between Defence and the unexploded ordnance industry. The first Defence unexploded ordnance forum, a venue for review of panel members' activities and the administration of the panel, was conducted in November 2002. A significant outcome was the further development of an unexploded ordnance risk assessment model for the screening of sites, by which ordnance assessment and remediation tasks can be prioritised.

In Queensland, assessments were finalised on 12 sites within five affected regions, the Atherton Tableland, Cairns, Innisfail, Mission Beach and Miles. Local government area-based assessment reports were prepared for seven local government areas - Caloundra, Noosa, Cairns, Johnstone, Maroochy, Murilla and Pine Rivers. A further report was prepared on the Cooloola National Park.

The identification by Defence of a substantial unexploded ordnance contamination site at Tinaroo in north Queensland led to the pre-development remediation of the site. This remediation removed some hundreds of potentially hazardous items, including chemical unexploded ordnance, from the proposed development site. A public information campaign continues, with north Queensland being targeted. Local newspaper, radio and television all carried unexploded ordnance stories and/or warnings during the year. A review commenced of the memorandum of understanding between Defence and the Queensland Environmental Protection Agency on the management of unexploded ordnance in Queensland. The Queensland unexploded ordnance site assessment project has been extended and final assessments are expected to conclude by the end of 2003. Final reports, by local government authority area, continue to be prepared for the Queensland Environmental Protection Agency.

In New South Wales, a new unexploded ordnance advice mechanism was agreed between Defence and the Land and Property Information Office of the Department of Lands. Using this facility, with information provided by Defence, the New South Wales Government is now able to make available to the public, and particularly those involved in conveyancing, information as to whether a property is potentially affected by unexploded ordnance and recommend measures to minimise any potential resultant hazard. The mechanism enables appropriate advice on unexploded ordnance risk to be attached to land titles. The development of a new unexploded ordnance sites database commenced in 2003 as part of this initiative, which, on completion, will

identify, by real property description, approximately 90 per cent of potentially affected titles.

In Western Australia, the information-sharing agreement with the Fire and Emergency Services Authority of Western Australia Unexploded Ordnance Service continues to work well. Western Australia now requires Defence Unexploded Ordnance Panel accreditation as a prerequisite for unexploded ordnance contractors and consultants to operate in the State and Defence has provided advice and assistance in this area. In 2003, Defence designed and managed the assessment and remediation of the proposed Lancelin to Cervantes road alignment through the World War II Lancelin Range on behalf of Main Roads Western Australia under a cost-recovery arrangement.

In respect to Defence property, the initiative to progressively remediate training areas of unexploded ordnance and explosive ordnance waste continues to develop. In 2002-03, contracts were let at Salt Ash, Holsworthy, Marrangaroo (near Lithgow) and Singleton in New South Wales, Mount Bunday in the Northern Territory, Wide Bay and Greenbank in Queensland and Puckapunyal in Victoria.

FREEDOM OF INFORMATION

Section 8 of the *Freedom of Information Act 1982* (the FOI Act) requires each Australian Government agency to publish information about the way it is organised, its functions, the decision-making and other powers that affect the public, arrangements for public participation in the work of the agency, and the categories of documents that are held by the agency and how the public can obtain access to them.

Information about the structure of Defence can be found in Chapter One of this report. The remainder of the information required to be published in the annual report is set out below.

In addition to the requirements of the FOI Act, other less formal avenues exist for gaining access to information from Defence. Examples of information available from Defence are included later in this section. Contact points for inquiries are located in all states and territories and can be found in current telephone directories under the Department of Defence.

FREEDOM OF INFORMATION PROCEDURES AND CONTACT POINTS

A request for access to documents under the FOI Act must be made in writing and provide such information concerning the documents as is reasonably necessary to enable a responsible officer of Defence to identify them. The request has to be accompanied by a \$30 application fee and should include a telephone number and a return address at which the applicant can be contacted. In some cases, a fee may not be required or may be remitted by the department. Requests may be sent by post or delivered to an officer of the department at the address of the central office (in Canberra, see below), or any regional office of the department specified in a current telephone directory. The following address is preferable:

Freedom of Information Directorate

The Defence Legal Service

RG Casey Building (RGC-2-058)

Department of Defence

CANBERRA ACT 2600

Advice about making a request under the FOI Act may be obtained by telephoning the directorate on (02) 6266 8860 or (02) 6266 8855, by facsimile on (02) 6266 8857 or by email to FOI.enquiries@defence.gov.au. Applicants seeking access to documents may be liable to pay charges at rates prescribed by the Freedom of Information (Fees and Charges) Regulations.

AUTHORISED FREEDOM OF INFORMATION DECISION MAKERS

The authority to disclose documents or to refuse requests for access to documents is held widely throughout Defence and the ADF at director level (Executive Level 2 and Colonel or equivalent rank) and above.

Authority to make decisions of other kinds under the Freedom of Information legislation, eg the power to impose charges on applicants, has also been delegated to appropriate officers. Details can be obtained from the Freedom of Information Directorate, see address and contact numbers above.

DECISION-MAKING AND OTHER POWERS AFFECTING MEMBERS OF THE PUBLIC

It should be noted that many powers invested in the specific positions described in this section may be delegated formally to subordinate officers.

COMMANDER AUSTRALIAN THEATRE

May make decisions relating to the planning and conduct of campaigns, operations and other activities to achieve national objectives within Australia and overseas; may make decisions regarding the planning and conduct of combined and joint training activities and major exercises at the operational and tactical levels; and oversees the provision of Defence assistance to the civil community at the operational level.

CHIEF OF NAVY, CHIEF OF ARMY AND CHIEF OF AIR FORCE

May exercise powers to prescribe conditions for entry or re-entry, however described (eg appointment, re-appointment, recruitment, enlistment, re-enlistment, engagement, re-engagement), to their respective Service; place names of officers and former officers on the retired list; grant to officers on the retired list military title or rank and authorise such persons to wear uniform and insignia; determine appointments in respect of cadets; approve the provision of Defence assistance to the civil community; authorise the use of words and letters protected under the Defence (Prohibited Words and Letters) Regulations; approve the wearing, manufacture or supply of protected Service emblems, crests and flags; determine who should be employed, reside or stay in a Service establishment; approve the possession, sale, supply and consumption of intoxicating liquor at gatherings of Service members and their guests; declare an area in or adjacent to Australia to be a firing or practice area; and grant licences to trade in an establishment of their respective Service.

MARITIME COMMANDER AUSTRALIA

May make decisions relating to public access to naval ships and military (Navy) areas; may provide assistance to civilian authorities in disaster relief or rescue situations; may make public comment in relation to visiting naval forces or ships; convenes courts martial which may involve the summoning of civilian witnesses; and provides Defence assistance to the civil community when not managed by the commanding officer of the area.

COMMANDER AUSTRALIAN NAVY SYSTEMS COMMAND

May make decisions relating to public access to naval establishments and military (Navy) areas; may provide assistance to civilian authorities in disaster relief or rescue situations; may make public comment in relation to visiting naval forces or ships; convenes Navy courts martial which may involve the summoning of civilian witnesses; and provides Defence assistance to the civil community when not managed by the commanding officer of the area.

DIRECTOR-GENERAL NAVY PERSONNEL AND TRAINING

May authorise the release of serving and former Navy members' military records.

LAND COMMANDER AUSTRALIA

May make decisions relating to public access to military (Army) areas; select private, state or Commonwealth property for training exercises; provide Defence assistance to the civil community; may release Army personnel information; may approve local hire or lease of Army property; and may impose constraints on Army personnel which impinge on public enterprise.

COMMANDER TRAINING COMMAND - ARMY

May authorise the provision of Defence assistance to the civil community by any of the schools, colleges or training establishments within the Command; and may release information from the records of any member and ex-member who has undergone training by the Command.

AIR COMMANDER AUSTRALIA

May summon civilian witnesses to attend Air Force courts martial; and provide Defence assistance to the civil community.

CHIEF FINANCE OFFICER

May provide instructions to legal providers on the Defence Legal Panel on the settlement of claims against the Commonwealth; declare surplus land, buildings, or land and buildings for disposal; approve exemptions and variations to application of interest on debt repayments; determine rates and charges for all supplies and services provided by Defence; delegate authority to waive the full cost recovery for supplies and services provided by Defence; write off public money; delegate authority to issue a drawing right to make a payment of public money for a specific purpose and/or request the debiting of an amount against a particular appropriation and delegate authority to revoke or amend a drawing right; enter into agreements with any bank for the receipt, custody, payment or transmission of public money, or for other matters relating to the conduct of the Australian Government's banking business; and open and maintain official bank accounts in accordance with agreements under Section 9 of the *Financial Management and Accountability Act 1997* and/or request a local bank to provide an encashment facility.

DIRECTOR DEFENCE FORCE PSYCHOLOGY ORGANISATION

May allow the release of information from individual psychological records.

DIRECTOR-GENERAL CAREER MANAGEMENT POLICY

May authorise the release of serving and former members' honours and awards histories.

DIRECTOR-GENERAL DEFENCE HEALTH SERVICE

May authorise the release of serving and former members' medical and dental records.

DIRECTOR SOCIAL WORK AND CLIENT SERVICES

May authorise the release of individuals' confidential counselling records to those individuals concerned.

HEAD PUBLIC AFFAIRS AND CORPORATE COMMUNICATION

Has the authority to issue invitations to register interest and requests for tender; evaluate tenders; and recommend source selection in relation to contracts for the provision of public affairs and corporate communication services for Defence.

UNDER SECRETARY DEFENCE MATERIEL

May determine methods of procurement and approve contracts for major capital equipment and through-life support requirements.

COMMANDER JOINT LOGISTICS

May issue invitations to register interest and requests for tender; and evaluate tenders and recommend source selection.

HEADS OF MARITIME SYSTEMS, LAND SYSTEMS, AEROSPACE SYSTEMS, ELECTRONIC SYSTEMS, MANAGEMENT INFORMATION SYSTEMS AND AIRBORNE SURVEILLANCE AND CONTROL DIVISIONS

May issue invitations to register interest and requests for tender; evaluate tenders; and recommend source selection for major and minor capital equipment. In specific cases, they have the authority to determine the method of procurement and approve major and minor capital equipment contracts.

HEAD INDUSTRY DIVISION

May issue approvals for the export of certain defence equipment and goods with dual civil and military applications; and accept tenders and recommendations about quotations for the purchase of supplies and services.

HEAD NATIONAL OPERATIONS DIVISION

May provide Defence assistance to the civil community; control public access to military areas; approve the loan, hire or purchase of defence stores and equipment and, in defined cases, determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders and recommend or approve sourcing; approve contracts and the purchase of supplies and services; and grant remission of fees and impose charges payable under the freedom of information legislation.

In accordance with an arrangement made between Defence and the National Archives of Australia pursuant to section 35 of the *Archives Act 1983*, the Director Classified Historical Records Review provides advice to the Director-General National Archives of Australia and the Director of Australian War Memorial specifying which matter, if any, contained in Defence historical records is considered to be exempt under sections 33(1)(a) and (b) of the Act.

HEAD INFRASTRUCTURE DIVISION

May determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; approve contracts for capital facilities, property transactions, and the purchase of services; and has the responsibility for environmental issues within Defence.

Head Infrastructure has the delegated authority for implementation of Defence (Areas Control) Regulations which are made under the *Defence Act 1903* and to give the legal basis for restrictions to be placed by Defence on the height of buildings and other structures and introduced objects, such as trees, in the vicinity of Defence airfields and related facilities.

HEAD INFORMATION SYSTEMS

May determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; and approve contracts.

CHIEF INFORMATION OFFICER

May determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; and approve contracts.

ARRANGEMENTS FOR OUTSIDE PARTICIPATION

AUSTRALIAN DEFENCE HUMAN RESEARCH ETHICS COMMITTEE

The Committee's mission is to promote and encourage ethical health research in the military context, with responsibility for the review and monitoring of all human research in Defence. It is structured in accordance with the National Health and Medical Research Council's national statement on ethical conduct in research involving human participants and comprises, at the minimum, the following:

- a chairperson;
- at least one member who is a lay man and one member who is a lay woman who have no affiliation with Defence, are not currently involved in medical scientific or legal work;
- at least one member with knowledge of, and current experience in, the areas of research that are regularly considered by the committee;
- at least one member with knowledge of, and current experience in, the professional care, counselling or treatment of people;

- at least one member who is a minister of religion or a person who performs a similar role in a community, such as an aboriginal elder;
- at least one member who is a lawyer;
- two health graduates from Defence (at least one being a medical graduate); and
- a secretary, being a staff officer nominated by the Director General Defence Health Service.

CITIZENS IN SUPPORT OF RESERVE FORCES (TRUST) FUND

The Fund was established through a trust deed. In recent times, the work of the trust has been almost exclusively to provide financial support for the Prince of Wales Award. There are four external trustees.

COMMERCIAL SUPPORT CONSULTATIVE FORUM

This is a forum between Defence, industry and unions for the discussion of ideas and the cooperative resolution of issues related to the broader Defence commercial support activities, including initiatives such as market testing and private financing.

DEFENCE FAMILIES ASSOCIATION

The Association was established in 1987 with the purpose of improving the quality of life for Service families by providing them with a forum for expressing their views, for reporting and making recommendations to the Chief of the Defence Force, and for influencing policy affecting Service families.

DEFENCE HEALTH CONSULTATIVE GROUP

The role of the Group is to establish, at a senior level, formal liaison between Defence and appropriate civilian authorities and to provide advice on major professional health matters of relevance to Defence. The group comprises the Surgeon General ADF, Director-General Defence Health Service and representatives from other departments and professional bodies, including the Australian Medical and Dental Associations and the Royal College of Nursing Australia.

DEFENCE RESERVES SUPPORT COUNCIL

The Council aims to promote the benefits of Reserve service to the community. As well as spreading the word informally about Reserve service, it sponsors a number of specific activities to encourage business support.

ENVIRONMENTAL ADVISORY COMMITTEES

These Committees provide advice on environmental matters relating to Defence areas including Shoalwater Bay Training Area (Qld); Garden Island (WA); Greenbank Training Area and Wide Bay Training Area (Qld); and Mount Bundy Training Area and Bradshaw Field Training Area (NT). The Committees consist of representatives from Defence, the local community and business organisations.

NATIONAL WORKPLACE RELATIONS COMMITTEE

The Committee, established under the *Defence Employees Certified Agreement 2000-01*, and reaffirmed under the *Defence Employees Certified Agreement 2002-03*, continues to

deal with a wide range of employment matters affecting Defence civilian employees. It involves representatives of departmental employees who may be union members.

ROYAL AUSTRALIAN AIR FORCE VETERANS TRUST

The Trust's purpose is to provide residences so that former members of the RAAF and their dependants in circumstances of need can be accommodated and supported. There are three external members of the trust with previous Air Force service or private industry experience.

WOOMERA CONSULTATIVE COMMITTEE

The Committee advises Defence on matters relating to the management of Woomera (SA) and includes representatives from Defence and the Woomera Board, which comprises appointed and elected residents of Woomera.

CATEGORIES OF DOCUMENTS MAINTAINED

DOCUMENTS AVAILABLE AS PART OF A PUBLIC REGISTER AND SUBJECT TO A FEE OR OTHER CHARGE

- Oceanographic data (copies of original survey documents, and hydrographic and oceanographic data held by the Navy on computer file).

DOCUMENTS AVAILABLE FOR PURCHASE BY THE PUBLIC

- Annual flying safety calendar, aeronautical maps and charts, supplements and planning documents, and aerial photographs.
- Defence cataloguing handbooks and information.
- Defence annual report and the Defence portfolio budget and additional estimates statements (and available in electronic form on the Defence website).
- Draft and final environmental impact statements (held by, and available from, Corporate Services and Infrastructure Group).
- Commercial Support Program Manual.
- Journals and magazines published by Service colleges and schools.
- Procurement manuals and guidelines produced by the Defence Materiel Organisation (available for purchase in hard copy or free through the Defence Materiel Organisation website at <http://www.defence.gov.au/dmo>)
- Service newspapers (available by annual subscription). The quarterly *Army* magazine can be purchased at newsagents and news outlets.
- Tide tables (Australian national tide tables and navigational charts and publications are available for purchase either through appointed chart agents or direct from the Hydrographic Office in Wollongong by mail order. The address can be found at the end of this section.)

DOCUMENTS FREE OF CHARGE TO THE PUBLIC UPON REQUEST

Defence holds a wide range of such material including, for instance, information on or in the nature of:

- academic calendars and prospectuses for the Service colleges;
- information about the Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme;
- Defence Science and Technology Organisation information and activities, brochures and booklets, research news and industry brief newsletters, selected technical reports, technical and research press releases, videos on projects and lectures given to professional and public institutions;
- flying and ground safety publications (the Air Force makes magazines on these subjects available to some professional organisations);
- notices to mariners (the Navy issues such notices containing hydrographic advice to correct navigational charts and documents and detailed information of exercises and firings);
- a range of booklets and brochures from the Defence Community Organisation;
- recruitment pamphlets, brochures and video media, the 'career explorer' computer software program on ADF career options, and an internet home page on ADF career options;
- organisational material (functional statements, organisation charts and duty statements);
- procurement policy and procedural guides, contract templates and Defence industry statements;
- the infrastructure 'Green Book' provides a list of all approved and unapproved capital facilities projects at <http://www.defence.gov.au/id>;
- general Defence material (pamphlets, brochures, and posters) which is freely available on request or available at Defence exhibitions, launches and open days;
- transcripts of public seminars conducted by Defence;
- speeches by the Ministers and the Parliamentary Secretary;
- technical material (including technical details of obsolete and selected current equipment, unclassified technical reports and Defence (Australia) Standards);
- personnel documentation and records, including medical and psychological records (such records are only released to the subject of the records or to a third party authorised by the subject);
- pamphlets and brochures on graduate programs in Defence for civilians and the civilian graduate careers page on the internet;
- Australian Defence Force Member's Guide to ADF Pay and Conditions of Service, 2002 edition;

- ADF Defence Force Pay and Conditions Manual; and
- the Australian Defence Force Journal.

ELECTRONIC DOCUMENTS

Defence's internet homepage can be found at <http://www.defence.gov.au/>. The site contains material of defence interest to the general public, including departmental media releases and speeches, statutory reports and Service-specific information. Departmental press releases are available by email from the press release service by subscription. Photos of a defence nature are also freely available from the image gallery on site. Ministerial press releases and speeches are linked to the above website.

OTHER DOCUMENTS

The department maintains records in various forms and locations relating to the functions of Defence. Records are retained for varying periods depending on their administrative and historical value and are disposed of in accordance with standards and practices approved by the National Archives of Australia. Some particular categories of documents held are:

- arrangements with other Australian Government agencies and with state and territory governments and agencies;
- accounting records;
- Cabinet documents (including submissions, memoranda, minutes and promulgation of decisions);
- Ministerial submissions and briefing papers;
- committee records;
- conditions of service (including documents relating to compensation other than for personal injury and financial conditions relating to overseas service);
- contractual documents, requests for tender documents and industry study reports;
- departmental instructions, circulars and reference books;
- industrial matters (including agenda and minutes of meetings of various industrial committees and councils, occupational health and safety committees and policy on industrial practices within the department);
- guidelines held in electronic form by the Directorate of Classified Historical Records Review that are used in determining which matter, if any, contained in classified Defence historical records is exempt under sections 33(1)(a) and (b) of the *Archives Act 1983* from public access. New guidelines are created, or existing ones revised or abolished, progressively as the need arises;
- intelligence reports;
- international agreements and arrangements held in a register of agreements;
- personal documentation (for example, recruitment and enlistment, selection for promotion documents and those of a medical and psychological nature);

- press cuttings;
- documents concerning quality assurance;
- technical publications (relating to maintenance of ADF materiel, and drawings, specifications and standards relating to ships, aircraft and other equipment in use); and
- working papers (internal working papers are maintained throughout the organisation on a wide range of policy, technical and administrative subjects).

FACILITIES FOR ACCESSING DOCUMENTS

The following areas within Defence maintain access points at which information about their activities is available:

Defence Science and Technology Organisation

Manager, Defence Science Communications
Defence Science and Technology Organisation
Department of Defence
CANBERRA ACT 2600
Tel: (02) 6265 7914

Public Affairs and Corporate Communication Division

Director General Communication and Public Affairs
Department of Defence
CANBERRA ACT 2600
Tel: (02) 6265 2999

Defence Publishing

Director, Defence Publishing Service
Department of Defence
CANBERRA ACT 2600
Tel: (02) 6266 2056

Hydrographic Office

Locked Bag 8801
WOLLONGONG NSW 2500
Tel: (02) 4221 8612

CHAPTER FOUR

ENABLING BUSINESS PROCESSES

IMPROVEMENT INITIATIVES

COMMERCIAL SUPPORT PROGRAM

**DEFENCE MATERIEL REFORM (INCLUDING
PURCHASING)**

DELIVERING INTERNAL SERVICES

DEFENCE INFORMATION ENVIRONMENT

EXTERNAL CONSULTANTS

**CONTRACTS EXEMPT FROM PUBLICATION IN
THE PURCHASING AND DISPOSAL GAZETTE**

ADVERTISING AND MARKET RESEARCH

IMPROVEMENT INITIATIVES

COMMERCIAL SUPPORT PROGRAM

The Commercial Support Program is Defence's primary mechanism for undertaking competitive tendering and contracting. The program, which began in 1991, aims to ensure that support services are provided to Defence in the most cost-effective manner. Services are contracted out when it is operationally feasible, a viable market exists and industry can demonstrate better value for money.

The Commercial Support Program includes activities that were carried over from the Defence Reform Program, which officially closed on 30 June 2000. Examples are the Defence Integrated Distribution System and ADF Health Services activities.

The *Defence Employees Certified Agreement 2002-2003* facilitates the application of the Commercial Support Program in Defence. The agreement covers all market testing and any other competitive tendering or equivalent processes that may result in the contracting out of a Defence civilian activity.

TABLE 4.1: STATUS OF THE COMMERCIAL SUPPORT PROGRAM AS AT 30 JUNE 2003

CSP evaluation decisions made	120	
Commercial contracts	81	(68%)
In-house options	32	(27%)
Status quo retained	7	(6%)
Number of positions tested	15,935	
Mean projected annual savings⁽¹⁾	31%	
Total value of Commercial Contracts and In-house Options⁽²⁾	\$5,935.4m	

NOTES

1. Savings, values and positions tested are based on information provided at the time of decision announcement.
2. Total value of contracts covers the full term of the contracts.

TABLE 4.2: ACTIVITIES UNDER WAY

ACTIVITY NAME	STATUS
Defence Integrated Distribution System	Preferred contractor announced on 30 July 2003, contract negotiation is continuing
ADF Health Services in Victoria	Contract negotiations ⁽¹⁾
ADF Health Services in Australian Capital Territory and Southern New South Wales	The Commercial Support Program tender evaluation did not recommend a single tenderer, alternative contracting options are being considered to achieve efficiency savings

NOTE

1. Contractor subsequently withdrew from negotiations.

TABLE 4.3: ACTIVITIES TO BE PROGRESSED OR CONSIDERED

ACTIVITY NAME	STATUS
ADF Health Services in Northern Territory	Activity and rationalisation review to be carried out
ADF Health Services in Queensland	Activity and rationalisation review to be carried out
ADF Health Services in South Australia	Activity and rationalisation review to be carried out
ADF Health Services in Sydney/New South Wales Region	Draft activity rationalisation review report pending approval
ADF Health Services in Tasmania	Activity and rationalisation review to be carried out
ADF Health Services in Western Australia	Activity and rationalisation review to be carried out
ADF Rotary Wing Flying Training	Scope under assessment
Anzac Ships - Fully Contracted Integrated Materiel Support	Scope under assessment
FFG Ships - Fully Contracted Integrated Materiel Support	Draft statement of requirement being developed
Information Technology Infrastructure Support Services - Central Office - Deakin ACT	Draft statement of requirement being developed
Navy Technical Training Services	Scope under assessment
Personnel Services (Corporate Services and Infrastructure Group)	Functions being rationalised/restructured
Routine Pathology Services	Scope to be assessed

TABLE 4.4: ACTIVITIES NOT PROCEEDING UNDER THE COMMERCIAL SUPPORT PROGRAM

ACTIVITY NAME	REASON
Army Marine Commercial Support Project	Insufficient generation of savings
Catering and Accommodation Services - Anglesea Barracks Hobart	Activity contracted out on 14 December 2000; too small for commercial support program
Royal Military College Transport Unit	To be included with other garrison support functions when they are reviewed
Amphibious Ships - Fully Contracted Integrated Materiel Support	Aggregation of existing contracts

DEFENCE MATERIEL REFORM

The Defence Materiel Organisation reform plan encompassed three fundamental types - organisational, process and people reforms.

- Organisational reforms, which are well advanced, include the integration of the acquisition and support elements of Defence and improved corporate governance.
- Process reforms, including identifying and adopting best acquisition and asset management practice, including commercial practices where these are appropriate to Defence, and developing strategic relationships with industry.
- People reforms, aimed at creating an environment in which staff are suitably trained, valued and motivated to do their best in a complex work environment that requires an innovative work ethic.

Significant reform was achieved during 2002-03, with further reform options expected to result from the review into Defence acquisition and management in Defence conducted by Mr Malcolm Kinnaird¹.

ORGANISATIONAL REFORMS

WHOLE-OF-LIFE COST-EFFECTIVE MEASURES FOR CAPABILITY OWNERSHIP

The Defence Materiel Organisation now manages capability on a through-life basis. Where appropriate, systems program offices are collocated with Force Element Groups and industry. This is a significant achievement that has resulted in better support to the ADF. The creation and collocation of about 50 system program offices with Force Element Groups and industry is complete and is now a standard business practice of the Defence Materiel Organisation. The report of the recent Senate inquiry into Defence materiel acquisition and management and the Kinnaird review supported the system program office structure.

EFFECTIVE CORPORATE GOVERNANCE

Ten project governance boards provide an assurance mechanism to the Under Secretary Defence Materiel.

IMPROVED QUALITY OF ADVICE

The status of the top 20 projects, as well as projects of concern, are reported on a monthly basis to the Minister and the Defence Committee. The top ten projects, and other significant projects, are reported to the Government every six months.

INQUIRY INTO MATERIEL ACQUISITION AND MANAGEMENT

On 27 March 2003, the Senate Foreign Affairs, Defence and Trade References Committee tabled its report into materiel acquisition and management in Defence. The

¹ The Government announced on 18 September 2003 that it had agreed to broadly accept the recommendations of the Kinnaird review.

committee acknowledged the positive progress that has been made to date and was “broadly confident that the organisational, structural and process reforms being implemented by the Defence Materiel Organisation are providing the disciplined basis necessary to deliver project outcomes on time and within budget”. The committee indicated that further improvements could be made within Defence to improve procurement and Defence industry outcomes.

REVIEW OF MATERIEL ACQUISITION AND MANAGEMENT IN DEFENCE

A separate review of Defence acquisition and management was initiated by the Government to identify further improvements in Defence project management. The review team, led by Mr Malcolm Kinnaird, was to report to the Government early in 2003-04.

PROCESS REFORMS

ENGAGING INDUSTRY SO THAT IT CAN DELIVER CAPABILITY TO THE ADF

The fifth and sixth rounds of company ScoreCards and the second round of 360-degree view ScoreCards were conducted in 2002-03. These scorecards enable the Defence Materiel Organisation and industry to discuss schedule, budget and project management performance in a constructive way.

In June 2003, Defence established the Defence Unsolicited Proposals Gateway as a central point for the receipt and management of unsolicited proposals. Unsolicited innovative proposals are evaluated under the Defence Unsolicited Innovative Proposals Scheme.

The Australian Naval Shipbuilding and Repair Sector Strategic Plan was released by Defence in September 2002 for comment. The Australian Aerospace Sector Strategic Plan and Electronics Systems Sector Plan were released by Defence for consultation in June 2003. The Land and Weapons Systems Sector Strategic Plan is due to be issued by Defence for consultation in 2003-04.

IMPROVING PROCUREMENT AND CONTRACTING

A number of strategies were implemented to reduce the cost of tendering for industry. These included one-on-one consultations, early notification to unsuccessful bidders, and improved function and performance specifications.

Alliance contracting for Defence Materiel Organisation projects continues to be evaluated using the Djimindi alliance and the Anzac ship alliance. The Djimindi alliance involves the acquisition and installation of the MU90 lightweight torpedo into five platforms operated by the ADF. The Anzac ship alliance is a long-term arrangement responsible for managing and delivering changes to the Anzac ships.

New contracting templates were developed. The Strategic Materiel handbook was completed and a sole-source template was released to facilitate complex and strategic sole-source procurements by streamlining the tendering process and reducing the costs of tendering for both Defence and industry.

A new version of the Defence Procurement Policy Manual was released in June 2003 and an interim centralised register for Defence contracts was implemented.

ADOPTING BEST COMMERCIAL PRACTICES CONSISTENT WITH PUBLIC SECTOR ACCOUNTABILITIES

The materiel acquisition and sustainment framework, which provides an integrated set of policies and processes covering project management, performance measurement, systems engineering, software acquisition, logistics support and engineering, was released in May 2003. Further detail on the processes and guidance will be developed and promulgated over the next two years.

The improved project schedule and status reporting project continues to be implemented in systems program offices. It strengthens Defence's project planning, cost and schedule controls.

Risk, safety and software management tools that improve project management continue to be trialled and tested. These tools include practical software and systems measurement, the Capability Maturity Model Integrated (CMMI) and the Australian-sponsored CMMI component (CMMI+Safe). In late 2002, the United States Department of Defense recognised the Defence Materiel Organisation's progress in improving software process and practice by the award of the practical software and systems measurement transition organisation of the year.

Activity-based costing was piloted in 2002. The pilot was discontinued as other initiatives were considered to be more effective. These include the roll-out of the improved project schedule and status reporting project, which has an activity-based costing element, and the Chief Finance Officer's decision-support costing tool project, which establishes the corporate framework for costing the force elements across Defence.

RELIABLY DELIVERING QUALITY SUPPORT TO ADF OPERATIONS AND OUTPUT MANAGERS

The Defence Materiel Organisation successfully supported the ADF in operations in Iraq and Afghanistan. The success was partly due to improvements in the Standard Defence Supply System and rapid acquisition processes, and an update of the joint logistics doctrine.

The Financial Statements Improvement Plan has resulted in improved financial reporting of inventory and assets on the Standard Defence Supply System. It has also generated better business processes for accounting for assets under construction. As part of the plan, additional financial management and accrual accounting training has been conducted and technical standards for financial management competencies promulgated. The plan for 2002-03 has facilitated the transfer of responsibility for the financial reporting of all Defence specialist military equipment to the Defence Materiel Organisation from the three Services. This has enabled improved accounting for these assets as the reporting for each platform is now undertaken in a single location, rather than split across several groups.

Customer service agreements with Corporate Services and Infrastructure Group, the Navy and the Air Force were signed in September 2002, April and July 2003

respectively. Work on an agreement with the Army is in progress. Service-level agreements were negotiated between systems program offices and Force Element Groups.

PEOPLE REFORMS

IMPROVING OUR PEOPLE MANAGEMENT

A suite of career and development guides was released to assist staff in managing their careers. These include the 'People' and 'Individual Skills and Commercial Job Family' guides. The project managers' development program commenced its fifth year and ninety staff participated in 'Quantum', the Defence Materiel Organisation's leadership program.

PURCHASING

CONTRACT REPORTING

Defence reports on contracts in three complementary locations:

- in accordance with Australian Government requirements, eligible Defence contracts valued at \$2,000 or more (including orders placed against standing offers, standing offers that have an expected value of \$2,000 or more and amendments to contracts that are valued at \$2,000 or more) are published on the Gazettal Publishing System;
- in response to the Senate Order for Departmental and Agency Contracts (as amended in June 2003), Defence makes available on its internet website (under the Industry, Business and Contracting link www.defence.gov.au/dmo/id/cic_contracts/cic_contracts.cfm) a list of contracts valued at \$100,000 or over that meet certain criteria; and
- the 'Buying Australia Home Page' (www.defence.gov.au/dmo/buying/) provides a searchable database that enables users to access details on certain contracts entered into by the Defence Materiel Organisation. The database is focused primarily on issues associated with Australian and New Zealand content.

SMALL TO MEDIUM SIZED ENTERPRISES

In 2001-02², Defence reported via the Gazette Publishing System over 87,000 purchase orders valued at \$9b. Over 50,000 purchase orders, valued at \$1.6b (17.7 per cent), were placed with small to medium sized Australian enterprises. The figures do not include purchase orders under \$2,000 or work let to subcontractors. There is no identification of non-Australian small-to-medium size enterprises. It is likely that the information is conservative given the potential for the flow-down of subcontract work to small-to-medium sized enterprises from overseas enterprises and local large enterprises.

² The allocation of gazetted procurements to small-to-medium sized enterprises is conducted annually by the National Office of Information Economy. The office does not expect to have the figures for 2002-03 available until early 2004.

AUSTRALIAN INDUSTRY INVOLVEMENT

The Australian Industry Involvement Program is the major program through which Defence leverages its procurement activity to give effect to Government policy on Australian industry. An Australian National Audit Office audit of the program, released in June in 2003, found it ran well in practice but made recommendations relating to reporting more useful performance information. Defence accepted all six of the Auditor-General's recommendations.

DELIVERING INTERNAL SERVICES

Corporate Services and Infrastructure Group plays a key role supporting Defence capability and Defence people where they work, train and live. With representatives on almost every Defence site around the country, the Group provides necessary products and services to more than 70,000 personnel every day.

The Group is systematically reforming its structure and business processes to economise on resources, while maintaining effective service to the Group's customers.

STRATEGIC PLANNING

A strategic planning capability was established in 2002-03 to deliver strategic planning guidance for the whole Group. This has required a high level of involvement with the higher Defence committee process, ensuring that strategic planning for Group functions occurs against broader Defence capability objectives. The Defence Infrastructure Sub-committee, the Defence Information Environment Committee and the Corporate Services and Infrastructure Group/Service Groups Business Partnering Forum provide key linkages to other Defence Groups, as well as strategic guidance on robust governance processes and assurance mechanisms.

INFRASTRUCTURE

A clear linkage has now been developed between Defence's strategic planning, capital facilities investment and property acquisition and disposal activity.

A key area of process reform in 2002-03 was the capital facilities 'two pass' system planning process. The new process allows more accurate estimates between initial capital facilities project cost estimates, the revised cost estimates, which form the basis of Joint Standing Committee on Public Works approval, and the actual project cost.

Innovations have also been realised through the introduction of business practices to support the funding of new facilities, such as private financing initiatives and the acceleration of the realisation of revenue through the property disposal program.

RISK MANAGEMENT

New governance arrangements were implemented during 2002-03, including the roll-out of a risk management regime across the Infrastructure Division. All activities, including investment, disposal and leasing, are required to have both risk and environmental assessments and management plans.

PROJECT NEXT STEPS

Following the 2001 review of the Corporate Services and Infrastructure Group Business Model, Project Next Steps was created to investigate ways of improving the Group's business processes and organisational arrangements to provide a fully integrated, service delivery organisation focused on the Group's customers.

Through Project Next Steps, the Group has worked towards service integration, with the establishment of twelve regional management positions and single-base management structures. These structures lay the foundations for an integrated 'one-stop shop' service culture at bases, where a significant proportion of the Group's services are delivered.

PRODUCTS AND SERVICES

Product lines are grouped into product categories to promote consistent delivery across all regions. This has enhanced best practice and increased efficiency in providing customer services. Products typically delivered at the national level are being delivered at the regional level to ensure alignment with this model. For example, the Defence Publishing Service was regionalised on 1 July 2003.

INFORMATION SYSTEMS

The Information Systems Division has been restructured, to take effect from 1 July 2003, to emphasise reliability, innovation and to improve customer service. As part of this new restructure developed during 2002-03, the Information Services Branch will deliver all direct information technology services and products, focusing on sustained and reliable service levels. The Development Branch will plan and deliver the future capability, which is operated and managed within the Information Services Branch. The Strategy Branch now incorporates a dedicated customer office, as well as contracting, planning, policy and management cells, which are necessary to ensure sound corporate governance.

The new structure improves integration within the Group, offers a single point of engagement for customers, and ensures a clear delineation between production and development. A strong emphasis on sound business principles ensures cost reductions can be harvested for redeployment to areas of emerging need.

BUSINESS RULES

The Group reviewed its activities conducted in support of the Defence outcome and, as a result, produced the *Corporate Services and Infrastructure Group Product Compendium*. Technical guidance on the delivery of these products and services is provided through business rules. The purpose of these business rules is to ensure transparent and accountable business processes and consistency of delivery. Business rules play a large part in clarifying when delivery staff need to closely follow national guidelines and the direction of national office managers, and when they can exercise discretion and flexibility in delivering products and services.

LEGAL SERVICES

A review of the Defence Legal Service assessed in-house services provided by the Defence Legal Service. The review produced a broad range of recommendations in

2002-03 that will be implemented in 2003-04. These include the establishment of the Defence Legal Service as a single branch, with a specialist legal cell, General Counsel, to clarify accountabilities and introduce a more comprehensive management framework.

TRAVEL

A Defence travel procedures manual was developed in March 2003, followed by subsequent business rules. The manual defines and standardises travel business processes for the whole of Defence, in order to maximise potential benefits and minimise overall costs in the management of Defence's travel contracts.

A further review was completed in June 2003, recommending a number of cost savings initiatives for Defence travel, including the introduction of travel cards and the streamlining of business practices to avoid duplicating some procedures.

TRAINING AREA MANAGEMENT

The Group is continually reviewing its management of training areas, to ensure they will be able to meet future training requirements and that their natural and cultural environmental value is also conserved.

RECORDS MANAGEMENT

The Group continued the implementation of the Defence Records Management System project over 2002-03. The system has been delivered to targeted areas for the creation, storage, retrieval, collaboration, communication and management of corporate information. The Defence Records Management System tracks information independently of its media and manages information about physical and electronic records in all compatible formats.

INDUSTRY ENGAGEMENT

A large proportion of the products and services that Corporate Services and Infrastructure Group provides were delivered by industry, with more than \$1.9b under contract in 2002-03. The large contracts and key providers are shown in Table 4.5, with the contracts' approximate value during 2002-03.

TABLE 4.5: CORPORATE SERVICES AND INFRASTRUCTURE GROUP CONTRACTS FOR 2002-03

SERVICE	VALUE \$M	KEY PROVIDERS
Air travel	140	Qantas
Enterprise commercial off-the-shelf software	25	Microsoft, Oracle, IBM Lotus, Cognos, Veritas
Facilities operations	295	Asset Services, Resolve, Transfield and Defence Maintenance Management
Garrison support	345	Serco Sodexho, Transfield, Eures, BAe, United KG and Tenix
Housing services	340	Defence Housing Authority
Infrastructure investment	353	Walter Construction, Transfield Construction, Thiess, St Hilliers, Multiplex Constructions, Leighton Contractors, John Holland, Hansen Yuncken, Coombs and Barei, Bovis Lend Lease, Baulderstone Hornibrook, Barclay Mowlem and ABI Group
IT&T services	290	Telstra, Hughes and Optus
Property leases	67	United KFPW
Utilities	95	Various electricity and gas suppliers
Vehicle hire	12	Europcar and National Car Rental

DEFENCE INFORMATION ENVIRONMENT

In the Defence White Paper, the Government directed Defence to harness advances in information technology and ensure information capabilities receive proper attention. To meet the Government's requirements, the Chief Information Officer was appointed as the coordinating capability manager for the Defence information environment. The Defence Committee decided that the role of the Chief Information Officer is to establish the strategic direction, governance arrangements and coordinating processes for the development, operation and management of the Defence information environment.

The Defence information environment is a single entity that encompasses intelligence, surveillance, reconnaissance, communications, information warfare, electronic warfare (including self-protection), command and headquarters systems, and management (logistics and business) systems. It involves the aggregation of information, individuals and the systems in Defence that create, collect, process, protect, disseminate or deny this information. The environment also includes interoperability with allies, industry and other government agencies.

In addition to the activities described below, the Chief Information Officer coordinated a wide range of Defence information environment development activities conducted by the Groups and Services. These included improvements in the financial management and reporting system, supply systems, information systems skills training, network centric warfare, and information systems security.

PERFORMANCE SUMMARY

Improvements for 2002-03 focused on business processes and practices, accountability and management arrangements, strategic direction, improving governance and coordination arrangements for the development, operation and management of information environment capabilities, the development of improved systems functionality to overcome current deficiencies and the development of a network-enabled warfare capability.

MITIGATION OF KEY RISKS

The creation of the Office of the Chief Information Officer and the Information Capability Development Branch within Capability Systems Division mitigates the risk that Defence could fail to align the development of its information systems with its enterprise requirements as described by Government.

PERFORMANCE TARGETS

In late November 2002, after the portfolio additional estimates statements were finalised, the Defence Committee agreed new administrative arrangements for the Office of the Chief Information Officer. These were designed to bring greater coherence to capability management of the Defence information environment. In line

with this direction, revised performance targets were set. These revised targets are reported on below.

DEVELOP A COHERENT VISION, STRATEGY AND ARCHITECTURE FOR THE DEFENCE INFORMATION ENVIRONMENT

Substantially Achieved

A coherent vision and strategy for developing the Defence information environment and its components in line with the overall direction set by Government, the Secretary and the Chief of the Defence Force was articulated through the 2003-04 Defence information environment plan. The plan and its supporting processes are maturing incrementally with each release.

A primary vehicle for coordination is the Defence architecture framework. Development of this framework progressed and initial architecture implementations for the Air Force, Policy Guidance and Analysis Division and for the information domain of network centric warfare began.

COORDINATE THE INFORMATION DIRECTION OF THE GROUPS AND SERVICES

Substantially Achieved

Groups and Services are developing supporting plans for the development of their respective information systems. Planning is also under way for the management of specialist areas. For example, the Defence simulation plan was completed and drafting of the Defence spectrum strategic plan is underway.

A corporate information facility is being developed to improve decision support capabilities, particularly in the reporting, analysis and modelling of financial, personnel and materiel data. It aims to provide senior decision-makers in Defence with a tool that will enhance strategic decision making in Defence by developing a central point of access to 'corporate information' that is trusted, authoritative and repeatable. The Chief Information Officer endorsed the corporate information policy in May 2003. A prototype was demonstrated and is being developed.

Planning commenced to improve competencies in the Defence information environment workforce, including the attraction, retention and training of personnel with relevant skills. Ongoing involvement with the development of the Defence workforce plan will ensure that information skill requirements are represented.

The Defence information environment plan was developed by coordinating information on known activities occurring across the Defence information environment. A strategic approach has yet to be taken. A Defence information environment strategy will be developed in 2003-04 and will be used as the basis for future planning.

In addition, a number of Groups and Services continue to develop their plans, which will be necessary to achieve this key performance target.

ENSURE BALANCED INVESTMENT IN THE DEFENCE INFORMATION ENVIRONMENT

Substantially Achieved

Work on improving the acquisition and through-life management of information capabilities centered on corporate enterprise management applications. A study was completed to detail the costs of significant Defence enterprise applications and work is under way to explore mechanisms for funding the investment required for maintaining currency and sustainability.

The Defence information environment plan is developing as a tool for prioritising information capabilities and measuring progress in development.

As identified above, maturity of Defence information environment planning will deliver a more holistic view of investment in the Defence information environment and will enable identification of future investment needed

DEVELOP THE DEFENCE INFORMATION ENVIRONMENT AS A CRITICAL COMPONENT OF FUTURE WAR FIGHTING

Substantially Achieved

Significant effort was expended to assure necessary access to the electromagnetic spectrum, which is a strategic resource for Defence. The development of electronic business capabilities continues. There continue to be improvements in information systems that support enterprise business processes for the management of people, finances, logistics and records.

Significant improvements in coordination have been achieved regarding command support systems development, tactical data links and intelligence support capabilities.

IMPROVE JOINT OPERATIONAL CONCEPTS AND DOCTRINE

Substantially Achieved

The Office of the Chief Information Officer represented Defence in forums which take a national approach to information management issues, such as the National Office of the Information Economy and the Government's Information Management Strategy Committee and its Chief Information Officers' Committee.

Defence continued to maintain and improve critical solutions and relationships for information exchange with allies and partners through involvement in forums and exercises, such as the Joint Warrior Interoperability Demonstration and the Australian and United States Ministerial Interoperability Review Team.

In a related achievement, guiding principles for developing network-centric warfare were issued in April 2003. It summarised the network-centric warfare capstone doctrine, addressing the nature of conflict in the information age, how the ADF can exploit the information domain through network-centric warfare, the implications of that warfare and the pathways for development.

SUPPORT TO OPERATIONAL PLANNING

Substantially Achieved

The Defence information environment working group was established to consider Defence information environment issues affecting operations and the Defence information environment operation risk register was created to collect and assist in treating risk issues affecting operations. Resources were provided to Strategic Operations Division to establish operations-related web sites, particularly in support of Operation Falconer.

ESTABLISH ROBUST GOVERNANCE PROCESSES FOR THE DEFENCE INFORMATION ENVIRONMENT

Substantially Achieved

Implementation began on a governance framework for information management, by establishing agreements with key enterprise business process owners. These owners will improve information assurance by addressing the availability, confidentiality, integrity and accuracy of data.

The enterprise business process owner agreements will be extended to include document records management in 2003-04. An evaluation of the existing Defence information environment governance arrangements will be undertaken in the first half of 2003-04 and implementation of recommendations coming from that review will commence in 2003-04.

The Defence Committee also agreed to the restructuring of the current system of Defence instructions and a recommended implementation process. Documents that support the delegation of authority for the restructure are being developed.

The new system of Defence instructions is expected to be implemented by the end of 2003.

EXTERNAL CONSULTANTS

External consultants investigate assigned problems under limited direction or supervision and provide recommendations or options for improvement. External consultants assist Defence management in decision-making, but do not implement those decisions. Defence contracts consultants for one of the following reasons:

- The specialised skills or service required are not available in Defence.
- The specialised skills or service are not available in Defence in the time frame in which they are required.
- The technology is not available within Defence.

When contracting for a consultant, value for money considerations relate not only to cost, but to the experience and demonstrated capabilities of the consultant; the location of the consultant and the associated travelling costs; the capacity of the consultant's locally-based resources to provide continuing services at levels likely to be required during the course of the engagement; and the consultant's professional standing and reputation.

The table below summarises Defence use of consultants, on a Group basis.

TABLE 4.6: DEFENCE USE OF CONSULTANTS

GROUP	NUMBER OF CONSULTANTS		EXPENDITURE	
	2002-03	2001-02	2002-03	2001-02
Headquarters Australian Theatre	3	3	35,101	60,088
Navy	20	10	1,534,796	660,308
Army	10	2	252,150	29,028
Air Force	8	7	298,210	288,934
Strategic Policy	3	4	234,077	238,527
Intelligence	14	3	268,022	31,238
Vice Chief of the Defence Force	10	4	320,329	298,136
Chief Finance Officer ⁽¹⁾	6	5	148,152	159,358
Defence Science and Technology Organisation	36	9	303,288	130,419
Defence Personnel Executive	42	31	5,358,567	2,175,762
Public Affairs and Corporate Communication ⁽²⁾	2	2	71,921	124,000
Defence Materiel Organisation	89	24	4,295,444	2,536,238
Corporate Services and Infrastructure ⁽³⁾	38	23	1,415,417	791,039
Total	282	127	14,535,474	7,523,075⁽⁴⁾

NOTES

1. Chief Finance Officer Group includes data relating to the Secretary and the Chief of the Defence Force.
2. One consultancy, for \$30,000, was erroneously omitted from this table in the *Defence Annual Report 2001-02*. Corrections to last year's report are detailed at the front of the report.
3. Corporate Services and Infrastructure Group includes data relating to the Inspector General's Division, Defence Improvement Division and Chief Information Officer Group.
4. An error was made in summing the total published in Table 4.9 on page 268 of the *Defence Annual Report 2001-02*. The total should have been \$7,493,075.

TABLE 4.7: BREAKDOWN OF 'CONSULTANTS AND PROFESSIONAL SERVICES' CATEGORY IN NOTE 4B TO THE FINANCIAL STATEMENTS

	CONSULTANTS	PROFESSIONAL SERVICES	OTHER SERVICES	TOTAL
	\$M	\$M	\$M	\$M
2001-02 Financial Statements	7.5	222.5	28	258 ⁽¹⁾
2002-03 Financial Statements	14.5	198.5	48.1	261.1

NOTES

1. The Finance Minister's Orders for 2002-03 require separate disclosure for legal compensation expenses. Accordingly, legal compensation expenses for 2001-02 have also been shown separately resulting in a decrease for the total Consultants and Professional Services category from \$280.2m reported in the 2001-02 financial statements to \$257.9m in the comparative year in the 2002-03 financial statements.

Revised definitions for external service providers – consultants, professional service providers and contractors – will apply from 1 July 2003. In summary, they are as follows:

Consultants are deemed to be organisations or individuals contracted to provide independent advice on an agreed subject.

Professional Service Providers are deemed to be individuals with specialist skills contracted to fill a line position.

Contractors are deemed to be individuals or organisations contracted to deliver goods and services.

These definitions, together with a refined reporting framework, will help ensure accurate, consistent and quality information on Defence's industry workforce and better meet the requirements for statutory reporting, the needs of stakeholders and internal workforce planning and management.

BREAKDOWN OF DEFENCE USE OF CONSULTANTS IN 2002-03

Table 4.9 provides detail on all consultancy services utilised by Defence Groups during 2002-03.

TABLE 4.8: KEY TO PARTICULARS OF CONSULTANCY CONTRACTS

JUSTIFICATION

1. Specialised skills or service required not available within Defence
2. Specialised skills or service required not available within time frame
3. Technology not available within Defence

TABLE 4.9: PARTICULARS OF CONSULTANCY CONTRACTS

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Headquarters Australian Theatre			
HLA Envirosciences	Provide advice and recommendations regarding the environmental impact of conducting Exercise Crocodile 03.	18,350	1
Meyrick Webster Group	Provide advice and recommendations on accounting policies based on value based management and advanced costing systems.	2,905	3
URS Australia	Provide advice and recommendations regarding the environmental impact of conducting Exercise Crocodile 03.	13,846	1
Navy			
Accounts Pty Ltd	Provide advice and recommendations on Navy industry engagement and contracting, and business management system statement of requirement and procedures.	472	1
Acumen Alliance	Provide advice and recommendations on financial management of trust fund and special public money fund and ongoing quality assurance support.	6,175	2
Amog Consulting	Develop requirements document for fire safety studies for Navy surface ships.	54,874	1
Business Associates	Provided advice on development of mine warfare and clearance diving group integrated management system.	32,000	2
David Miers & Associates	Provide advice and recommendations on the development of a standard materiel requirements document for Navy surface ship replenishment at sea.	88,000	2
Fabbro Pty Ltd	Provide advice and recommendations on the future options for Young Endeavour Youth Scheme.	27,272	1
Gashler & Associates	Provide advice to project northern advance – transition from the Fremantle-class patrol boat to the Armidale-class.	96,246	2
Gerald E Fitzgerald	Provide senior legal and corporate advice on the Chief of Navy's legal accountability arising from relevant Defence legislation and charters and the Defence management structure.	3,116	1
Geoff Smith	Provide advice and recommendations for the way ahead of the Young Endeavour Youth Scheme.	1,625	2

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Greenbank Consultants	Provide advice and recommendations on the operational review of Young Endeavour Youth Scheme.	3,000	1
Innovative Process Group	Review and advise on quality management systems maintenance.	3,000	1
Keystone Corporate Positioning	Review and advise on the design and content of 'Brand Navy' communications system.	15,381	1
Keystone Corporate Positioning	Provide advice and recommendations to management regarding development of documentation and specifications for 'Brand Navy'.	73,500	1
Keystone Corporate Positioning	Advise on the plan on page design and copywrite for Mine Clearance Diving Force Element Group.	900	1
Nisbet & Associates Pty Ltd ⁽¹⁾	Provide advice and recommendations on the Surface Combatant Force Element Group structure and processes.	11,160	1
PK Walsh Associates	Give advice and make recommendations on the development of specialised performance measurement training programs.	1,769	1
Sereima Pty Ltd	Review and advise on the organisational design of Navy warfare systems centre.	102,700	1
The Frame Group	Provide advice and recommendations on methodologies for change management and business process management. Provide advice and recommendations on the development of policy for communications and business process rationalisation. Provide advice and recommendations on the development of a training plan for Personnel Management Key Solution in the Navy.	889,567	1
The Phillips Group	Advise on the return of HMAS <i>Adelaide</i> to Fleet Base West.	32,978	3
Zeal Consulting Pty Ltd	Provide advice and recommendations on the assessment of current Royal Australian Navy Safety Culture and prepare a plan for the development of a strong organisational safety culture within the Royal Australian Navy.	91,061	2
Army			
Air Services Australia	Investigate, review and evaluate the safety case for airspace procedures for the movement of 1 st Aviation Regiment to Darwin.	11,635	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
David W Horner	Review manuscripts for Army history series and make recommendations.	6,000	1
Earthworks Environment Service	Investigate environmental issues for Aboriginal and Torres Strait Islander Commission Army Community Assistance Program at Palm Island (Qld).	3,000	1
GHD Surveys Pty Ltd	Study and recommend water supply upgrade options.	16,978	1
JERA Consulting	Army ammunition study and report with recommendations.	145,454	1
M Hurqitz	Expert witness appearing before a Board of Inquiry.	2,000	1
Markjap Pty Ltd	Advise on surveying issues for Aboriginal and Torres Strait Islander Army Community Assistance Program at Dampier Peninsula, (WA).	4,729	1,2
McConnell Consulting Pty Ltd	Soil assessment and investigation for Aboriginal and Torres Strait Islander Army Community Assistance Program at Palm Island, (Qld).	5,800	1
Peddle Thorp Architects	Advise on architectural guidance – housing design report.	54,554	1
Victorian Institute of Forensics	Expert witness appearing before a Board of Inquiry.	2,000	3
Air Force			
Alexander Tomlinson	Advise on the 10 year ADF aeronautical information service strategy.	139,370	1
Ball Services Solutions	Review and advise on Hornet maintenance workforce requirements.	64,419	2
Centre for ASIA Pacific Aviation	Market research and advice on pilot sustainability.	33,300	1
Cistech Solutions	Review and advise on the concept of operations and network architecture documents for the deployable communications and information system.	24,000	2
Netimpact Online Publishing	Consultant report toward Jane's airborne aircraft electronic library project.	4,458	1
Ocean Internet (Consultant)	Provide expert opinion on the enhancement of Defence International Training Centre database.	8,450	1
SAI Global Asset Service	Review and advise on the air movement training and development unit.	1,948	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Schneider Australia Consulting	Advise on the human resource strategy for Defence International Training Centre.	22,265	1
Strategic Policy			
Paul Dibb & Associates Pty Ltd	Provide advice on strategic policy and Defence planning issues.	33,637	1
Robert W Lowry	Adviser to the national security adviser in East Timor.	200,000	1
Ross Thomas and Associates	Provide strategic policy advice to Strategic and International Policy Division.	440	1
Intelligence			
Acumen Alliance	Administrative process review and recommendations on efficiency.	65,036	1
Alastair Rylatt Consulting	Project management structure review and recommendation.	9,419	1
Answerz Pty Ltd	Project management process review and report.	6,175	1
Asset Services	Survey and report relating to facilities viability.	27,000	1
Codarra Advanced Systems Pty Ltd	Investigation and requirement analysis of desktop communication upgrade options.	74,639	1
Distillery Pty Ltd	Analysis of technology, specialist advice and report.	6,818	1
GK&A Comsec Pty Ltd	Costing studies relating to organisation relocation.	13,500	1
GK&A Comsec Pty Ltd	Data redundancy and backup review and recommendations for efficient data storage.	4,500	2
Gutteridge Haskins & Davey Pty Ltd	Engineering advice/surveys	1,625	1
Impulse Engineering	Advice relating to calibration and measurement techniques for test equipment.	1,730	1
RMIT Pty Ltd	Project management process review and report.	990	1
SSL Asset Services	Costing study on relocations.	49,100	1
T4 Protective Security	Security review and report.	4,545	1
Tagara Builders Pty Ltd	Scoping paper for building works associated with refurbishment.	2,945	2
Vice Chief of the Defence Force			
ADI Ltd ⁽¹⁾	Review and advise on the coalition theatre logistics advanced concept technology demonstrator.	79,200	1
Analytical Software Development	Review and advise on the selection of the specialised software for capability technology demonstrator.	19,235	1
BAE Systems	Study and advice on the New Skies Satellite for modifications.	28,954	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Codarra Advanced Systems	Review and advise on the operational concept document for deployable psychological operations capability.	7,272	1
Noetic Solutions	Evaluate and advise on the performance of the Strategic Command level of the ADF in the current operations.	43,500	1
Rolls Royce	Scoping study for new lithium iron batteries for submarines.	40,853	1
Saft Australia	Scoping study for new lithium iron batteries for submarines.	31,818	1
Tailored HR Solutions	Review and advise on the scopes for several cadet enhancement projects.	9,045	1
Topley & Associates Pty Ltd	Review and advice for ADF Cadet external overview team.	35,426	1
Unisys	Review and advise on a prototype matrix to demonstrate the matrices use as a decision support tool.	25,026	1
Chief Finance Officer⁽²⁾			
Australian Government Solicitor	Advice on legal matters.	280	1
Deloitte Touche Tohmatsu	Advice on financial transformation project initiative.	27,500	1
Noetic Solutions Pty Ltd	Advice on operations.	34,500	1
Price Waterhouse Coopers	Advice on commercial support program.	31,818	1
Uniquet Ltd	Review of the Australian Defence Force Academy.	4,133	1
Walter & Turnbull Pty Ltd	Advice on budget development.	49,920	1
Defence Science and Technology Organisation			
Advance Consulting and Evaluation	Input to discussion paper on the value of external distribution of DSTO corporate information.	2,300	1
Agent Orientated Software Pty Ltd	Provide advice on building an infrastructure for command agents (applications that decompose high level commands into executable tasks).	8,014	1
Aspect Computing Pty Ltd	Review the active directory project.	5,200	2
Blue Vision Management Pty Ltd	Undertake accommodation study at DSTO Pyrmont site and provide recommendations.	7,272	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Business Educational Services	Provision of academic services and advice on cultural aspects of decision making.	10,656	1
DesignInc Melbourne Ltd	Review of canteen/conference centre interface, DSTO Fishermans Bend.	2,920	1
Dr Drew Dawson	Provide advice on submarine sleep analysis.	2,727	1
DUUS Family Trust	Examine the scope of the current Air Force (AIR6000) and Navy (SEA4000) studies.	14,125	1
Explosion Protection Technology	Conduct a technical review and provide recommendations on the draft code of practice for electrical equipment for hazardous areas, explosives.	2,352	1
First Intervention Pty Ltd	Review of first aid response to incident at Fishermans Bend.	540	1
Fran Wyer Consultant-Macquarie ADF	Conduct review and provide recommendations on security standing order.	6,900	1
Fujitsu Australia Ltd	Provision of advice and documentation on a new file server.	5,000	2
Jacobs Sverdrup Australia	Provide advice to the rapid route area mine neutralisation system capability and technology demonstrator project executive on the direction of the program to meet its goals.	1,067	1
John Evans	Provide advice on the development of the multi-pulse motor technology demonstrator for propulsions systems technology group.	18,000	2
Jointcare Pty Ltd	Worksite review by an exercise physiologist and recommendations on a graduated exercise program for a staff member.	157	1
Jointcare Pty Ltd	Strategic planning consultation for DSTO wellbeing initiative.	420	1
Kay Rollison	Independent investigation of equity issue.	1,590	1
Kaz Technology Services Pty Ltd	Assess the feasibility of developing a value priority modelling investment analysis capability.	455	1
Kol Bryce and Associates	Review high voltage reticulation system and work up technical solutions for electrical loads.	9,765	1
Mann Judd Consulting	Undertake market assessments of two DSTO technologies - distribution simulation infrastructure library interposer and littoral battleship toolshed - and provide recommendations based on the results.	3,000	2

Chapter Four

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Noel Svensson	Advice on mechanical analysis of material by specialised expert.	1,500	1
Paul Main	Investigating the utility of the geographic construct of our military strategy and its impact on future capability.	8,704	1
Professor Peter N Joubert	Provision of advice on hydrodynamics and supervision of PhD program.	27,600	1
Ramjet Software Pty Ltd	Provide recommendations on the way forward in using insights from linguistics in the knowledge engineering of agent systems.	7,200	1
RFI Industries Pty Ltd	Undertake testing of Garmin global positioning system receiver to military standards.	3,100	1
RISK-E	Facility risk assessment of DSTO's low speed wind tunnel, transonic wind tunnel and hydrodynamics laboratory.	7,187	1
RMIT University	Contract with a professor to examine the business of network centric warfare and the creation of a prototype tool.	15,000	1
RMIT University	Investigate the needs of science and technology staff in post-graduate education and a survey of university courses and programs.	30,000	1
SAI Global Assurance Services	External compliance audit by Standards Australia International, Global.	1,000	1
Scot Allison & Associates Pty Ltd	Develop a proposal for a mission system research centre.	3,000	2
Scot Allison & Associates Pty Ltd	Support to development of information systems laboratory long range research program.	18,000	3
Shimmie Pty Ltd	Investigation of enterprise computing market.	5,500	1
The Cosmic Holding Company	Review of DSTO's application of systems representation analysis.	11,389	3
The Leadership Factor	Perform a review of a survey of DSTO's senior clients.	500	1
University of Melbourne	Analysis of a data set on Defence organisational and operational networks for DSTO's organisational networks study, including advice on how these networks could be used to help DSTO support wider Defence requirements.	44,000	1
Welsearch Pty Ltd	Conduct interviews with senior managers in DSTO industries and draft a paper on change management for the Chief Defence Scientist.	17,148	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Defence Personnel Executive			
Adept Associates Pty Ltd	Evaluate and provide proposals to improve the application of merit in employment decisions in Defence.	53,606	2
Aerosafe Risk Management Pty Ltd	Provide safety risk management advice and reports for the Australian Defence Organisation.	214,099	2
Australian Government Solicitor	Provide legal advice on Project Sandstone - to re-negotiate the agreement between the Commonwealth and the University of NSW for the provision of educational services at Australian Defence Force Academy.	41,141	1
Australian Government Solicitor	Provide legal advice on request for tender for consultancy panel.	11,664	2
Calm Consulting	Provide advice on developing a strategic intent for the Defence Community Organisation.	3,185	1
Changedrivers Pty Ltd	Provide advice on workshops to be carried out with regard to the study of health outcomes in aircraft maintenance personnel.	3,062	1
Cogent Business Solutions Pty Ltd ⁽¹⁾	Provide advice and recommendations regarding contract negotiations for ADF health services in Victoria.	351,556	2
Cogent Business Solutions Pty Ltd ⁽¹⁾	Provide advice to assist with the statement of requirement for optometry services to the ADF.	31,534	1
Cogent Business Solutions Pty Ltd ⁽¹⁾	Provide cost analysis advice for explosive ordnance project - a study into the feasibility of explosive ordnance training.	62,305	1
Conservation Works Pty Ltd	Provide conservation assessment on the Australian Command and Staff College memorabilia collection at the Australian Defence College.	4,147	1
Deloitte Touche Tohmatsu	Evaluate the performance of Manpower Defence Recruiting in providing recruiting services to the ADF.	504,630	1
Deloitte Touche Tohmatsu	Evaluate the Department of Employment and Workplace Relations and ADF recruiting assistance pilot.	62,485	1
Department of Veterans' Affairs	Research the effects of the F-111 fuel tank deseal/ reseal on workers.	2,670,590	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Department of Veterans' Affairs	Undertake a study of ADF members in receipt of long term compensation payments to examine the quality of decision making and administrative processes.	19,150	1
Edith Cowan University	Research retention in the ADF and the impact on family health and wellbeing.	2,272	1
Emitch Pty Ltd ⁽¹⁾	Develop a strategy for the Defence Force Recruiting Organisation internet recruitment activities.	120,000	1
Emitch Pty Ltd ⁽³⁾	Conduct market research on the usage of Defence Force Recruiting's internet site.	11,550	1
Gordon Consulting	Assess feasibility of a 'Structured Workplace Learning' program in Defence.	876	1
Hewitt Associates Pty Ltd	Examine employment practices within Defence as compared to 'Best Employers', completing a gap analysis and providing recommendations for future people practices.	8,086	1
Horizon Research K&GM Pty Ltd ⁽³⁾	Market research - Defence Force Recruiting recruitment strategies and production plans.	389,938	1
I & SK Pauza	Competency analysis for the clerical administration project (rationalisation of the Defence and civilian clerical trades).	15,000	1
Ian Johnston & Associates ⁽¹⁾	Evaluate centralised Australian Defence Force Academy selection board process as part of revised recruitment strategy.	7,500	1
Innovative Process Group	Review base-line business processes and advise on improvements to work processes.	107,965	1
International Industry Consultants ⁽¹⁾	Provide advice on the tender evaluation of health services consultancy standing offer panel - tender responses.	23,071	2
Jacobs Sverdrup Australia Pty Ltd	Provide consultancy services relating to the F88 Steyr safety case which occurred during March-April 2003.	2,660	2
John C Grant-Thomson	Provide biomedical engineering consultancy advice.	55,684	2
John S Baker AC DSM	Provide advice and input regarding functional activity definitions for the strategic workforce planning review.	9,090	1
Keatsdale Pty Ltd ⁽¹⁾	Review the health services provided to ADF personnel in Sydney and surrounding regions.	97,994	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Michael Forwood Consulting Pty Ltd ⁽¹⁾	Provide consultancy advice for contract negotiations for market testing of ADF health facilities in Victoria.	116,698	1
Mitchell And Partners Australia Pty Ltd ⁽³⁾	Provide market research - proposal for recruitment opportunities at V8 Supercar events.	6,000	1
National Association of Testing	Provide advice on accreditation of area health service laboratories.	10,170	1
National Centre for Epidemiology & Population Health	Consultancy study - medical causes for unsuccessful recruiting applications.	4,545	2
PSI Consulting Pty Ltd	Project Sandstone - Provide advice to assist with the negotiation of contract between Commonwealth and University of New South Wales for the provision of educational services at Australian Defence Force Academy.	67,368	1
Riverina Institute of TAFE	Review and advise on occupational health and safety training.	29,181	2
RTK Corporate Human Resources	Report on governance of safety in Defence.	2,579	2
SMS Management & Technology	Consultancy services oversight and provision of advice on issues arising from the study of health outcomes in aircraft maintenance personnel.	46,891	2
Softlaw Corporation Pty Ltd	Provide quality assurance review of the draft military compensation scheme.	60,426	1
Tanner James Management	Assess and offer advice, options and recommendations in the implementation of the Prince2 methodology for the Defcare program.	1,800	1
The Big Picture ⁽¹⁾	Provide advice to Defence Force Recruiting for ministerial committee for government communications meeting.	1,187	1
Worthington Di Marzio ⁽³⁾	Provide market research to evaluate the effectiveness of Defence Force Recruiting communications strategy.	107,857	1
Young & Rubicam Mattingly ⁽³⁾	Provide market research to aid the development of recruiting strategies to the Australian Defence Force Academy.	19,025	1
Public Affairs and Corporate Communication			
Allen Consulting Group	Conduct internal communication review in support of overarching strategy.	51,399	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
New Focus Pty Ltd ⁽³⁾	Below the Line - recruitment strategy evaluation and recommendations.	20,522	2
Defence Materiel Organisation			
Aerostructures Australia	Engineering advice – F-111 aeronautical services.	248,943	2
Allen Consulting Group	Review - assistance to Aerospace Industry Capability Branch with sector planning.	69,349	1
Amog Consulting	Amphibious watercraft project independent assessment and assurance.	18,150	1
Aon Risk Services Australia Ltd	Lightweight torpedo risk and insurance advice.	17,802	1
Aperium Pty Ltd	IT advice on e-procurement Phase 1 in relationship to the Standard Defence Supply System upgrade project.	72,966	2
APT Business Solutions Pty Ltd	Review - computer aided maintenance management 2 upgrade contract deliverable requirement list and provide recommendations.	36,600	2
Australian Marine & Offshore Group	Independent assessment of design review of pontoon.	61,818	1
Australian Marine Technologies Ltd	Review and recommend options to the amphibious deployment and sustainment capability function and performance specification.	36,857	2
Ball Aerospace Australia – Canberra	Review ADF aircraft crash data recorder program and advise recommendations.	68,367	1
Ball Services Solutions - Barton	Review and recommend options for Submarine Branch staffing.	44,727	1
Ball Services Solutions - Barton	Review and recommend options for the integrated logistics support requirements for the Black Hawk helicopter.	9,912	2
Ball Services Solutions - South Yarra	Advice on the artillery orientation system project.	34,500	2
Ball Services Solutions – Williamstown	Review the F/A-18 Hornet technical publications and give recommendations.	25,769	3
Bernard G Rewick (WA) Pty Ltd	Review, evaluate and report on convolute hose welding process.	1,170	2
Bevington Consulting Pty Ltd	Investigation, independent review and advice on maritime patrol decision making processes.	176,300	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Bevington Consulting Pty Ltd	Review Phase 1 quality management system data collection process and provide addition options.	143,157	3
Bevington Consulting Pty Ltd	Review maritime patrol systems program office pilot program processes and give recommendations.	518,181	2
Boeing Australia Ltd - Brisbane	Boeing power supply investigation of submarine.	38,309	2
Briar Maritime Service Pty Ltd	Review of environmental aspects of amphibious deployment and sustainment capability project functional and performance specification and give options.	15,200	1
Capability by Design	Review - FFG planned maintenance system rationalisation and give recommendations.	42,636	1
Codarra Advanced Systems Pty Ltd - Jamison ⁽¹⁾	Review and give options on the preliminary survey on Defence project plans.	107,596	1
Compucraft	Review and advise on business analysis report and to write a standing offer database.	5,090	1
Coleman Holdings	Independent review of project and supply options to the Project Governance Board.	1,500	1
Costmaster - Ian D Maclean Pty Ltd	Review and give recommendations on the electronic authoring performance management system.	1,771	1
Covars Pty Ltd	Review and recommend options on the submarine design authority.	6,250	1
Covars Pty Ltd	Review the maintenance processes for the Collins-class submarines and give recommendations.	43,816	1
CSC Australia Pty Ltd - NSW	Software database adviser for Seahawk project and give recommendations.	13,900	3
Deloitte Touche Tohmatsu	Independent review of project and supply options to the Project Governance Board.	11,362	2
Det Norske Veritas	Review of finite element analysis for amphibious deployment and sustainment capability project.	19,876	1
Duexperts Pty Ltd	Technical advice and recommendations on reconnaissance, intelligence and information warfare systems for Land Engineering Agency.	9,720	1
Foxboro Australia Pty Ltd	Review and give options for the mine warfare command support system safety case.	13,398	1

Chapter Four

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Gains Resources Asia-Pacific Pty Ltd	Review and give recommendations on the Aerospace Systems Division repairable items management issues.	157,500	2
Gains Resources Asia-Pacific Pty Ltd	Review advanced inventory management system - repairable item induction report.	3,900	1
Geoff Williams Consultancy Services	Review and advise on Jindalee systems engineering and technical advice verification.	148,538	3
Gibson Crest Pty Ltd	Independent review of project and supply options to the Project Governance Board.	11,992	1
Gulf Consulting Ltd - New Zealand	Review Airspace Systems Division quality management systems transition plan.	800	1
Health Services Int	Advice on occupational health and safety for Land Engineering Agency.	1,454	2
HLA-Envirosciences	Advice on asbestos removal at Orchard Hills.	1,100	1
HRM Consulting Pty	Advice on career stream workshop package.	110,032	2
Invensys Engery Systems Pty Ltd	Review and give recommendations on the calibration laboratory refit energy subcontract.	657	1
ISDE Pty Ltd	Advise on organisational design in Management Information System Division and information management in the Defence Materiel Organisation.	116,108	2
K.N. Rosenbaum	Review and give options on the in-service support for wheeled manoeuvre system program office.	913	2
Kelloggs, Brown & Root Pty Ltd	Review - assistance to Aerospace Industry Capability Branch with sector planning.	21,840	1
Kelloggs, Brown & Root Pty Ltd	Review and give recommendations on the quality assurance manager for Headquarters Australian Theatre project.	19,090	1
Lindebergs - Sweden	Cost investigation of tender evaluation for short range air defence capability project.	31,318	2
Logstic Solutions Australasia	Review - analysis of technical documentation for Land Engineering Agency.	9,296	1
Logstic Solutions Australasia	Review and give recommendations on the Defence Materiel Organisation plan and document project activities.	27,840	3
Management & Risks	Advice - Maritime Systems Branch generic business model financial procedures workshop.	1,400	2
Massingham Consulting	Review and give recommendations on the Defence Materiel Organisation knowledge management plan.	22,560	3

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Meyrick Webster	Financial advice on applying costing within an output/outcome environment within Defence.	20,000	3
Michael Pike Consulting Pty Ltd	Review management strategy business pre-activity and risk management strategy.	45,357	2
Mr W M Collins	Independent review of project and supply options to the Project Governance Board.	274	3
Ms Angela B Tuffley	Technical advice and options for the software acquisition reform implementation project.	201	3
Pacific Noise & Vibration Pty Ltd	Review, assess and give options on the survey motor launches.	21,614	3
Palm Management	Independent review of project and supply options to the Project Governance Board.	25,408	3
Peter Purcell	Independent review of project and supply options to the Project Governance Board.	16,666	1
Project Outcomes Pty Ltd	Review and recommend options on the in-service support plan.	90,923	2
Property Concept & Management	Review and advise on the risk/reward aspects of the Djimindi alliance agreement for lightweight torpedoes project.	5,600	2
Puntimai Associates	Independent review of project and supply options to the Project Governance Board.	23,604	1
Purcell Consultants	Independent review of project and supply options to the Project Governance Board.	1,666	1
R & E Beckmann & Associates Pty Ltd	Review - external evaluation of the current people management and development program.	14,300	1
R W Henley	Independent review of project and supply options to the Project Governance Board.	6,370	1
Risk-E	Review and recommend options for the engines business unit health safety and environment management system.	8,000	3
RKEJ Pty Ltd	Review and recommend options for the engines business unit health safety and environment management system.	7,900	1
Robson Huntley & Associates Pty Ltd	Review and recommend options on Submarine Branch staffing.	56,099	1
Rolls Royce Industrial Power	Independent assessment and survey of Collins-class submarine insurance claim.	42,633	2
Savant Pty Ltd	Independent investigation into the Trinity project existing mains power, uninterrupted power supply and alternating current to determine status and possible redundancies.	19,028	3

Chapter Four

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Sinclair Knight Merz Pty Ltd - Brisbane	Engineering advice - F-111 cold proof load test facility.	4,000	1
Sinclair Knight Merz Pty Ltd - Melbourne	Technical advice and recommendations on configuration management for Land Engineering Agency.	2,198	2
Sinclair Knight Merz Pty Ltd - Melbourne	Investigation and report on B vehicle overhaul services at Bandiana, Victoria.	10,000	1
SMS Management & Technology	Independent review of the central catalogue replacement project.	9,144	3
Software Metrics Inc - USA	Independent evaluation of radar software development schedules for airborne early warning and control project.	81,818	1
SSL Asset Services	Advice - modification of internal working area in buildings L474 & 1007.	7,810	1
Substantial Contribution Pty Ltd	Occupational health and safety review and recommendations on manual handling processes at Greytown.	5,274	2
Sverdrup Technology Australia Ltd	Review and recommendations on submarine sustainment strategic business planning support and training.	36,679	2
Sverdrup Technology Australia Ltd	Review and supply options on training sequences for airlift simulator projects.	3,391	2
Sverdrup Technology Australia Ltd	Review and recommendations on the airborne early warning and control integrated logistics system and logistics management system plans.	5,700	1
Sverdrup Technology Australia Ltd	Review and recommendations on the F/A-18 Hornet management system.	2,154	2
Sverdrup Technology Australia Ltd	Review the Materiel People and Performance Branch and develop a branch business plan and model for the delivery of human resources services to the Defence Materiel Organisation.	89,753	3
Tailored HR Solutions	Review and give recommendations on the project management methodology for Global Hawk collaboration technology demonstration project.	79,656	1
Tanner James Management	Advice - Land Engineering Agency project management improvement project.	9,736	1
TCS Management Pty Ltd	Advice on fully contracted integrated materiel support.	525,375	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Total Logistics Main Management Pty Ltd	Review and give recommendations on the Maritime Systems Division human resource structure.	224,629	2
Total Logistics Main Management Pty Ltd	Review and analysis of hydrographic ships follow on support contract.	20,930	2
Total Logistics Main Management Pty Ltd	Review and give technical advice on the guide to the technical regulation of army materiel manual for Land Engineering Agency.	7,481	2
Total Logistics Main Management Pty Ltd	Review and give technical advice on the Anzac technical manuals.	14,400	3
Williamstown Technical Services	Review and give technical advice on preparing for the hyperbaric safety certification.	59,400	1
Wizdom Australia PT	Review and give advice on the Materiel People and Performance Branch activities.	19,327	2
Yellow Edge Pty Ltd	Review the Materiel People and Performance Branch activities.	69,616	1
Corporate Services and Infrastructure⁽⁴⁾			
Abraxa Management Consulting	Study of business process and organisational structure alignment with report and recommendations to Head Infrastructure Division.	71,400	1
Acumen Alliance	Costing and recommendations of civilian pay administration centre rationalisation.	7,406	1
Adrian Hughes Architect Pty Ltd	Investigation and development of options for the relocation of Corporate Service and Infrastructure, southern Victoria elements currently accommodated within Victoria Barracks.	9,860	1
Booz Allen & Hamilton Australia Pty	Simulation expertise study - analyse Defence's requirements for simulation expertise over the next 5-10 years and provide recommendations as to how that expertise requirement can be met.	53,208	1
Broadleaf Capital International	Review and recommend on Canunara redevelopment: risk management plan.	19,790	1
Changedrivers Pty Ltd	Review and recommend on Defence internal customer product requirements.	5,438	1
CMG IT Services Pty Ltd	To provide advice to the public key indicator policy board.	1,913	1
Colquhoun & Associates Pty Ltd	Consultant support to develop business plan for Corporate Services and Infrastructure, southern Queensland.	15,000	1

Chapter Four

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Connell Wagner Pty Ltd	Advise on development of a Defence training area.	24,558	1
Connell Wagner Pty Ltd	Advise on training options for 1 st and 9 th Brigades and sustainable management of expanded Cultana training area.	2,823	1
David Miers & Associates	Study of option to outsource live-in accommodation management and maintenance.	4,250	1
GHD Surveys Pty Ltd	Review and recommend on Defence strategic framework on environment.	9,709	1
GHD Surveys Pty Ltd	Advise on Defence contaminated land management strategy.	6,974	1
Gordon Consulting	Civilian pay administration centre/ military pay administration centre process development.	9,660	1
Green Building Council of Australia	Green Building Council environmental milestone advice.	52,901	1
Grosvenor Management Consulting	Review and re-engineering of civilian pay administration centres progress claim 4.	19,023	1
Gutteridge Haskins & Davey Pty Ltd	Engineering services studies with recommendations for Headquarters Australian Theatre project.	41,655	1
Gutteridge Haskins & Davey Pty Ltd	Review and recommend on garrison support contract.	15,000	2
Gutteridge Haskins & Davey	Development of a recommended strategy for rationalisation of major Melbourne Defence properties.	10,815	1
IISM Group	Strategic review and recommendation on civilian pay administration centres.	83,022	1
Jane Harte Consulting Pty Ltd	Evaluation of southern Queensland and southern Victoria regional business models to determine if the new models are working in accordance with the business operating principles and the intention of Next Steps. This information will be utilised to inform future roll-outs of Next Steps in the remaining 10 regions.	78,000	1
Menabilly Consulting	Study of option to outsource live-in accommodation.	14,200	2

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Meta Group Australia Holdings Pty Ltd	Retainer advisory services for government strategies, enterprise planning and architecture strategies, global networking strategies, application delivery strategies, electronic business strategies, server infrastructure strategies, service management strategies, web and collaboration strategies.	199,417	1
Mincom Pty Ltd	Provide business and technical knowledge to assist project development work.	116,850	1
Niche Strategies Pty Ltd	Research and report on communications strategy options.	52,175	2
Phillips Fox Lawyers	Advice on due diligence audit.	44,404	1
Planning Workshop Australia	Study and report on the implications of the impact of state and territory legislation on construction projects - RAAF Williamtown used as basis of case study.	7,190	1
Power Initiatives	Investigate and report on requirement for contracted supply of government facilities for contractors to perform submarine maintenance.	6,592	1
PPK Environment & Infrastructure	Environmental impact assessment of underwater sonar operations.	19,920	1
Pricewaterhouse Coopers	To conduct an assessment of the economic impact that RAAF Richmond has on the surrounding region, and to examine potential options and strategies for attracting alternative aviation-related activities to the base.	42,074	1
PSI Consulting Pty Ltd	Scoping study of military pay and administration centres.	64,781	1
SAI Global	Advise on quality management system developed by Queensland clerical solutions.	1,010	2
Special Project Management Pty Ltd	Development of the estate capability proposal for specialist security works at RAAF Williamtown.	14,884	1
URS Australia Pty Ltd	Conduct environmental impact study and prepare statement of recommendations on new location for Headquarters Australian Theatre.	116,153	1
URS Australia Pty Ltd	Review and advise on environmental management plan for offshore exercise.	134,605	1
Walter & Turnbull Pty Ltd	Assist and recommend on the development of a pilot budget analysis for use throughout National Operations Division.	28,303	1

CONSULTANT NAME	PURPOSE	TOTAL AMOUNT PAID \$	JUSTIFICATION
Willis Australia Ltd	Specialist advice on market conditions for insurance matters and projects.	3,763	1
Woods Bagot	Study and report on strategy for Darwin area property utilisation.	6,691	2

NOTES

1. Consultancy was publicly advertised.
2. Chief Finance Officer Group includes data relating to the Secretary and the Chief of the Defence Force.
3. These items are also reported in Table 4.12 under Advertising and Market Research.
4. Corporate Services and Infrastructure Group includes data relating to the Inspector General's Division, Defence Improvement's Division and Chief Information Officer Group.

CONTRACTS EXEMPT FROM PUBLICATION IN THE PURCHASING AND DISPOSAL GAZETTE

Defence's commitment to efficient and effective competition requires that procurement is visible and accessible and that there is an opportunity for suppliers to do business with Defence. Defence's commitment to accountability requires that the Parliament and the public have the right to know the extent and type of goods and services needed to support Government programs, including the cost and who supplied it. This visibility is provided through the *Commonwealth Purchasing and Disposal Gazette*.

Defence must report in the Gazette details of any contract or standing offer arranged with a value of \$2,000 or more, including any purchase made against a Defence standing offer.

In the context of gazettal requirements, 'contract' means any agreement for the procurement of goods and services under which Defence is obliged to make payment of public money to a supplier and includes any purchase order, oral or written contract or lease or corporate credit card transaction. 'Contract' also covers agency agreements, that is, agreements for the procurement of goods and services under which an agency is obliged, or may become obliged, to make a payment of public money to another agency.

The *Commonwealth Procurement Guidelines* and *Best Practice Guidance* provides that if the Secretary of a department or officers delegated by the Secretary consider gazettal of procurement details to be exempt under the *Freedom of Information Act 1982*, the Secretary or the relevant delegate may direct, in writing, that these details are not to be published in the Gazette.

In 2002-03, Defence had a total of 386 contracts or standing offers, with a total value of \$38m, exempted from publication as it was determined that publication could cause damage to the national security, defence or international relations of the Commonwealth, in accordance with section 33(1)(a) of the *Freedom of Information Act 1982*. A breakdown by Group of the number of exemptions and total amounts is shown below.

TABLE 4.10: CONTRACT/STANDING OFFER EXEMPTIONS FROM PUBLICATION BY GROUP

GROUP	NUMBER OF EXEMPTIONS			\$
	2002-03	2001-02 ⁽¹⁾	2002-03	2001-02 ⁽¹⁾
Navy	-	28	-	4,598,096
Army	4	-	20,272	-
Intelligence and Security Group	36	37	23,879,186	19,478,874
Chief Finance Officer ⁽²⁾	13	1	239,956	5,527,498
Air Force	2	-	544,102	-
Defence Materiel Organisation	325	235	12,021,868	138,415,275
Corporate Services and Infrastructure	6	-	1,382,034	-
Total	386	301	38,087,418	168,019,743

NOTES

- Figures for 2001-02 have been corrected. See Corrections to the *Defence Annual Report 2001-02* at the front of the report for details.
- Chief Finance Officer data includes the Secretary and the Chief of the Defence Force data.

ADVERTISING AND MARKETING RESEARCH

Particulars of all amounts relating to advertising and market research paid by, or on behalf of, Defence during 2002-03 are shown in the tables below.

TABLE 4.11: TOTAL ADVERTISING AND MARKET RESEARCH EXPENDITURE BY TYPE OF AGENCY

TYPE OF AGENCY	EXPENDITURE IN 2002-03 \$	EXPENDITURE IN 2001-02 ⁽¹⁾ \$
Advertising agencies	7,256,125	5,760,249
Market research organisations	903,910	1,384,114 ⁽¹⁾
Polling organisations	56,004	0
Direct mail organisations	4,872	1,505
Media advertising organisations	18,190,176	32,612,533
Total	26,411,087	39,758,401

NOTE

1. Contracts with four market research organisations, totalling \$363,485, were erroneously omitted from the *Defence Annual Report 2001-02*. See the front of the report for details.

TABLE 4.12: TOTAL ADVERTISING AND MARKET RESEARCH EXPENDITURE BY GROUP

GROUP	EXPENDITURE IN 2002-03 \$	EXPENDITURE IN 2001-02 ⁽¹⁾ \$
Headquarters Australian Theatre	20,152	0
Navy	62,004	388,799
Army	168,779	194,318
Air Force	55,923	56,254
Strategic Policy	4,695	11,217
Intelligence and Security	359,738	379,711
Vice Chief of the Defence Force	204,964	1,411,439
Chief Finance Officer	4,954	35,123
Defence Science and Technology Organisation	287,488	893,987
Defence Personnel Executive	21,763,264	33,578,148
Public Affairs and Corporate Communication	422,999	1,250,959 ⁽¹⁾
Defence Materiel Organisation	645,186	610,192
Corporate Services and Infrastructure	2,410,941	948,254
Total	26,411,087	39,758,401

NOTE

1. Three professional service providers and one consultancy, totalling \$363,485, were erroneously omitted from the *Defence Annual Report 2001-02*. See the front of the report for details.

The following table lists payments, on a Group basis, made to relevant individuals and organisations for advertising and market research.

TABLE 4.13: PARTICULARS OF PAYMENTS BY GROUP FOR ADVERTISING AND MARKET RESEARCH

PAYEE	AMOUNT \$	PURPOSE
Headquarters Australian Theatre		
<i>Advertising Agencies</i>		
Defence Publishing	1,731	Recruitment advertising - civilian
HMA Blaze Pty Ltd	5,236	Recruitment advertising - civilian
<i>Media Advertising Organisations</i>		
Starcom Worldwide (Australia) Pty Ltd	13,185	Recruitment advertising - civilian
Navy		
<i>Media Advertising Organisations</i>		
HMA Blaze Pty Ltd	24,941	Recruitment advertising - civilian
Keystone Corporate Positioning	1,276	Printing of flyers for Navy Week 2002 Production of hard-surface mouse pads to promote awareness of flight safety and contact details
Paula M Promotions	1,237	
Margaret Powell	4,368	Recruitment advertising - civilian
Starcom Worldwide (Australia) Pty Ltd	30,182	Recruitment advertising - civilian
Army		
<i>Advertising Agencies</i>		
Apex Models Co	2,784	Recruitment advertising - civilian
APN Newspapers Pty Ltd	6,874	Recruitment advertising - Army Reserve
Australia Post	12,065	Recruitment advertising - Army Reserve
Australian Retirement Press Ltd	24,000	Advertising of museums in South Australia, Tasmania, north Queensland and Queenscliff, Victoria
HMA Blaze Pty Ltd	3,230	Research grants advertisements
Northside Distributors and Finishers	2,501	Recruitment advertising - Army Reserve
Queensland Newspapers Pty Ltd	5,329	Recruitment advertising - Army Reserve
Starcom Worldwide (Australia) Pty Ltd	13,426	Recruitment advertising - Army Reserve
<i>Media Advertising Organisations</i>		
96 FM Southern Cross Radio	2,700	Recruitment advertising - Army Reserve
Australian Beef Cattle Exposition	1,530	Recruitment advertising - Army Reserve
Canberra FM Radio	3,166	FM104.7 and FM106.3 advertisements for Beat the Retreat parade
Community Newspaper Group	24,741	Recruitment advertising - Army Reserve
Nine Network Australia	4,080	Recruitment advertising - Army Reserve
Post Newspaper Pty Ltd	8,693	Recruitment advertising - Army Reserve
Prime TV Southern Pty Ltd	4,500	Prime television advertisement for Queen's Birthday and Beat the Retreat parade

Quest Newspaper Group	6,980	Recruitment advertising – Army Reserve
Sydney Morning Herald	5,326	Recruitment advertising – Army Reserve
Ten Capital	3,990	Advertisement for Queen's Birthday and Beat the Retreat parade
The Federal Capital Press of Australia	6,911	Advertisement for Queen's Birthday and Beat the Retreat parade
The Ten Group	7,892	Recruitment advertising – Army Reserve
Universal Productions	10,460	Recruitment advertising – Army Reserve
WIN Television	7,601	Reserve Recruiting and WIN television advertisement for Duntroon House Open Day. Advertisement for Queen's Birthday and Beat the Retreat parade
Air Force		
<i>Advertising Agencies</i>		
3AW Southern Cross Radio	4,530	Advertising for museum
Destination Melbourne Inc	3,150	Advertising for museum
Domestic OTV Pmt-RAAF Williams Supply Division	2,136	Advertising for museum
Fairfax Community Newspaper	5,036	Advertising for museum at RAAF Williamtown
HMA Blaze Pty Ltd (The Australian)	4,637	Recruiting – civilian
The Herald Weekly Times	1,559	Advertising for museum
Starcom Worldwide (Australia) Pty Ltd	27,851	Recruiting – civilian
Weekend Australian	7,024	Recruiting - civilian
Strategic Policy		
<i>Media Advertising Organisations</i>		
HMA Blaze Pty Ltd	1,586	Request for tender for Pacific patrol boat refits
Starcom Worldwide (Australia) Pty Ltd	3,109	Request for tender for Defence Cooperation Program Scholarship contract
Intelligence & Security		
<i>Advertising Agencies</i>		
HMA Blaze Pty Ltd	146,606	Recruitment advertising – civilian
Ideas and Directions	3,440	Artwork, production and management for advertising banner
Jaymac Promotional Advertising	5,410	Graduate recruitment
Starcom Worldwide (Australia) Pty Ltd	186,947	Recruitment advertising – civilian
The Good Guides Group	7,750	Graduate guide development
TVP Communications Pty Ltd	6,475	Security awareness posters
<i>Direct Mail Organisations</i>		
Monash Unicomm	3,110	Recruitment advertising – civilian

Vice Chief of the Defence Force**Media Advertising Organisations**

Artemis Publishing and Marketing	450	Advertising - Defence Reserve Support Council
Australasian Trade and Industry Periodicals Pty Ltd	1,895	Advertising - Office of Head Reserve Policy
Australian Events Pty Ltd	552	Advertising - Defence Reserve Support Council
Australian Human Resources Institute	2,360	Advertising - Reserve initiatives
Australian Institute of Company Directors	9,000	Advertising - Reserve initiatives
Australian Retailers Association Victoria	1,818	Advertising - Reserve initiatives
Business News	4,956	Advertising - Defence Reserve Support Council
C & G Advertising	1,895	Advertising - Office of Head Reserve Policy
Capricorn Coast Radio Centre	2,340	Advertising - Defence Reserve Support Council
Chevron Publishing Group	4,000	Advertising - Reserve initiatives
Colin Craig	272	Advertising - Reserve initiatives
Davies Brothers Ltd	590	Advertising - Defence Reserve Support Council
Fairfax Community Newspaper	2,830	Advertising - Reserve initiatives
Flight Publishing Pty Ltd	1,818	Advertising - Defence Reserve Support Council
Golden West Network Pty Ltd	500	Advertising - Defence Reserve Support Council
HMA Blaze Pty Ltd	9,602	Advertising - Cadets enhancement program
Image 7 Group Pty Ltd	10,000	Advertising - Defence Reserve Support Council
Jaymac Promotional Advertising Pty Ltd	6,581	Advertising - Defence Reserve Support Council
Jaymac Promotional Advertising Pty Ltd	2,501	Advertising - Reserve initiatives
John Brown Photography	300	Advertising - Reserve initiatives
Melbourne Gang Show	681	Advertising - Reserve initiatives
Mintu Wanta Club	500	Advertising - Defence Reserve Support Council
Multicultural Services Centre of WA	250	Advertising - Defence Reserve Support Council
Nationwide Facilities Management	1,533	Advertising - Reserve initiatives
Norforce News	1,363	Advertising - Defence Reserve Support Council
Northern Defence Magazine	4,363	Advertising - Reserve initiatives
Northern Defence Magazine	2,863	Advertising - Defence Reserve Support Council
Public Information Services	700	Advertising - Reserve initiatives

Rockhampton Careers Expo 2001- Central Qld University	72	Advertising - Defence Reserve Support Council
Showcase Publications	2,000	Advertising - Reserve initiatives
Starcom Worldwide (Australia) Pty Ltd	20,138	Advertising - Office of Head Reserve Policy
Starcom Worldwide (Australia) Pty Ltd	25,072	Advertising - Reserve Forces Day 2003
Starcom Worldwide (Australia) Pty Ltd	52,654	Advertising - Reserve initiatives
Starcom Worldwide (Australia) Pty Ltd	17,103	Advertising - Defence Reserve Support Council
Starcom Worldwide (Australia) Pty Ltd	5,487	Advertising - Cadets enhancement program
Victorian Automobile Chamber of Commerce	1,904	Advertising - Reserve initiatives
Win Television Qld Pty Ltd	4,021	Advertising - Defence Reserve Support Council
Chief Finance Officer		
<i>Media Advertising Organisations</i>		
HMA Blaze Pty Ltd	4,954	Standing offer for the provision of assistance in conducting commercial support activities
Defence Science and Technology Organisation		
<i>Direct Mail Organisations</i>		
University of Melbourne	1,762	Graduate recruitment advertising to final year chemistry students
<i>Media Advertising Organisations</i>		
Australian Defence Business Review	8,182	Advertising to promote technology expertise
Good Guides Group	7,750	Graduate recruitment program advertising
HMA Blaze Pty Ltd	20,204	Recruitment - civilian
Starcom Worldwide (Australia) Pty Ltd	225,243	Recruitment advertising - civilian
Starcom Worldwide (Australia) Pty Ltd	14,767	Advertising to promote technology expertise
Yaffa Publishing Group	9,580	Advertising to promote technology expertise
Defence Personnel Executive		
<i>Advertising Agencies</i>		
Emitch Pty Ltd	49,137	Recruitment advertising production - Internet employment sites
Future Train	47,010	Recruitment advertising production - Army Reserves
Future Train	16,732	Recruitment advertising production - local area advertising guide
Inkspott Production	1,670	Marketing Defence Equity Organisation promotional material

Inkspott Production	32,314	Promotional material for Graduate Development Program
National Capital Printers	1,688	Defence Community Organisation brochures
Northern Defence Magazine	2,182	Advertising Defence equity advice lines
Photographics International	9,060	Recruitment advertising production - RAAF officer entry
Piction Press	6,890	Maximising leadership brochures
Skyline Displays Australia Pty Ltd	2,140	Promotional display
Skyline Displays Australia Pty Ltd	2,999	Promotional material for e-learning
Sounds Goodwin	3,600	Recruitment advertising production - Navy general entry
Starcom Worldwide (Australia) Pty Ltd	33,029	Recruitment advertising - Graduate Development Program
The Good Guides Group	7,750	Advertising the Graduate Development Program
Unimail Pty Ltd	4,500	Advertising the Graduate Development Program
Young & Rubicam Mattingly	3,121,512	Advertising agent retainer creative advertising agency services
Young & Rubicam Mattingly	21,979	Recruitment advertising production - Navy officer entry
Young & Rubicam Mattingly	380,216	Recruitment advertising production - Army general entry
Young & Rubicam Mattingly	3,150	Recruitment advertising production - RAAF officer entry
Young & Rubicam Mattingly	25,921	Recruitment advertising production - RAAF general entry
Young & Rubicam Mattingly	139,556	Recruitment advertising production - ADFA
Young & Rubicam Mattingly	4,057	Recruitment advertising production - ADF aircrew
Young & Rubicam Mattingly	3,835	Recruitment advertising production - education features
Young & Rubicam Mattingly	337,574	Recruitment advertising production - direct entry officer/undergraduate entry
Young & Rubicam Mattingly	6,408	Production - regional advertising - national
Young & Rubicam Mattingly	3,480	Production - regional advertising - rural
Young & Rubicam Mattingly	5,644	Recruitment advertising production - new opportunities (all Tri-Service general entry)
Young & Rubicam Mattingly	56,414	Recruitment advertising production - ADF technical trades general entry
Market Research Organisation		
Emitch Pty Ltd ⁽¹⁾	11,550	Usage of ADF Recruiting's Internet site
Horizon Research K&GM Pty Ltd ⁽¹⁾	389,938	Recruitment strategies and production plans

Mitchell & Partners Australia Pty Ltd	6,000	Proposal for recruitment opportunities at V8 Supercar events
Worthington Di Marzio ⁽¹⁾	107,857	Evaluate effectiveness of ADF recruiting communications strategy
Young & Rubicam Mattingly ⁽¹⁾	19,025	To aid development of recruiting strategies to ADFA
Media Advertising Organisation		
Australian Medical Students Association Convention 2002 Inc	3,500	Recruitment advertising - direct entry officer/undergraduate entry
Armed Forces Federation of Australia	1,985	Recruitment advertising - direct entry officer/undergraduate entry
Australian Purchasing Resource Service	2,255	Recruitment advertising - Army Reserves
Australian Flag Company	6,338	Promotional material for Defence Community Organisation
Executive Media Pty Ltd	6,000	Advertising - ADF health promotion program
HMA Blaze Pty Ltd	61,922	Recruitment advertising - civilian
HMA Blaze Pty Ltd	38,619	Recruitment advertising - contract health professionals
HMA Blaze Pty Ltd	1,613	Advertising - request for tender
HMA Blaze Pty Ltd	5,232	Recruitment - ADF regional advertising - Brisbane
HMA Blaze Pty Ltd	75,734	Recruitment - ADF regional advertising - Sydney
HMA Blaze Pty Ltd	34,880	Recruitment - ADF regional advertising - Melbourne
HMA Blaze Pty Ltd	11,332	Recruitment - ADF regional advertising - Adelaide
HMA Blaze Pty Ltd	26,299	Recruitment - ADF regional advertising - Perth
Inprint Pty Ltd	4,548	Promotional material for Defence Community Organisation
Media Liaison Group Pty Ltd	6,327	Recruitment advertising - Army Reserves
Mitchell & Partners Australia Pty Ltd	57,000	Recruitment advertising - Navy officer entry
Mitchell & Partners Australia Pty Ltd	204,401	Recruitment advertising - Navy general entry
Mitchell & Partners Australia Pty Ltd	8,078	Recruitment advertising - Navy Reserve
Mitchell & Partners Australia Pty Ltd	81,381	Recruitment advertising - Army officer entry
Mitchell & Partners Australia Pty Ltd	750,681	Recruitment advertising - Army general entry
Mitchell & Partners Australia Pty Ltd	1,214,836	Recruitment advertising - Army Reserve
Mitchell & Partners Australia Pty Ltd	701,718	Recruitment advertising - RAAF officer entry

Mitchell & Partners Australia Pty Ltd	182,109	Recruitment advertising - RAAF general entry
Mitchell & Partners Australia Pty Ltd	23,823	Recruitment advertising - RAAF Ground Defence Reserve group
Mitchell & Partners Australia Pty Ltd	152,833	Recruitment advertising - ADFA
Mitchell & Partners Australia Pty Ltd	822,868	Recruitment advertising - ADF aircrew
Mitchell & Partners Australia Pty Ltd	87,100	Recruitment advertising - ADF - education features
Mitchell & Partners Australia Pty Ltd	678,806	Recruitment advertising - direct entry officer/undergraduate entry
Mitchell & Partners Australia Pty Ltd	1,498,503	Media sponsorships
Mitchell & Partners Australia Pty Ltd	392,118	Recruitment - ADF regional advertising - National
Mitchell & Partners Australia Pty Ltd	107,682	Recruitment - ADF regional advertising - rural
Mitchell & Partners Australia Pty Ltd	260,000	Recruitment advertising - Internet employment sites
Mitchell & Partners Australia Pty Ltd	11,895	Recruitment advertising - ADF technical trades general entry
National Promotions Australia	1,650	Promotional material for Defence Community Organisation
Nationwide News	1,930	Recruitment advertising - contract health professionals
Northern Territory News	2,381	Recruitment advertising - contract health professionals
Showcase Publications	5,950	Recruitment advertising - Navy general entry
Starcom Worldwide (Australia) Pty Ltd	59,428	Recruitment - ADF regional advertising - Brisbane
Starcom Worldwide (Australia) Pty Ltd	102,938	Recruitment - ADF regional advertising - Sydney
Starcom Worldwide (Australia) Pty Ltd	128,485	Recruitment - ADF regional advertising - Melbourne
Starcom Worldwide (Australia) Pty Ltd	49,038	Recruitment - ADF regional advertising - Adelaide
Starcom Worldwide (Australia) Pty Ltd	71,618	Recruitment - ADF regional advertising - Perth
Starcom Worldwide (Australia) Pty Ltd	2,008	Advertising - request for tender
Starcom Worldwide (Australia) Pty Ltd	202,913	Recruitment advertising - contract health professionals
Starcom Worldwide (Australia) Pty Ltd	1,889	Request for tender for the provision of an e-Learning solution for Defence
Starcom Worldwide (Australia) Pty Ltd	61,721	Recruitment advertising - civilian
Student Services Australia Pty Ltd	70,929	Recruitment advertising - Direct entry officer/undergraduate entry
The Australian	3,703	Recruitment advertising - civilian

The Border Mail	2,048	Recruitment advertising - contract health professionals
The Bulletin	2,500	Advertising - Centre for Defence and Strategic Studies conference
Trendsetting	1,527	Promotional material for Defence Community Organisation
Universal McCann	427,726	Recruitment advertising - Navy officer entry
Universal McCann	341,279	Recruitment advertising - Navy general entry
Universal McCann	3,343	Recruitment advertising - Army officer entry
Universal McCann	959,763	Recruitment advertising - Army general entry
Universal McCann	412,365	Recruitment advertising - Army Reserves
Universal McCann	474,496	Recruitment advertising - RAAF officer entry
Universal McCann	31,630	Recruitment advertising - RAAF general entry
Universal McCann	58,688	Recruitment advertising - RAAF Ground Defence Reserve group
Universal McCann	955,769	Recruitment advertising - ADFA
Universal McCann	1,608,097	Recruitment advertising - ADF aircrew
Universal McCann	100,947	Recruitment advertising - ADF - education features
Universal McCann	1,558,163	Recruitment advertising - direct entry officer/undergraduate entry
Universal McCann	7,956	Recruitment - ADF regional advertising - National Tri-Service general entry
Universal McCann	205,990	Recruitment - ADF regional advertising - National
Universal McCann	63,631	Recruitment - ADF regional advertising - rural
Universal McCann	65,503	Recruitment advertising - Internet employment sites
Universal McCann	1,274,558	Recruitment advertising - ADF technical trades general entry
Viewpoint Armed Forces Federation	1,985	Recruitment advertising - direct entry officer/undergraduate entry
Polling Organisation		
ECA International Pty Ltd	56,004	Global online membership and the purchase of statistical data on living conditions/costs around the world

Public Affairs and Corporate Communication

Advertising Agencies

Young & Rubicam Mattingly	2,250	Graphics design for exhibition display units
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Market Research Organisations

Mediascape Analytical & Research	116,237	Media tracking and analytical services
New Focus Pty Ltd ⁽¹⁾	20,522	'Below the line' recruitment communication study
Worthington Di Marzio	230,901	Community attitude research

Media Advertising Organisations

HMA Blaze Pty Ltd	1,101	Advertising for freedom of entry - HMAS Hawkesbury
HMA Blaze Pty Ltd	2,831	Advertising for HMAS Watson Open Day
HMA Blaze Pty Ltd	8,299	Advertising for Navy - Canberra Day and ship's visit to SA
HMA Blaze Pty Ltd	5,201	Armidale asbestos exposure public notice
Riverina Media Group	1,823	Advertising for RAAF Wagga Open Day
Starcom Worldwide (Australia) Pty Ltd	24,237	Advertising for NSW regional events
Starcom Worldwide (Australia) Pty Ltd	1,833	Advertising for SA regional events
Starcom Worldwide (Australia) Pty Ltd	7,764	Advertising for Vic/Tas regional events

Defence Materiel Organisation

Advertising Agencies

Canprint Communicate Pty Ltd	11,591	Printing of Public Service Gazettes
Hawkesbury Gazette and Courier	3,392	Recruiting advertisement - civilian
The Good Guides Group	7,750	Material for the graduate scheme

Market Research Organisations

In-site	1,881	Marketing display
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Media Advertising Organisations

HMA Blaze Pty Ltd	66,817	Recruitment and tender advertising - NSW
HMA Blaze Pty Ltd	64,500	Recruitment and tender advertising - ACT
Spherion Group Ltd	1,195	Recruitment advertising - civilian
Spherion recruitment	17,698	Recruitment advertising - civilian
Starcom Worldwide Australia Pty Ltd	6,772	Recruitment and tender advertising - SA
Starcom Worldwide Australia Pty Ltd	304,707	Recruitment and tender advertising - NSW
Starcom Worldwide Australia Pty Ltd	76,350	Recruitment and tender advertising - ACT
Starcom Worldwide Australia Pty Ltd	23,576	Recruitment and tender advertising - WA
Starcom Worldwide Australia Pty Ltd	32,959	Recruitment and tender advertising - Vic
Starcom Worldwide Australia Pty Ltd	16,995	Recruitment and tender advertising - Qld
Kellogg Brown & Root Pty Ltd	9,003	Recruitment advertising - civilian

Corporate Services and Infrastructure

Advertising Agencies

Adcorp Australia (Victoria) Ltd	59,746	Marketing sale of Defence property
Adcorp Australia Ltd	129,763	Marketing sale of Defence property
Byvan Pty Ltd	23,636	Marketing sale of Defence property
CB Richard Ellis	294,532	Marketing sale of Defence property

Chesterton International	36,357	Marketing sale of Defence property
Colliers Jardine (New South Wales) Pty Ltd	208,145	Marketing sale of Defence property
Degotardi Smith & Partners	2,200	Marketing sale of Defence property
FPD Savills	179,203	Marketing sale of Defence property
HMA Blaze Pty Ltd	1,660	Public notice for live firing
HMA Blaze Pty Ltd	114,279	Recruitment advertising – civilian
Jones Lang Lasalle	89,972	Marketing sale of Defence property
Kliger Wood	32,311	Marketing sale of Defence property
Knight Frank (New South Wales) Pty Ltd	72,129	Marketing sale of Defence property
LJ Hooker	64,642	Marketing sale of Defence property
Merit Protection & Review Agency	246,435	Recruitment advertising – civilian
Real Serve	5,000	Marketing sale of Defence property
Roberts Ltd	5,601	Marketing sale of Defence property
Samuel & Co	7,201	Marketing sale of Defence property
Seek Communications Ltd	1,620	Recruitment advertising – civilian
Starcom Worldwide (Australia) Pty Ltd	16,688	Recruitment advertising - graduate
Starcom Worldwide (Australia) Pty Ltd	2,440	Newspaper notice for live firing
Starcom Worldwide (Australia) Pty Ltd	755,840	Recruitment advertising – civilian
Starcom Worldwide (Australia) Pty Ltd	1,658	Tender advertisement
		Tender property services-task tracking information management production system
Starcom Worldwide (Australia) Pty Ltd	7,913	
Starcom Worldwide (Australia) Pty Ltd	6,797	Tender supply and printing business cards
Starcom Worldwide (Australia) Pty Ltd	32,510	Marketing sale of Defence property
Whelans Land Information	5,500	Marketing sale of Defence property
Zoo Instinctively Creative	7,163	Marketing strategy ‘Buy Right’ campaign

NOTE

1. These items are also reported in Table 4.9 under External Consultants.

CHAPTER FIVE

PEOPLE MATTER

PEOPLE

WORKFORCE OVERVIEW

**PERFORMANCE AGAINST PEOPLE MATTER
PRIORITIES IN 2002-03**

NON-OPERATIONAL TRAINING

WORKPLACE EQUITY AND DIVERSITY

OCCUPATIONAL HEALTH AND SAFETY

**ANNUAL REPORT ON THE ADMINISTRATION AND
OPERATION OF THE DEFENCE FORCE (HOME
LOANS ASSISTANCE) ACT 1990**

PEOPLE

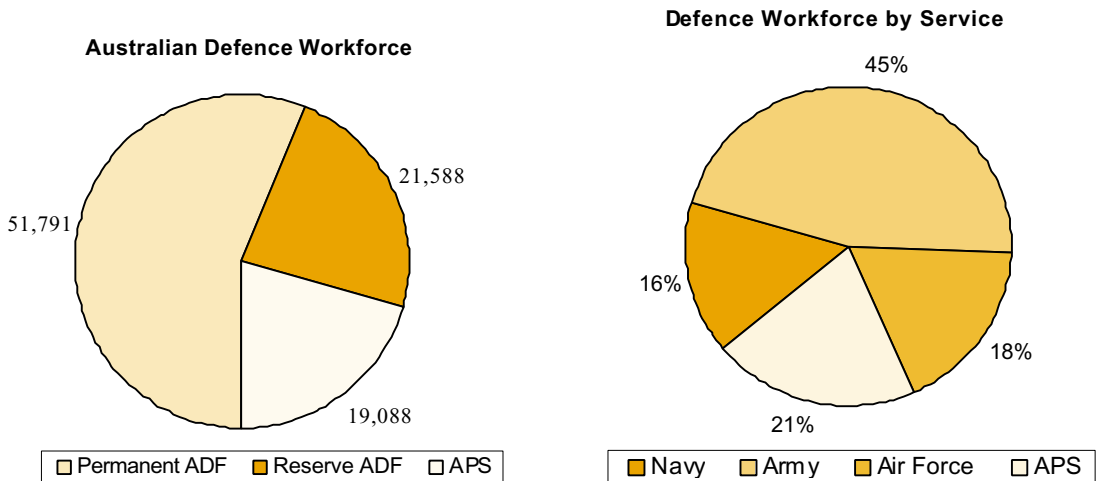
WORKFORCE OVERVIEW

ACTUAL STAFFING AS AT 30 JUNE 2003

The people chapter presents a range of views of the Australian Defence Organisation workforce during 2002-03. It includes numbers of personnel, employment categories and locations, gender information, and details of recruiting and separation during the year. This chapter will discuss the changes in the workforce that occurred during 2002-03, and represents personnel information at or up to the 30 June 2003.

At 30 June 2003, the Defence Organisation had 92,467 employees, including 73,379 ADF members and 19,088 APS members. The ADF workforce included 14,480 Navy permanent and Reserve members, 42,461 Army permanent and Reserve members and 16,438 Air Force permanent and Reserve members. The number by each element and the percentage of each service is represented in the charts below. The actual strength of the permanent component of the ADF at 30 June 2003 was 51,791.

CHART 5.1: DEFENCE WORKFORCE STAFFING AS AT 30 JUNE 2003



At 30 June 2003, there were 19,088 APS personnel. This number includes all APS personnel Defence has recorded as employees and includes full time, part time, ongoing and non-ongoing, and paid and unpaid employees at 30 June 2003.

This was an increase of 718 compared with the 30 June 2002 figure and is an overall increase of just under 4 per cent. There was increased participation by females in the workforce with 297 more than the 30 June 2002 level, an increase of just under 5 per cent. The increase in male participation was 421 above the 30 June 2002 levels or slightly under 4 per cent. These increases largely reflect the civilianisation of Service positions in non-operational functions, an increase in personnel for the war on terror

especially in intelligence and security, support of increased operational commitments and delays in market testing of elements of the departmental workforce.

The employment of over 2000 professional service providers is not included in Chart 5.1 above. These persons are contracted for specialist tasks for finite periods.

Examples include health professionals and para-professionals, project managers and information technology engineers.

TABLE 5.1: DISTRIBUTION OF AUSTRALIAN DEFENCE ORGANISATION PERSONNEL BY EMPLOYMENT LOCATION, AS AT 30 JUNE 2003⁽¹⁾

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT ⁽²⁾	O/S ⁽³⁾	TOTAL
Permanent Forces⁽⁴⁾⁽⁵⁾										
Navy ⁽⁶⁾	5,235	2,159	803	105	2,528	16	520	1,322	176	12,864
Army	5,119	3,378	8,728	602	856	96	3,145	1,877	1,488	25,289
Air Force	4,925	1,190	2,406	1,618	379	10	1,158	1,498	454	13,638
Sub Total	15,279	6,727	11,937	2,325	3,763	122	4,823	4,697	2,118	51,791
Reserve Forces⁽⁷⁾										
Navy	482	261	249	20	195	70	48	286	5	1,616
Army	4,853	3,074	4,103	1,277	1,862	697	588	598	120	17,172
Air Force	583	403	784	340	176	42	84	378	10	2,800
Sub Total	5,918	3,738	5,136	1,637	2,233	809	720	1,262	135	21,588
Total	21,197	10,465	17,073	3,962	5,996	931	5,543	5,959	2,253	73,379
APS⁽⁸⁾	3,817	4,051	1,619	2,006	619	99	378	6,368	131	19,088
Grand Total	25,014	14,516	18,692	5,968	6,615	1,030	5,921	12,327	2,384	92,467

NOTES

1. Figures in this table show actual staff numbers as at 30 June 2003 and are not average funded strengths.
2. ACT includes personnel located at Jervis Bay.
3. Permanent Forces and Reserves overseas represent personnel posted for long-term duty and deployments.
4. Permanent Forces figures include paid and unpaid members.
5. Personnel are shown in the location they are administered from.
6. Personnel serving in ships are included against the state or territory in which the ship is home-ported.
7. Figures are Reserves with training obligations.
8. APS figures include full time, part time, ongoing, non-ongoing, paid and unpaid employees.

TABLE 5.2: DISTRIBUTION OF APS PERSONNEL BY EMPLOYMENT LOCATION AND CLASSIFICATION, AS AT 30 JUNE 2003⁽¹⁾

STAFFING CLASSIFICATION	NSW	VIC	QLD	SA	WA	TAS	NT	ACT	O/S ⁽²⁾	TOTAL
Secretary								1		1
Senior Executive Service ⁽³⁾	0	7	1	8	0	0	0	93	2	111⁽⁴⁾
Temporarily Vacant ⁽⁵⁾				1				4		5
SES Relief Staffing ⁽⁶⁾	0	2	0	1	0	0	0	10	0	13
Executive Levels ⁽⁷⁾	315	669	75	690	66	6	15	1,779	88	3,703
Executive Relief Staffing ⁽⁸⁾	27	26	10	7	2	0	3	178	2	255
Other APS Levels ⁽⁹⁾	3,475	3,347	1,533	1,299	551	93	360	4,303	39	15,000
Total	3,817	4,051	1,619	2,006	619	99	378	6,368	131	19,088

NOTES

- Figures in the table show actual staff numbers as at 30 June 2003 and include 276 personnel who are presently on some form of unpaid leave.
- Overseas figures represent personnel posted for long and short-term duty as at 30 June 2003.
- Senior Executive Service (SES) includes Under Secretary, Deputy Secretary, First Assistant Secretary, Assistant Secretary, Chief of Division and Medical Officer 6 classifications.
- Defence has 116 SES positions and figures reflect 111 officers at their substantive level.
- Figures reflect SES positions pending permanent filling action.
- SES Relief Staffing indicates non-SES officers who are temporarily acting in SES positions. These officers are on higher duties while the incumbents are taking leave, acting in higher positions or on secondment to other agencies.
- Executive Levels include Levels 1 and 2 and senior principal research scientists and medical officer Grade 4.
- Executive Relief Staffing indicates APS levels temporarily acting in Executive Level positions pending permanent filling action or while incumbents are taking leave, acting in higher positions or on secondment to other agencies.
- APS levels include Australian Public Service levels 1 to 6, information technology, professional, technical, and trade/physical officers.

TABLE 5.3: ADF PERMANENT AND RESERVE FORCES, AND APS PERSONNEL, BY GENDER AND EMPLOYMENT CATEGORY⁽¹⁾

	AS AT 30 JUNE 2002				AS AT 30 JUNE 2003 ⁽²⁾			
	MEN	%	WOMEN	%	MEN	%	WOMEN	%
Navy								
<i>Trained Force</i>								
Officers	1,687	13.4	309	2.5	1,682	13.1	331	2.6
Other Ranks	7,269	57.7	1,297	10.3	7,385	57.4	1,417	11.0
<i>Training Force</i>								
Officers	534	4.2	191	1.5	551	4.3	182	1.4
Other Ranks	1,047	8.3	271	2.1	1,084	8.4	232	1.8
Total	10,537	83.6	2,068	16.4	10,702	83.2	2,162	16.8
Army								
<i>Trained Force</i>								
Officers	3,769	15.0	583	2.3	3,824	15.1	611	2.4
Other Ranks	16,498	65.5	1,663	6.6	17,530	69.3	1,740	6.9
<i>Training Force</i>								
Officers	499	2.0	125	0.5	554	2.2	110	0.4
Other Ranks	1,893	7.5	140	0.6	844	3.3	76	0.3
Total	22,659	90.0	2,511	10.0	22,752	90.0	2,537	10.0
Air Force								
<i>Trained Force</i>								
Officers	2,859	21.0	491	3.6	2,949	21.6	504	3.7
Other Ranks	7,225	53.2	1,274	9.4	7,505	55.0	1,298	9.5
<i>Training Force</i>								
Officers	530	3.9	107	0.8	546	4.0	127	0.9
Other Ranks	971	7.1	133	1.0	608	4.5	101	0.7
Total	11,585	85.2	2,005	14.8	11,608	85.1	2,030	14.9
ADF Permanent								
<i>Trained Force</i>								
Officers	8,315	16.2	1,383	2.7	8,455	16.3	1,446	2.8
Other Ranks	30,992	60.3	4,234	8.2	32,420	62.6	4,455	8.6
<i>Training Force</i>								
Officers	1,563	3.1	423	0.8	1,651	3.2	419	0.8
Other Ranks	3,911	7.6	544	1.1	2,536	4.9	409	0.8
Total	44,781	87.2	6,584	12.8	45,062	87.0	6,729	13.0
ADF Reserves⁽³⁾								
Navy	1,006	4.8	231	1.1	1,294	6.0	322	1.5
Army	14,301	68.1	2,855	13.6	14,457	67.0	2,715	12.6
Air Force	2,114	10.1	494	2.3	2,273	10.5	527	2.4
Total	17,421	83.0	3,580	17.0	18,024	83.5	3,564	16.5
APS⁽⁴⁾								
Total	12,027	65.5	6,343	34.5	12,448	65.2	6,640	34.8

NOTES

1. Figures in the table are actual staff numbers as at 30 June 2002 and 30 June 2003.
2. Percentage figures are calculated against the individual permanent service totals which can be found in Table 5.1.
3. Figures are Reserves with training obligations.
4. Figures exclude locally engaged APS overseas.

TABLE 5.4: APS PERSONNEL BY GENDER AND CATEGORY AS AT 30 JUNE 2003 ⁽¹⁾⁽²⁾⁽³⁾

CATEGORY		FULL-TIME	PART-TIME	TOTAL
Ongoing employees	Male	11,977	54	12,031
	Female	5,880	290	6,170
Non-ongoing employees	Male	397	20	417
	Female	429	41	470
Total	Male	12,374	74	12,448
	Female	6,309	331	6,640
Total APS Personnel		18,683	405	19,088

NOTES

1. Figures in this table show actual staff numbers.
2. Figures exclude locally engaged civilians overseas.
3. Figures include paid and unpaid staff.

TABLE 5.5: APS SENIOR EXECUTIVE SERVICE STAFF AS AT 30 JUNE 2003 ⁽¹⁾⁽²⁾

	TOTAL SES			2002-03 ENGAGEMENTS ⁽³⁾			2002-03 SEPARATIONS ⁽⁴⁾		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Senior Executive Band 1	52	16	68	11	4	15	7	1	8
Senior Executive Band 2	18	4	22	2	-	2	1	-	1
Senior Executive Band 3	6	-	6	1	-	1	1	-	1
Chief of Division Grade 2	12	-	12	1	-	1	-	-	-
Chief of Division Grade 3	3	-	3	-	-	-	-	-	-
Temporarily vacant	2	3	5						
Total	93	23	116	15	4	19	9	1	10

NOTES

1. Figures in this table show actual staff numbers at their substantive level and officers on higher duties pending permanent filling action. Defence has 116 APS Senior Executive Staff positions. As at 30 June 2003, 111 SES were in substantive positions and five officers were on higher duties pending permanent filling of the positions. Officers on higher duties, not pending permanent filling action, are not included.
2. Gains and losses do not reflect movement of officers between levels in each of the Senior Executive Service and Chief of Division streams.
3. Engagement figures include new engagements, promotions and transfers from other agencies for ongoing employees only.
4. Separation figures include resignations and redundancies, and promotions and transfers to other departments for ongoing employees only.

TABLE 5.6: STAR RANKED OFFICERS AS AT 30 JUNE 2003

	TOTAL STAR RANK ⁽¹⁾			2002-03 PROMOTIONS ⁽²⁾			2002-03 SEPARATIONS ⁽³⁾		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
Four Star									
Navy	-	-	-	-	-	-	1	-	1
Army	1	-	1	1	-	1	-	-	-
Three Star									
Navy	2	-	2	2	-	2	1	-	1
Army	1	-	1	-	-	-	1	-	1
Air Force	1	-	1	-	-	-	-	-	-
Two Star									
Navy	7	-	7	1	-	1	1	-	1
Army	9	-	9	4	-	4	3	-	3
Air Force	7	-	7	3	-	3	3	-	3
One Star									
Navy	26	-	26	9	-	9	6	-	6
Army	39	-	39	11	-	11	7	-	7
Air Force	25	1	26	8	-	8	4	-	4
Total	118	1	119	39	0	39	27	0	27

NOTES

1. Officers on acting or higher duties are not included.
2. Promotions include those officers promoted between levels.
3. Separations include only those officers who have separated from Defence.

ENLISTMENTS AND RECRUITMENT

The ADF enlisted 5,338 permanent members, 4,462 men and 876 women, for the 12 months to 30 June 2003 as shown in Table 5.7. This was 1,245 less than that achieved in 2001-02. Conversely, 2002-03 showed a reduction in separation rates and has largely offset the lower number recruited. There were 5,107 separations from the ADF for the twelve months to 30 June 2003. This is 606 fewer than 2001-02 and indicates that the trend started during 2001-02 is continuing and provides the opportunity to grow more quickly towards White Paper workforce target.

A continued improvement in numbers in the Reserve component of the ADF is evident with a further increase from 21,001 during 2001-02 to 21,588 during 2002-03. The increase to 3,065 Reserve enlistments in 2002-03 was an improvement of 195 above the 2,870 recruited in 2001-02 and along, with slightly improved retention, has produced the overall increase in the Reserves.

The overall recruiting achievement against targets for the permanent and reserve forces for 2002-03 was 84 per cent, which was an improvement of 3 percentage points higher than achievement for 2001-02.

TABLE 5.7: ADF – PERMANENT FORCE ENLISTMENTS 2001-02 AND 2002-03⁽¹⁾⁽²⁾⁽³⁾

	NAVY		ARMY		AIR FORCE ⁽⁴⁾		ADF	
	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN	MEN	WOMEN
2001-02								
Trained Force								
Officers	9	1	45	20	-	-	54	21
Other Ranks	46	4	385	59	-	-	431	63
Training Force								
Officers	202	77	199	33	298	78	699	188
Other Ranks	1,065	332	2,196	161	1,178	195	4,439	688
Total	1,322	414	2,825	273	1,476	273	5,623	960
2002-03								
Trained Force								
Officers	14	2	167	28	-	-	181	30
Other Ranks	65	10	256	58	-	-	321	68
Training Force								
Officers	134	43	287	51	247	65	668	159
Other Ranks	1,093	312	1,590	160	609	147	3,292	619
Total	1,306	367	2,300	297	856	212	4,462	876

NOTES

1. Figures in this table show actual staff.
2. Enlistments exclude Reserves commencing periods of full-time duty.
3. Figures include inter and intra-Service transfers processed by the Services and, therefore, do not correlate with the recruiting activity shown in Table 5.8.
4. All Air Force recruits are enlisted into the Training Force.

TABLE 5.8: ADF – PERMANENT FORCE RECRUITING ACTIVITY 2001-02 AND 2002-03

	NAVY	ARMY	AIR FORCE	ADF
2001-02				
Total Inquiries	22,165	61,432	42,449	127,290 ⁽¹⁾
Formal Applications	5,487	10,388	7,537	23,412
Applicants Enlisted	1,590	2,844	1,402	5,836
Target	1,863	2,830	1,614	6,307
Percentage Achieved	85	100	87	93
2002-03				
Total Inquiries	14,780	41,952	28,414	85,312 ⁽²⁾
Formal Applications	4,560	7,185	5,897	17,642
Applicants Enlisted	1,556	1,842	924	4,322
Target	1,842	2,342	980	5,164
Percentage Achieved	84	79	94	84

NOTES

1. This figure includes 1,244 full-time Tri-Service inquiries that relate to inquirers who were undecided on which Service they wished to pursue full time.
2. This figure includes 166 full-time Tri-Service inquiries that relate to inquirers who were undecided on which Service they wished to pursue full time.

CHART 5.2: ADF – PERMANENT FORCE RECRUITING TARGET VERSUS ACHIEVEMENT 2001-02 AND 2002-03

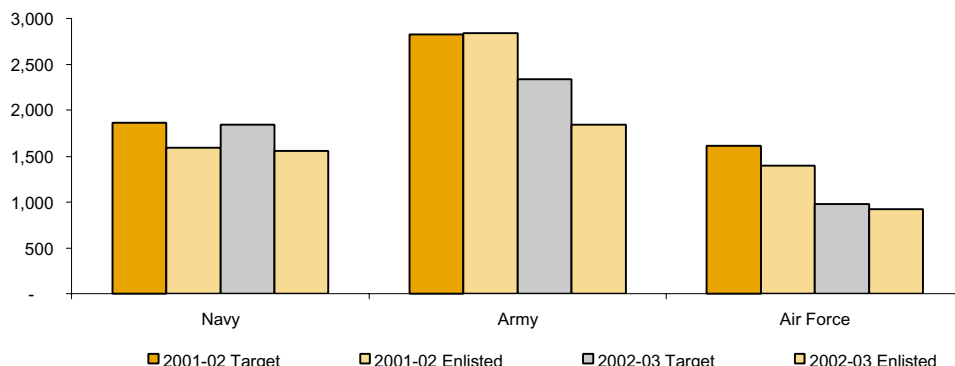


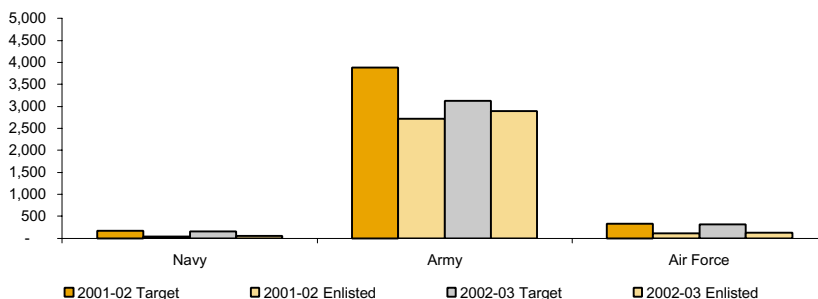
TABLE 5.9: ADF – RESERVE FORCE RECRUITING ACTIVITY 2001-02 AND 2002-03

	NAVY	ARMY	AIR FORCE	ADF
2001-02				
Total Inquiries	1,451	25,002	2,550	29,003
Formal Applications	265	6,836	478	7,579
Applicants Enlisted	42	2,712	116	2,870
Target	179	3,878	325	4,382
Percentage Achieved	23	70	36	65
2002-03				
Total Inquiries	898	24,946	2,876	28,727⁽¹⁾
Formal Applications	157	7,622	577	8,356
Applicants Enlisted	54	2,889	122	3,065
Target	160	3,129	316	3,605
Percentage Achieved	34	92	39	85

NOTES

1. This figure includes 7 part time tri-Service inquiries that relate to inquirers who were undecided on which Service they wished to join.

CHART 5.3: ADF – RESERVE FORCE RECRUITING TARGET VERSUS ACHIEVEMENT 2001-02 AND 2002-03



SEPARATIONS

Separation rates in the Permanent Force across all three Services fell in 2002-03 to a ten-year low. The Navy's was below 12 per cent, the Army's below 10 per cent and the Air Force's below 8 per cent. The reduced voluntary separations were partly offset by an increase in involuntary separations.

TABLE 5.10: ADF – PERMANENT FORCE SEPARATIONS 2001-02 AND 2002-03⁽¹⁾⁽²⁾

		VOLUNTARY	INVOLUNTARY ⁽³⁾	AGE RETIREMENT	CADETS AND TRAINEES	TOTAL
2001-02						
Navy	Officers	160	9	0	41	210
	Other Ranks	902	128	0	215	1,245
Army	Officers	414	25	21	113	573
	Other Ranks	1,479	365	20	442	2,306
Air Force	Officers	238	8	25	44	315
	Other Ranks	895	9	35	125	1,064
Total ADF	Officers	812	42	46	198	1,098
	Other Ranks	3,276	502	55	782	4,615
2002-2003						
Navy	Officers	176	17	5	41	239
	Other Ranks	778	157	0	317	1,252
Army	Officers	323	35	12	98	468
	Other Ranks	1,190	428	9	412	2,039
Air Force	Officers	209	10	1	35	255
	Other Ranks	652	71	20	111	854
Total ADF	Officers	708	62	18	174	962
	Other Ranks	2,620	656	29	840	4,145

NOTES

1. Figures in this table show actual staff.
2. Non-effective personnel (personnel on maternity leave and leave without pay) and Reserves completing periods of full-time duty are not included.
3. 'Involuntary' primarily comprises members who were medically unfit or unsuitable for further training.

STAFFING BY AVERAGE STRENGTH

The information presented within this section represents average staffing levels and provides a comparison of personnel achievement against budgeted personnel estimates for the financial year. The following tables assess performance against budget and revised staffing level estimates for 2002-03.

The permanent force average strength was 52,080 including 1,127 Reservists undertaking full-time service. These reservists were employed primarily within the other ranks.

The ADF achieved an average strength figure of 3,142 towards the additional 3,555 average funded strength provided under the Government's commitment to an Army with six full-time battalions and an enhanced combat support group in the Air Force.

Improvements in recruiting and separation rates will provide the Services with an opportunity, over the next few years, to grow more quickly towards the White Paper force end states than had previously been anticipated.

TABLE 5.11: ADF PERMANENT FORCE AVERAGE FUNDED STRENGTH⁽¹⁾

PERMANENT FORCES	2001-02 ACTUAL	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL	VARIATION (2002-03 ACTUAL LESS REVISED ESTIMATE)	
Personnel Numbers - Average Strength						
						%
Navy	12,598	12,838	12,838	12,847	9	0.1
Army	25,012	25,289	25,785	25,587	-198	-0.8
Air Force	13,322	13,196	13,446	13,646	200	1.5
Total Permanent Forces	50,932	51,323	52,069	52,080	11	0.0

NOTE

- Staffing numbers for Permanent Forces are based on average funded strengths and includes Reservists undertaking full-time service. The average number of Reservists undertaking full-time service included Navy 359, Army 619 and Air Force 149.

The reserve strength figures represent Reservists who rendered paid service during the financial year. The 2002-03 Reserves actual numbers were 19,620, a decrease of 738 from the revised estimate of 20,358, but an increase of 752 over the 2001-02 figure. This figure excludes the average number of Reserves on full-time service in the Permanent Force during 2002-03.

TABLE 5.12: ADF RESERVE FUNDED STRENGTH⁽¹⁾⁽²⁾

RESERVE FORCES	2001-02 ACTUAL	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL	VARIATION (2002-03 ACTUAL LESS REVISED ESTIMATE)	
Personnel Numbers - Paid Strength						
						%
Navy	1,544	2,142	2,142	1,404	-738	-34.5
Army	15,669	16,300	16,500	16,211	-289	-1.8
Air Force	1,655	1,576	1,716	2,005	289	16.8
Total Reserve Forces	18,868	20,018	20,358	19,620	-738	-3.6

NOTES

- Reserve figures represent numbers of General Reserves who rendered paid service during the financial year.
- During the financial year, an average of 1,127 Reservists undertook full time service in the Permanent Force, and are included in the Permanent Force staff table.

The APS average strength for 2002-03 was 18,385, an increase of 441 from the revised estimate of 17,944. The forecast increase during the year was related to an expected increase in the use of APS in non-operational functions, combined with delays in market testing within the Corporate Services and Infrastructure Group. The outcome also reflected delayed reductions through the rationalisation of the Defence Integrated Distribution System and the implementation of new ADF recruiting arrangements.

The APS workforce continued to grow in the first half of the year in response to heightened security and operational commitments and through changing business requirements.

Recognising that continued growth, within the APS element of the Defence workforce, would exert significant budgetary pressure on the portfolio, a suspension on recruitment activities was applied between late January and April 2003. The recruitment suspension had the desired effect of arresting growing numbers. Following this action, it was agreed that a measured APS reduction program be undertaken over the next three years as a contribution towards the Defence's program of administrative savings.

TABLE 5.13: APS AVERAGE FUNDED STRENGTH⁽¹⁾

APS	2001-02 ACTUAL	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL	VARIATION (2002-03 ACTUAL LESS REVISED ESTIMATE)	
Personnel Numbers - Average Strength						%
Total APS	16,819	17,328	17,944	18,385	441	2.5

NOTE

1. Staffing numbers for civilians are based on average funded strengths.

TABLE 5.14: BREAKDOWN OF AVERAGE FUNDED STRENGTHS BY SERVICE AND RANK

	2001-02 ACTUAL	2002-03 BUDGET ESTIMATE	2002-03 REVISED ESTIMATE	2002-03 ACTUAL
NAVY				
1 Star Officers and above	34	35	35	35
Senior Officers	403	404	404	432
Junior Officers	2,349	2,394	2,394	2,380
Other Ranks	9,812	10,005	10,005	10,000
Sub-total Permanent Navy	12,598	12,838	12,838	12,847
Reserves ⁽¹⁾	1,544	2,142	2,142	1,404
Sub-total Navy	14,142	14,980	14,980	14,251
ARMY				
1 Star Officers and above	49	50	50	50
Senior Officers	561	545	558	558
Junior Officers	4,431	3,756	4,546	4,458
Other Ranks	19,971	20,938	20,631	20,521
Sub-total Permanent Army	25,012	25,289	25,785	25,587
Reserves ⁽¹⁾	15,669	16,300	16,500	16,211
Sub-total Army	40,681	41,589	42,285	41,798
AIR FORCE				
1 Star Officers and above	36	33	37	35
Senior Officers	503	417	510	517
Junior Officers	3,364	3,364	3,439	3,489
Other Ranks	9,419	9,382	9,460	9,605
Sub-total Permanent Air Force	13,322	13,196	13,446	13,646
Reserves ⁽¹⁾	1,655	1,576	1,716	2,005
Sub-total Air Force	14,977	14,772	15,162	15,651
APS				
Senior Executives ⁽²⁾	102	117	117	110
Senior Executive Relief Staff ⁽³⁾	15			20
Senior Officers ⁽⁴⁾	3,264	3,278	3,563	3,539
Senior Officer Relief Staff ⁽³⁾	290			295
Others	13,148	13,933	14,264	14,421
Sub-total APS	16,819	17,328	17,944	18,385
Total Workforce	86,619	88,669	90,371	90,085

NOTES

1. The 2002-03 Reserve strength represents Reservists who undertook paid service.
2. There is one Secretary position and 116 SES positions in Defence. The figure of 110 average substantive SES includes the Secretary of Defence.
3. Relief Staff represent personnel acting within a higher classification for short durations pending permanent filling action or while the incumbents are taking leave, acting in higher positions or on secondment to other agencies.
4. Senior Officers include substantive Executive Levels 1 and 2.

PERFORMANCE AGAINST PEOPLE MATTER PRIORITIES FOR 2002-03

This section reports on performance against the priorities included in the *People Matter* sections of the *Portfolio Budget Statements 2002-03* and in the *Portfolio Additional Estimates Statements 2002-03*.

WORKFORCE PLANNING

ESTABLISH THE STRATEGIC WORKFORCE PLANNING REVIEW

Achieved

The Strategic Workforce Planning Review was completed with the Defence Committee endorsing the final report in May 2003. The implementation of review recommendations has commenced.

DEVELOP THE DEFENCE WORKFORCE PLAN

Substantially Achieved

The Defence Workforce Plan addresses high priority workforce risks to capability in terms of skills, numbers and costs over the next ten to 20 years. Significant progress has been made in developing the plan, which will be submitted to the Defence Committee for endorsement in late 2003.

ESTABLISH THE DEFENCE PEOPLE PLAN

Partially Achieved

The Defence People Plan is now being developed with the aim of being operational from 2004-05. The plan will include specific initiatives and a budget that will be updated each financial year. The focus for 2002-03 was the completion of the Strategic Workforce Planning Review as the overarching framework for people planning in Defence. The People Plan will be developed against the framework of the Strategic Workforce Planning Review to link people initiatives to workforce capability.

REVIEW OF AUSTRALIAN DEFENCE FORCE REMUNERATION

Achieved

In 2001, an external review of the ADF's remuneration policies, practices and arrangements (The Nunn Review) was undertaken. The review resulted in a report, *Review of Australian Defence Force Remuneration 2001*, for consideration by the Ministers for Defence and Finance and Administration. The report was released in August 2001.

In 2002-03, Defence proceeded with a parallel activity which is consistent with the Nunn Review, dealing specifically with remuneration reform. The Remuneration Reform Program, currently in progress, proposes a phased approach to rationalising some elements of existing allowances with the outcome of developing a new pay structure for the ADF by the end of 2003-04.

IMPLEMENT THE DEFENCE EMPLOYEES CERTIFIED AGREEMENT 2002-03

Achieved

The *Defence Employees Certified Agreement 2002-03* was implemented following certification in April 2002. Implementation progressed well, with positive feedback being received from staff during consultation workshops for the replacement agreement. Some provisions will be carried over into the 2004-06 agreement, which is under negotiation.

DEVELOP A REPLACEMENT WORKPLACE REMUNERATION ARRANGEMENT FOR THE ADF

Partially Achieved

The current ADF workplace remuneration agreement was agreed by the Defence Force Remuneration Tribunal in November 2002, and provides for a six per cent pay rise over the period of the arrangement (from 7 November 2002 to 6 May 2004). The replacement enterprise productivity arrangement for the ADF is required to be in place by May 2004. Consultation with the ADF is in progress. Arrangements for the ADF will be developed in parallel with the *Defence Employees Certified Agreement 2004-06*.

DEVELOP LEGISLATION FOR THE NEW MILITARY REHABILITATION AND COMPENSATION SCHEME

Substantially Achieved

The exposure draft of the Military Rehabilitation and Compensation Bill 2003 was released for consultation on 27 June 2003. The bill remained an exposure draft until 31 August 2003 to allow time for the ADF and veteran communities to comment. Current planning is that the bill will be introduced during the spring session of Parliament in 2003. The objective is for the new Act to be operational from July 2004.

CONDUCT DEFENCE CENSUS 2003

Achieved

The Defence census was conducted as scheduled on 18 March 2003. The current census database has been used extensively by Defence, relevant external agencies and academic institutions in developing personnel policy. Data analysis is in progress and the final census report will be available in November 2003.

DEVELOP 'FAMILY FRIENDLY' PERSONNEL POLICIES TO PROMOTE WORK-LIFE BALANCE

Achieved

The following policies have been implemented for the ADF:

- emergency child care for ADF members recalled to duty away from their normal place of residence; and

- the Defence School Transition Aid Program to provide in-school advice and support to children of ADF members who are required to relocate.

The following policies were developed for Defence civilians and are outlined in the *Defence Employees Certified Agreement 2002-03*:

- access to flexible working hours;
- access to home-based work;
- flexible leave provisions including parental leave;
- assistance in meeting dependant care costs where job demands impose additional dependant care costs; and
- access to the use of Defence provided child care, where places are not taken by the ADF.

DEVELOP AND IMPLEMENT A COORDINATED APPROACH TO 360-DEGREE-FEEDBACK REPORTING ACROSS DEFENCE

Achieved

A 360-degree feedback program has been developed and implemented across senior levels of Defence. Senior leadership and feeder groups have accessed the program. The 360-degree feedback instrument has been aligned with the Defence leadership model as the basis for informing senior leadership performance.

ESTABLISH A NEW AGREEMENT BETWEEN DEFENCE AND THE UNIVERSITY OF NEW SOUTH WALES FOR THE DELIVERY OF EDUCATIONAL AND SELECT SUPPORT SERVICES AT THE AUSTRALIAN DEFENCE FORCE ACADEMY

Substantially Achieved

The new agreement arose from an independent review by Professor Ian Zimmer into the educational arrangements at the Australian Defence Force Academy. Negotiations with the university have been completed. The new agreement has been developed and is under ministerial consideration.

DEVELOP AND IMPLEMENT A STRATEGY FOR BETTER BUSINESS MANAGEMENT EDUCATION AND TRAINING IN DEFENCE

Partially Achieved

In December 2002, Defence identified a more strategic approach to developing business skills of staff. The business skilling review is aimed at developing options for a whole-of-Defence business skilling system. The final review report was submitted to the Defence Committee in September 2003.

IMPLEMENT THE DEFENCE E-LEARNING STRATEGY

Partially Achieved

The Defence e-learning strategy is a White Paper undertaking that will deliver common standards for a whole-of-Defence e-learning system. Funding has been approved for the implementation of the strategy over a three-year period. A tender for the selection and procurement of an integrated learning management system was completed. Implementation commenced in May 2003.

DEVELOP A NEW DEFENCE WORKFORCE EQUITY AND DIVERSITY PLAN

Achieved

The *Defence Workforce Equity and Diversity Plan 2003-2005* is directed at ensuring that equity and diversity principles are integrated with the way Defence conducts its business. The plan has been developed and is being implemented.

DEVELOP AND IMPLEMENT A DEFENCE-FOCUSED PACKAGE FOR OVERSEAS CONDITIONS OF SERVICE

Substantially Achieved

Prior to 1 July 2002, conditions of service and rates of all allowances for Defence personnel serving overseas were based on those provided by the Department of Foreign Affairs and Trade. A new specific Defence-related package aims to ensure more targeted and cost effective measures for those overseas locations where Defence personnel are located.

ESTABLISH A CENTRE FOR MILITARY AND VETERANS' HEALTH TO PROVIDE POST GRADUATE TRAINING FOR ADF HEALTH PROFESSIONALS

Substantially Achieved

The Centre for Military and Veterans' Health is to be established at the University of Queensland School of Medicine. The partners for this initiative are the University of Queensland, Adelaide University and the Menzies School of Health Sciences. Contracts were signed in August 2003, with the centre expected to be operational in February 2004.

IMPLEMENT PHASE 1 OF HEALTHKEYS TO ALLOW THE CAPTURE OF INJURY STATISTICS AND ASSIST IN THE DEVELOPMENT OF INJURY PREVENTION STRATEGIES

Not Achieved

Implementation of HealthKEYS commenced with pilot projects in late 2002. It was halted due to software problems and slow network response times. The issue of slow response times has been resolved and other issues are being addressed. Pilot activity re-commenced in August 2003. ADF-wide implementation is scheduled to take place in the first half of 2004.

IMPLEMENT THE ADF MENTAL HEALTH STRATEGY (INCLUDING THE ADF ALCOHOL MANAGEMENT PROGRAM)

Partially Achieved

Implementation of the ADF mental health strategy has been steady, although some milestones were not met. Initiatives that are being successfully implemented include:

- strategies for improved mental health literacy;
- improved information sharing among professional groups; and
- enhanced mental health service delivery including the development of a tri-Service model for the mental health management of ADF members involved in critical incidents and a preventative program focusing on adjustment issues for ADF members returning from peacekeeping and overseas operations.

Activities undertaken as part of the ADF alcohol management program included evaluations of the Navy alcohol and drug program and the alcohol rehabilitation and education program. A training package for ADF health and welfare staff was developed and is being implemented. Planning is well advanced for an all hours support line and improved counselling support.

DEVELOP A DEFENCE INJURY PREVENTION PROGRAM

Achieved

The program was developed at a number of pilot sites covering 15 per cent of the full-time ADF population. Within the sample selected for pilot testing, the program has resulted in a 95 per cent reduction in rates of pelvic stress fracture for female Army recruits, elimination of serious knee injuries in recruits negotiating an obstacle course and ten to 45 per cent reduction in rates of injury in other ADF groups.

INTRODUCE A REVITALISED ADF SPOUSE EMPLOYMENT ASSISTANCE PROGRAM

Substantially Achieved

In February 2003, the Defence People Committee endorsed an expanded program to provide improved employment opportunities to partners of ADF members. The new program, the Services Workforce Access Program for Partners, was launched on 10 October 2003 at HMAS Albatross. Service-supplier arrangements are being finalised with the Department of Employment and Workplace Relations and selected national recruitment agencies.

IMPLEMENT RECOMMENDATIONS FROM RESEARCH ON THE IMPACT OF MOBILITY OF THE ADF ON EDUCATION OUTCOMES OF CHILDREN

Partially Achieved

The research is linked to the findings of a study entitled *Changing Schools: Its Impact on Student Learning*, the result of a joint project conducted on behalf of Defence and the Department of Education, Science and Training. The purpose of the study was to

investigate issues associated with student mobility and to document policies and practices used to identify and support students who frequently relocate. Two national projects have emerged from the report's recommendations. Defence and the Department of Education, Science and Training have entered into a memorandum of understanding to jointly sponsor the two projects. The project reports are due in early 2004.

ESTABLISH MORE CHILD CARE CENTRES IN AREAS OF HIGH NEED WITHIN AUSTRALIA

Partially Achieved

In 2001-02, a five-year child care expansion initiative was developed by the Defence People Committee to increase the number of child care centres and places in areas where the local communities are unable to support Defence child care needs. During 2002-03, planning commenced for the establishment of new child care centres in the high-need areas of East Sale, Williamstown, Puckapunyal and Holsworthy, with construction to take place during 2003-04.

In addition, the number of non-centre-based child care places in areas of high need was increased, including family day care, outside school hours care and occasional care. To address a national shortage of child care workers, a scheme has been initiated to assist Defence spouses seeking employment to work as registered carers. Child care needs analysis surveys have been conducted in Adelaide and Rockingham to determine Defence family needs in these areas.

CONTINUE EVALUATION OF A SOUTHERN REGION TRIAL OF PRIVATE SECTOR PROVISION OF ADF RECRUITMENT SERVICES

Achieved

The evaluation was completed. The Minister Assisting the Minister for Defence announced, in September 2002, that Defence would proceed with a national collaborative arrangement with Manpower Services Australia Pty Ltd to deliver recruiting services to the ADF. An amendment to the existing contract between Manpower and Defence was signed in November 2002. The collaborative organisation formed under this contract and known as Defence Force Recruiting, became operational on 1 July 2003.

DEVELOP A MORE EFFECTIVE SELECTION PROCESS FOR OFFICER ENTRY INTO THE ADF

Partially Achieved

In September 2002, a research study was undertaken to investigate aspects of officer entry into the Australian Defence Force Academy. The study was an initial phase of qualitative research seeking to gain a better understanding of target market attitudes. In 2002-03, a trial, based on this study, was conducted for the centralisation of the Australian Defence Force Academy's officer selection boards with the objective of improving officer recruitment. A recruiting campaign to be conducted in 2003-04 will focus on major activity in the secondary school environment and will supplement achievement of officer entry recruiting targets for the Academy.

DEVELOP A TRAINING PROGRAM AIMED AT ELIMINATING WORKPLACE HARASSMENT

Achieved

The training program is available to Defence personnel in a PowerPoint presentation format and as an on-line initiative. It describes workplace bullying and provides direction to staff on identifying and managing such behaviour.

CONTINUE IMPLEMENTATION OF THE NEW PUBLIC SERVICE TRAINING PACKAGE

Achieved

The development and piloting of 50 modules of training under the nationally recognised Public Service Training Package has been completed. Customisation of some materials has been undertaken to meet specific Defence needs. A national review of the training package is under way, with the revised package being launched in 2004. Defence is represented on the National Steering Committee.

CONDUCT AN ANALYSIS OF SOCIAL AND DEMOGRAPHIC ENVIRONMENTS TO ASSESS THE QUALITY OF INFRASTRUCTURE AND SOCIAL SERVICES AVAILABLE TO ADF MEMBERS

Substantially Achieved

A comprehensive study, *Northern Territory/Kimberly area personnel project towards enhancing retention*, was undertaken to better understand personnel retention issues, including infrastructure and social services, specific to northern Australia. This model of investigation will be followed for other regions on a priority basis.

NON-OPERATIONAL TRAINING

CORPORATE LEADERSHIP INITIATIVES

Key achievements in 2002-03 included the evaluation of the Capstone Program (targeted at the ADF star ranked officers and the APS Senior Executive Service), the Results through People Program and the process for selecting civilian participants for study at the Centre for Defence and Strategic Studies. The objective was to ensure ongoing improvement of each initiative in line with current Defence priorities. As an outcome of the evaluation, the Capstone Program has been re-designed and an 'emotional intelligence' component has been included in the Results through People training. The selection processes for the Defence and Strategic Studies Course have been amended to reflect closer alignment to the Australian Public Service Senior Executive Leadership Capability Framework, primarily to target high performing Executive Level 2 staff with the potential to progress to the Senior Executive Service.

GRADUATE DEVELOPMENT PROGRAM

As indicated in the table below, the Defence graduate intake continues to grow, with the total intake increasing over a five-year period. Planning is under way to establish a graduate Information Stream in 2004.

TABLE 5.15: GRADUATE INTAKE FIGURES

PROGRAM	1998-99	1999-00	2000-01	2001-02	2002-03
Graduate Development Program					
Generalists	50	56	45	50	48
People Strategists	-	-	-	8	8
Business Analysts	-	-	5	10	8
Defence Materiel Graduate Scheme	66	80	29	43	46
Corporate Services and Infrastructure Group	-	-	-	6	6
Defence Science and Technology Scheme	51	24	10	51	36
Defence Signals Directorate Scheme	25	37	36	31	54
Total	192	197	125	199	206

PUBLIC SERVICE TRAINING PACKAGE

In 2002-03, distance learning delivery of the Public Service Training Package was piloted with 45 students undertaking training across Australia. As a result of this pilot initiative, a strategy for flexible learning solutions is being developed to increase access to the training package.

BUSINESS EDUCATION SKILLS DEVELOPMENT

A suite of financial, procurement and project management courses are offered to Defence personnel. Tertiary-level financial management courses offered include:

- a ten-week intensive accrual accounting course provided through the Canberra Institute of Technology. A total of 68 Defence personnel successfully completed programs provided during 2002-03;
- a Diploma in Government Financial Management. A total of 49 Defence personnel completed the diploma during 2002-03; and
- a Graduate Certificate in Professional Management (Finance). A total of 26 Defence personnel graduated from the program.

Curricula for simple and complex procurement training in Defence were redeveloped. A procurement recognition process has also been developed, together with a network of assessors to enable Defence staff with a background in procurement to achieve competency for knowledge and skills developed on the job. During 2002-03, 3,375 Defence personnel received training in simple procurement, while 2,008 received training in complex procurement modules. Additionally, a total of 508 competency recognition processes, which look at prior learning, were conducted.

Training for the Resource and Output Management and Accounting Network system was also re-developed. As the corporate financial system for Defence, the system encompasses corporate budgeting, accounting and reporting, and supports the Defence resource management framework.

VOCATIONAL EDUCATION AND TRAINING

Defence registered training organisations are accredited to issue a total of 144 national qualifications from 17 training packages and a further 436 nationally recognised 'accredited course' qualifications (as at 30 June 2003). A database of Defence accredited vocational education and training has been established. It is for the use of current and former members of Defence, their employers and potential employers, and other education providers.

Table 5.16 classifies non-operational training provided to Defence staff, according to total student days and numbers of students.

TABLE 5.16: NON-OPERATIONAL TRAINING

TYPE OF TRAINING	TOTAL STUDENT DAYS	NUMBER OF STUDENTS
Accrual Accounting	680	68
Australian Defence College	302,373	1,967
Business Education and Skills Development (ROMAN and Financial Management training)	10,947	8,397
Capstone Program	470	47
Defence Materiel Organisation Contract Management training	1,476	738
Defence Materiel Organisation Logistics training	3,004	624
Defence Materiel Organisation Project Management training	3,134	708
Defence Renewal Workshops	1,226	613
Defence Safety Management Agency	1,950	1,254
Defence Security Authority	660	330
Diploma in Government Financial Management	2,326	76
Graduate Certificate in Professional Management (Finance)	1,421	117
Joint Ammunition Logistics Organisation	1,387	767
Project Management and Procurement training	10,558	5,383
Public Sector and People Skills Development	4,069	3,176
Regional Education Training and Development Units	22,332	14,931
Results Through People workshops	1,542	514
Total	369,555	39,710

WORKPLACE EQUITY AND DIVERSITY

OVERVIEW

The *Defence Workplace Equity and Diversity Plan 2003-2005* was published in May 2003. The plan is aimed at ensuring that equity and diversity principles are integrated with the way Defence operates. Other publications produced and promoted in 2002-03 included the *Guide to Equity and Diversity in Defence* booklet and the *Equity and Diversity in Defence* brochure. The Defence Equity Organisation also revised and released the booklet entitled *A Guide to Fair Leadership and Discipline in the Australian Defence Force*, Defence instructions relating to the Defence equity adviser network and policy on religious practices of the ADF.

During 2002-03, the number of Defence staff trained as equity advisers increased from 2,800 to approximately 4,000. To complement the equity adviser network, Defence continued to maintain the toll-free and confidential Defence Equity Advice Lines, which were available to Defence personnel and their families.

Each year, Defence celebrates its diverse workforce by participating in broader community activities. One example is Harmony Day, celebrated in March 2003, which focused on religious harmony, acknowledging the range of religions represented in Defence. Together with the Religious Advisory Council to the Services, the Defence Equity Organisation developed a Declaration of Religious Harmony in Defence. The declaration was signed by representatives from the Buddhist, Islamic, Jewish and Christian faiths at a ceremony held at Russell Offices in Canberra. In July 2002, as its contribution to National Aboriginal and Islander Day Observance Committee Week, Defence conducted a memorial service at the Aboriginal and Torres Strait Islander Memorial in Canberra to honour Australia's indigenous servicemen and servicewomen. The International Day of People with a DisAbility was observed in December 2002, through the dissemination of information, display of posters and invitation of guest speakers.

EDUCATION AND TRAINING

Equity and diversity awareness training is a mandatory requirement for all Defence personnel. Awareness training is available as a PowerPoint presentation and as an on-line course. During 2002-03, approximately 80 per cent of Defence personnel undertook this training. Although this is a good result for Defence, strategies are being developed to ensure a higher level of participation in 2003-04.

In October 2002, an awareness session entitled *Defence: Fair, Inclusive and Bully-free* was launched. These information sessions, conducted in 2003, were aimed at informing and providing direction to staff on identifying and dealing with this type of behaviour.

Equity adviser workshops and refresher courses were conducted in all regions. In addition, the Defence Equity Organisation conducted six 'Fair Go' courses throughout the year, generating awareness of discriminatory practices to 113 staff members of career management agencies. In 2002-03, the Defence Equity Organisation established

a cultural awareness training fund. During the year, approval for funding was granted to five units to undertake cultural awareness training at a total cost of \$28,462.

DIVERSITY

The commitment to a diverse workforce is articulated in the Defence Multicultural Policy. The diversity profile of the workforce is obtained through the analysis of voluntary information provided by staff on joining Defence. The profile is based on data related to people with a disability, people from a non-English speaking background and Aboriginal and Torres Strait Islanders. The table below demonstrates that there was little change in the Defence diversity profile in 2002-03.

TABLE 5.17: DIVERSITY OF ALL DEFENCE PERSONNEL AS AT 30 JUNE 2002 AND 2003⁽¹⁾

	MALE		FEMALE		NON-ENGLISH SPEAKING BACKGROUND ⁽²⁾		ABORIGINAL AND TORRES STRAIT ISLANDERS		PEOPLE WITH A DISABILITY ⁽³⁾	
	%		%		%		%		%	
	01-02	02-03	01-02	02-03	01-02	02-03	01-02	02-03	01-02	02-03
Navy	83.6	83.2	16.4	16.8	0.7	1.5	0.05	0.1	0	0
Army	90.0	90.0	10.0	10.0	Not known	4.6	Not known	0.27	0	0
Air Force	85.2	85.1	14.8	14.9	4.1	5.2	0.15	0.16	0	0
APS	65.4	65.2	34.1	34.8	13.3	14.0	0.53	0.52	2.8	2.5

NOTES

1. Figures for the Navy, the Army and the Air Force include full-time personnel and Reservists on continuous full-time service.
2. A non-English speaking background includes any person who indicated that either one or both parents was from a non-English speaking background or spoke English and another language at home.
3. People with a disability includes people with an identified physical or mental disability (including chronic ailments or conditions such as diabetes).

INDIGENOUS AUSTRALIANS

In 2002-03, Defence launched a pilot mentoring and peer support program to assist participants of the national indigenous cadetship project. Defence sponsored four new cadetships under the project. Six cadets continued their cadetships during the year and three graduated.

Two indigenous liaison officer positions were established in Woomera and Darwin to develop and maintain links with local indigenous communities. As part of the ADF Cadet Indigenous Participation Strategic Plan, two additional indigenous liaison officers were appointed to manage pilot projects to enhance indigenous participation in the ADF cadet scheme.

Defence continued its participation in the Aboriginal and Torres Strait Islander Commission Army Community Assistance Program. The program utilises the expertise of the Army to provide vital infrastructure assistance to remote indigenous communities. One project, incorporating seven indigenous communities, was

completed during 2002-03 and is currently under a 12-month 'defects liability' period. Another project is currently under construction at Palm Island.

WOMEN

Based on research into gender diversity in Defence, undertaken in 2002 by a project team from the Australian Graduate School of Management, the Defence Equity Organisation developed a draft Gender Diversity Strategy in 2002-03. Stakeholders have agreed to the overall themes and principles of the draft strategy. A working group has been identified to develop future actions and responsibilities.

Men and women have equal access to employment in the ADF with the exception of certain functions involving direct combat duties. Following a direction from the then Chiefs of Staff Committee in November 2001, planning commenced on a proposal to enable physical employment standards to be developed for the Army's combat arms employment categories and the Air Force's airfield defence guards. The project will result in data being collected to enable improved understanding of the physical characteristics and performance capacity of Defence personnel and to develop a trade selection and barrier testing regime that will optimise an individual's likely success in each employment category. The project will begin in the second half of 2003.

DISABILITY

The *Commonwealth Disability Strategy 1994* requires all departments and agencies to develop a Disability Action Plan and lodge it with the Human Rights and Equal Opportunity Commission. Defence complied with this requirement and produced the *Disability Action Plan 1999-2003*, aimed at ensuring that people with a disability were not disadvantaged in being employed at Defence. With the cessation of the *Disability Action Plan 1999-2003* on 30 April 2003, actions to ensure fair treatment of disabled people have been included in the *Defence Workplace Equity and Diversity Plan 2003-2005*.

Under the Technical Equipment for Disabled Commonwealth Employees Program, Defence continued to provide equipment for APS employees with disabilities. The equipment included voice recognition software, monitors for the visually impaired, wheel chair hoists and hearing aids. In 2002-03, \$38,000 was expended on this initiative.

UNACCEPTABLE BEHAVIOUR

Defence maintains a strong stance on all personnel having the basic right to work in an environment free from harassment, discrimination and other unacceptable behaviour. Initiatives in place to address unacceptable behaviour include:

- the availability of policy documents and other publications to all staff;
- a mandatory requirement for all Defence personnel to undertake equity and diversity awareness training;
- a network of approximately 4,000 Defence staff trained as equity advisers to provide advice on equity and diversity matters; and
- a toll-free, confidential Defence Equity Advice Line.

In August and September 2002, a representative sample of 5,160 ADF members and a sample of 1,500 Defence APS employees were selected to participate in the 2002 ADF and Defence APS unacceptable behaviour surveys. In line with survey findings and the need to make equity and diversity a mainstream element of people management, the theme for the 2004 equity and diversity awareness presentation will be 'Making and Managing a Complaint of Unacceptable Behaviour'. A training program, 'Equity and Diversity Responsibilities of Managers and Supervisors', was launched in July 2003.

The Defence Equity Organisation maintains a database of reported incidents of unacceptable behaviour. Current statistics show an overall increase in incident reporting from all Services, with the exception of the Army, whose reporting has decreased slightly. The overall upward trend in reporting may indicate that there is an increasing awareness of equity and diversity policies and processes, resulting in people taking appropriate action as part of their rights. The relatively high number of complaints in the Navy may be attributed to the confidence in the chain of command to deal with these issues. The increase in reported complaints by Defence APS employees and contracted staff may be attributed to the stronger awareness of reporting requirements.

Chart 5.4 shows the total number of unacceptable behaviour incidents reported for each of the last four years. Prescribed unacceptable behaviour includes sexual offences, sexual harassment, general harassment, fraternisation, workplace bullying and abuse of power.

CHART 5.4: COMPARISON OF REPORTED UNACCEPTABLE BEHAVIOUR INCIDENTS 1999-2003

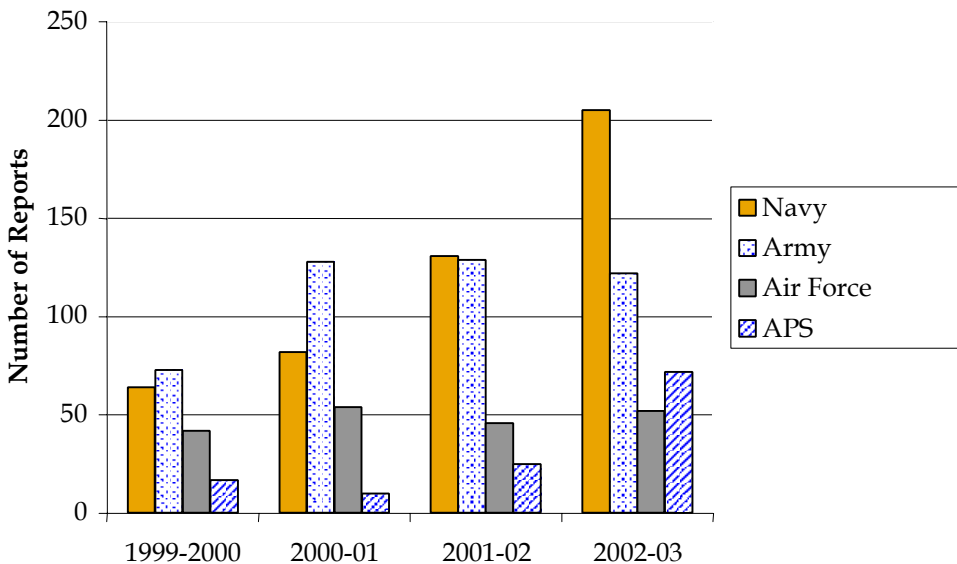
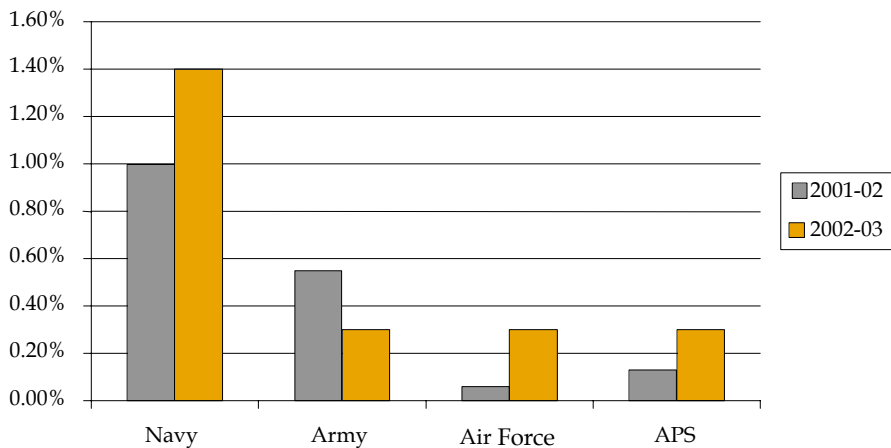


Chart 5.5 indicates the number of complaints of unacceptable behaviour per head of the Defence population for 2002-03. The figures are derived from a straight percentage calculation using the number of personnel in each Service and the number of complaints reported for each Service.

CHART 5.5: PERCENTAGE OF REPORTED UNACCEPTABLE BEHAVIOUR INCIDENTS BY SERVICE FOR 2001-02 AND 2002-03



OCCUPATIONAL HEALTH AND SAFETY

ADMINISTRATIVE FRAMEWORK

Given the importance of occupational health and safety in Defence, an Occupational Health and Safety Committee was established as a sub-committee of the Defence Committee. An Occupational Health Safety and Compensation Branch was also established within Defence Personnel Executive, bringing together a number of related areas to provide a focus for both occupational health and safety prevention and compensation.

As part of the overall administrative framework for dealing with health and safety issues, each Group has a Group safety coordinator to assist in generating improved awareness of occupational health and safety in Defence and to achieve consistency in implementing policies. Health and safety training is provided annually to staff.

A 'wellbeing' program was developed to assist staff to improve their fitness and health. Three main principles - health matters, life matters and physical matters - underpin this program. These principles are applied across the organisation and are adaptable to suit the needs and wants of separate geographic sites. Other occupational health and safety training programs have continued to ensure that the importance of the health and safety of people is continually reinforced in the workplace.

KEY INITIATIVES

DEVELOP THE DEFENCE OCCUPATIONAL HEALTH AND SAFETY STRATEGIC PLAN

Substantially Achieved

The plan will provide the basis for a more consistent and cohesive approach to improving health and safety in Defence. The Occupational Health and Safety Committee is overseeing this plan which is expected to be finalised by the end of 2003. The Committee will monitor and report on the development and maintenance of the Defence occupational health and safety management system.

DEVELOP AND IMPLEMENT A CORPORATE SAFETY GOVERNANCE SYSTEM

Partially Achieved

A key achievement in 2001-02 was the establishment of a corporate safety governance system to be implemented over a three-year period. As part of this process, 13 Defence safety performance requirements were outlined as the basis for reporting. Implementing the system in 2002-03 included Group progress reports on performance against these requirements. Reports indicated a commitment to safety by senior executives although inconsistency was apparent in implementation across Defence. The issue of inconsistency is being addressed through the preparation of material to provide specific guidance to Groups.

DEVELOP A DEFENCE RADIATION SAFETY POLICY

Achieved

A decision to develop a Defence radiation safety policy was taken in 2001 to ensure Defence was able to adhere to the terms of a licence issued by the Australian Radiation Protection and Nuclear Safety Agency. Subsequently, a radiation safety policy was developed and promulgated in the *Defence Safety Manual 2002*. In addition, a comprehensive policy on radiofrequency radiation safety was developed during 2002-03 and will be promulgated in the *Defence Safety Manual (second edition) 2003*.

DEVELOP FRAMEWORKS FOR REGULATOR RELATIONSHIPS

Substantially Achieved

In 2002-03, formal and informal mechanisms were established, and existing systems strengthened, to assist in communication with key stakeholders. Examples include the Defence/Comcare Liaison Forum, the Defence Union/Management Forum and membership, participation in the Commonwealth Safety Managers' Safety Forum and the Defence/Department of Veterans' Affairs Links Board.

NOTIFICATION AND REPORTING OF INCIDENTS

In 2002-03, 10,635 incident reports were received. Advice to Comcare is based on four categories of incidents: dangerous occurrences, incidents resulting in incapacity and incidents resulting in serious personal injury and death. Data on incidents over a three-year period is provided in the table below.

TABLE 5.18: INCIDENT REPORTING

REPORTS	2000-01	2001-02	2002-03
Defence Safety Management Agency			
Incident reports ⁽¹⁾	8,455	11,870	10,635
Comcare			
Death ⁽²⁾	6	5	2
Serious personal injury ⁽³⁾	1,819	962	545
Incidents resulting in incapacity ⁽⁴⁾	144	503	344
Dangerous occurrences ⁽⁵⁾	1,978	3,153	2,307

NOTES

1. Incident reports are any significant incidents or accidents caused by work-related employment within Defence or as a result of a Defence undertaking.
2. Comcare reportable deaths.
3. Incidents resulting in serious personal injury are those where emergency treatment is provided by a medical practitioner at a hospital or where the employee requires hospitalisation.
4. Incapacity is when an employee is unable to perform work for 30 or more consecutive days or shifts.
5. Dangerous occurrence is a near miss incident that could have, but did not, result in a fatality, incapacity or serious personal injury.

DEFENCE CIVILIAN COMPENSATION

CIVILIAN COMPENSATION AND REHABILITATION

A total of 420 workers' compensation claims were received from Defence employees in 2002-03. There were 84 injuries sustained while employees were travelling to or from the workplace, 25 on authorised sport, and seven during a normal recess. The other 304 injuries occurred during work. The Defence Civilian Injury Prevention and Management Framework is being developed to identify and implement effective, targeted strategies to:

- reduce the incidence of workers' compensation claims;
- reduce the duration of time off work;
- ensure improved accountability and responsibility for injury prevention and management; and
- reduce the workers' compensation premium.

INVESTIGATIONS BY COMCARE

Comcare investigations include:

- planned investigations;
- targeted investigations on specific issues;
- reactive investigations resulting from an incident or accident; and
- whole-of-agency investigations as part of Comcare's three-year rolling plan.

Comcare investigations undertaken for each of these categories over a three-year period are outlined in the table below.

TABLE 5.19: INVESTIGATIONS BY COMCARE

REPORTS	2000-01	2001-02	2002-03
Planned Investigations	10	3	-
Targeted Investigations	-	-	10
Reactive Investigations	48	26	25
Whole of Agency Investigations	2	2	-
Total	60	31	35

NOTICES ISSUED BY COMCARE INVESTIGATORS

Comcare investigators are able to issue notices as follows:

- an 'Improvement Notice' based on a situation that contravenes the Occupational Health and Safety Act or regulations;
- a 'Prohibition Notice' issued by a Comcare investigator to remove an immediate threat to the health or safety of a person; and
- a 'Do Not Disturb Notice' for a specified period of time to remove a threat to the health and safety of a person.

Three improvement notices and one prohibition notice issued in 2001-02 remain current.

In 2002-03, ten Comcare notices were issued to Defence. An improvement notice was served on HMAS *Warramunga* relating to machinery turning gear. As a result of the investigation, similar gear on all Anzac-class frigates is being modified. Two improvement notices were issued to RAAF Williamstown in relation to an overhead crane collapse. These were addressed through a risk assessment, developing of safe work procedures and installation of suitable devices. Two improvement notices were served on HMAS *Westralia* as a result of the Comcare investigation of modifications made after the fire of May 1998. The Comcare investigation did not take place until after the completion of the HMAS *Westralia* Board of Inquiry. The issue related to the requirement for a system of safe work practices and adequate scrutiny of maintenance and repair. The Navy has met Comcare requirements.

Data on Comcare notices over a three-year period is summarised in the table below.

TABLE 5.20: COMCARE NOTICES

REPORTS	2000-01	2001-02	2002-03
Comcare			
Improvement Notices	6	4	5
Prohibition Notices	3	1	2
'Do not Disturb' Notices	-	-	3
Total	9	5	10

MILITARY COMPENSATION AND REHABILITATION

The Military Compensation and Rehabilitation Service in the Department of Veterans' Affairs administers the following components of the Military Compensation Scheme on behalf of Defence with respect to serving and former members of the Australian Defence Force:

- *Safety, Rehabilitation and Compensation Act 1988*, as amended by the *Military Compensation Act 1994*, under delegation from Comcare; and
- Chapter 10, Part 5 of *Defence Determination 2000/1* under the *Defence Act 1903*.

Services benefits comprise compensation and rehabilitation services and transition management services to assist ADF members who are being discharged on medical grounds to make a successful transition to civilian life. Performance is reported annually by the Department of Veterans' Affairs.

On 27 June 2003, the Minister Assisting the Minister for Defence, released an exposure draft of the new *Military Rehabilitation and Compensation Bill* for consultation. The new scheme combines traditional elements with modern compensation principles to meet the needs of current and future ADF personnel and their families. The Bill will remain an exposure draft until 31 August to allow time for the ADF and the Veteran communities to comment. It will be introduced during the spring session of Parliament in 2003. Current plans are for the new Act to be operational from July 2004.

ANNUAL REPORT ON THE ADMINISTRATION AND OPERATION OF THE DEFENCE FORCE (HOME LOANS ASSISTANCE) ACT 1990

LEGISLATION

The Defence HomeOwner Scheme is covered by the *Defence Force (Home Loans Assistance) Act 1990*. Section 39 of the act requires that an annual report be prepared for the Minister on the administration and operation of the act. The annual report is set out below.

DESCRIPTION

The Defence HomeOwner Scheme is an Australian Government initiative that provides a subsidy on the interest payable on a home loan for members of the ADF. The scheme is open to permanent Defence Force members who enlisted on or after 15 May 1985 and to those permanent Defence Force members who elected to revoke their entitlement under the Defence Service Homes Scheme in favour of a Defence HomeOwner entitlement. Reserve and Emergency Force personnel who provide part-time efficient service are also eligible for assistance.

The Defence Housing Authority administers the scheme for Defence. The benefits are provided under an agreement between the National Australia Bank and the Commonwealth. Under the scheme, the Commonwealth assesses eligibility and entitlement and pays monthly interest subsidies on loans provided by the National Australia Bank. Interest subsidy is paid on loans between \$10,000 and \$80,000. Spouses who are both members of the ADF can apply for a combined subsidised loan of up to \$160,000. The subsidy amount is calculated at 40 per cent of the average monthly interest to be paid over the life of a 25-year loan.

Providing a person has a period of entitlement, the subsidised loans can be used from one home to another during service as often as is required and once within two years of the date of separation from the ADF.

SUBSIDY ENTITLEMENT

The subsidy entitlement period is calculated on the number of completed years of effective full-time service after completion of a five-year qualifying period. The qualifying period for active Reservists is eight continuous years of efficient service.

For members with operational or war-like service, the five year qualifying period is waived and the maximum period of the subsidy may be extended from 20 to 25 years. There are special considerations for re-joining members, widows and widowers, eligible persons and members discharged as a result of a compensatable disability.

OBJECTIVES

The objectives of the Defence HomeOwner Scheme are to attract and retain ADF personnel, to encourage home ownership during service as a cost-effective alternative to rental assistance and to assist in the reintegration of ADF personnel into the community on return to civilian life.

PROGRAM EVALUATION AGAINST OBJECTIVES

The objectives of the Defence HomeOwner Scheme are achieved through providing a subsidised home loan for a period which is directly related to the member's length of service with the permanent or reserve forces, bringing home ownership within the reach of more members and providing a subsidised loan once within two years of separation from the ADF.

During 2002-03, there were 2,271 application for entitlement certificates and 1,544 applications for loan subsidies processed. The total number of approval loans current as at 30 June 2003 was 6,195. Since 2000, the take-up rate has improved and is almost double that of 1998-99.

Encourage Home Ownership as a Cost Effective Alternative to Rental Assistance

The take-up rate has remained high. Much of this is a direct result of the significant rise in eligibility numbers from personnel serving in war-like areas and the fact that interest rates remain low. The introduction of the Government's First Home Buyer's Scheme and the availability of the Home Purchase Assistance Scheme have also made buying a very attractive option.

Assist in the Re-integration of Defence Force Personnel into the Community on Return to Civilian Life

Of new subsidy applications, 35 per cent were from members either discharging or transferring to the Reserves. This is five per cent higher than last year and continues to be a growing trend.

PERFORMANCE EVALUATION OF THE ADMINISTRATION OF THE SCHEME

Defence is satisfied with the administration of the scheme by the Defence Housing Authority. During the reporting period, there were no appeals lodged with the Administrative Appeals Tribunal against decisions made by the delegate.

The National Australia Bank has met its obligations to the Government under the Act and has provided effective support to the scheme. The National Australia Bank and

the Defence Housing Authority continue in their efforts to streamline the administration process of obtaining the subsidy.

TABLE 5.21: APPLICATIONS FOR PAYMENT OF SUBSIDY BY TYPE OF ASSISTANCE

ACTIVITY	1998-99 ⁽¹⁾	1999-2000 ⁽²⁾	2000-01	2001-02	2002-03
Buy a home	1,011	709	1,332	1,042	953
Re-finance a loan	333	322	350	321	356
Enlarge a home	12	11	8	11	4
Build a home	193	150	139	220	186
Renovate a home	26	30	34	54	45

NOTES

1. Prior to 1999-2000, the above figures were taken from the entitlement certificate applications.
2. From 1999-2000, the figures are taken from the subsidy application.

TABLE 5.22: COMPARISON OF ACTIVITIES

ACTIVITY	1998-99	1999-2000	2000-01	2001-02	2002-03
Applications for entitlement certificate received	1,575	2,122	2,959	2,451	2,271
Entitlement certificate issued ⁽¹⁾	1,474	2,006	2,829	2,342	2,186
Applications for entitlement certificate declined/withdrawn	106	116	130	109	85
Applications for payment of subsidy received	941	1,222	1,863	1,648	1,544
Applications for payment of subsidy approved	938	1,194	1,845	1,634	1,520
Applications for payment of subsidy declined/withdrawn	13	3	18	14	24
Number of subsidy payees as at 30 June	3,519	3,970	5,051	5,816	6,195
Amount of subsidy paid (\$)	3.6m	4.4m	6.6m	6.5m	7.4m

NOTE

1. Entitlement certificates are valid for 12 months.

OPERATIONAL COSTS

An annual management fee of \$491,920 (including GST) was paid in 2002-03 to the Defence Housing Authority by Defence. The Authority was also paid a fee in respect of each application for entitlement certificates lodged. These fees totalled \$171,869 (including GST).

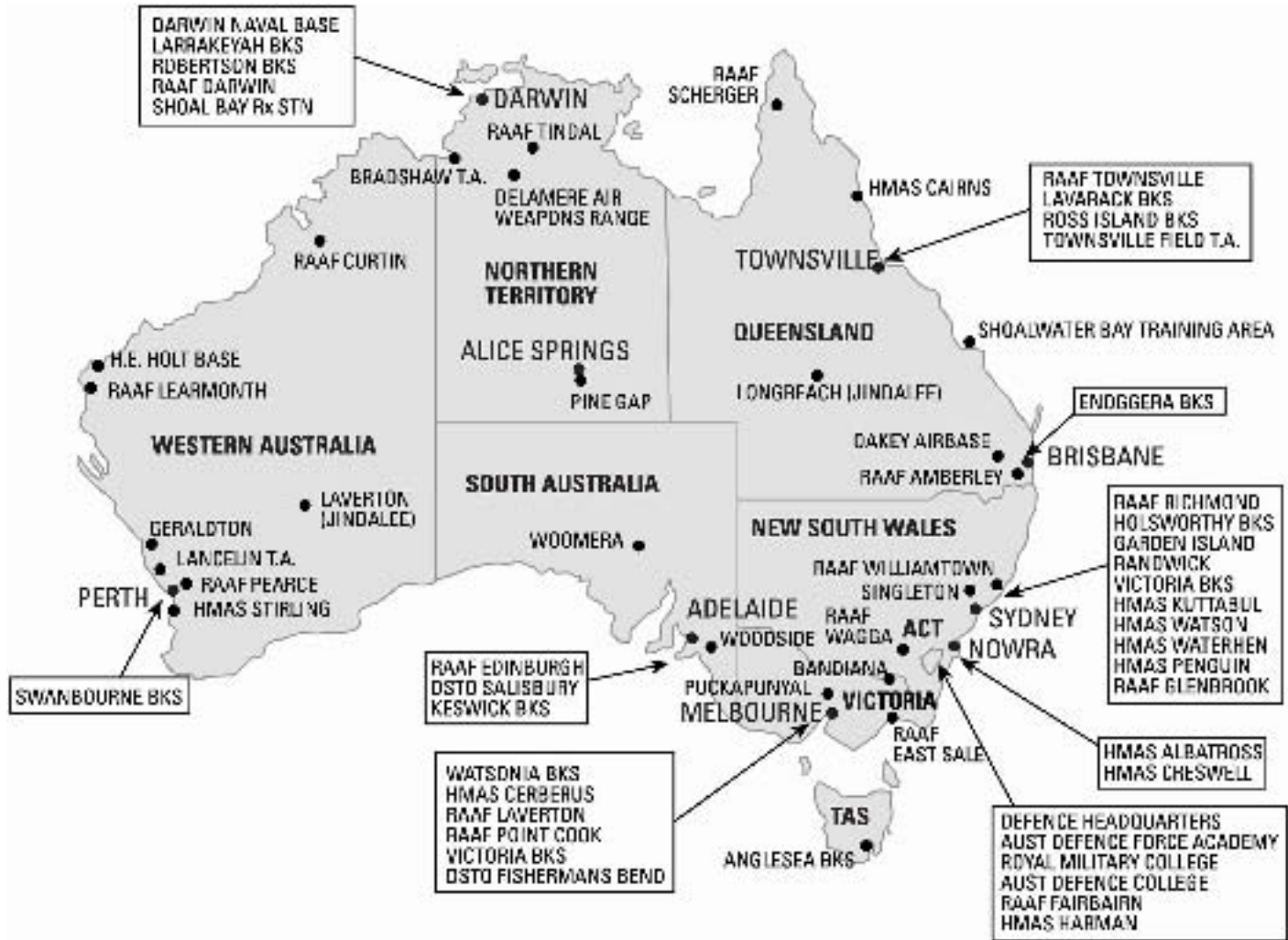
APPENDIX

ADF UNITS AND ESTABLISHMENTS

GLOSSARY

ACRONYMS AND ABBREVIATIONS

ALPHABETICAL INDEX



ADF UNITS AND ESTABLISHMENTS

Australian Defence Force units and establishments are shown below. The information is correct as at 30 June 2003.

JOINT UNITS AND ORGANISATIONS

Headquarters Australian Theatre	Sydney, NSW
Australian Defence Force Warfare Centre	Williamstown, NSW
Headquarters Northern Command	Darwin, NT
Australian Defence College	Canberra, ACT
Australian Defence Force Academy	Canberra, ACT
Defence Force School of Music	Macleod, Vic
Defence Force School of Signals	Macleod, Vic
Joint Ammunition Logistics Organisation	Garden Island, WA
Depot HMAS Stirling	
Torpedo Maintenance Facility	Garden Island, WA
Joint Ammunition Logistics Organisation	Kingswood, NSW
Orchard Hills	

ROYAL AUSTRALIAN NAVY

Navy Headquarters - Canberra, ACT
 Maritime Command - Sydney, NSW
 Navy Systems Command - Canberra, ACT

Surface Combatants

Type of vessel

6 Guided missile frigates (FFG)

Name

HMAS *Adelaide*
 HMAS *Canberra*
 HMAS *Darwin*
 HMAS *Melbourne*
 HMAS *Newcastle*
 HMAS *Sydney*

Base

Garden Island, WA
 Garden Island, WA
 Garden Island, WA
 Sydney, NSW
 Sydney, NSW
 Sydney, NSW

4 Anzac-class frigates (FFH)

HMAS *Anzac*
 HMAS *Arunta*
 HMAS *Stuart*

Garden Island, WA
 Garden Island, WA
 Sydney, NSW

HMAS *Warramunga*

Garden Island, WA

Mine Countermeasures

Type of vessel

6 Minehunter coastal (MHC)

Name

HMAS *Diamantina*
 HMAS *Gascoyne*
 HMAS *Hawkesbury*
 HMAS *Huon*
 HMAS *Norman*
 HMAS *Yarra*

Base

Sydney, NSW
 Sydney, NSW
 Sydney, NSW
 Sydney, NSW
 Sydney, NSW
 Sydney, NSW

2 Clearance diving teams

AUST CDT 1
 AUST CDT 4

Sydney, NSW
 Garden Island, WA

2 Minesweepers auxiliary large (MSA(L))

MSA *Bandicoot*
 MSA *Wallaroo*

Sydney, NSW
 Sydney, NSW

Amphibious and Afloat Support

Type of vessel

- 1 Fleet oiler (AOR)
- 1 Auxiliary tanker (AO)
- 1 Amphibious heavy lift ship (LSH)
- 2 Amphibious transport (LPA)

- 6 Heavy landing craft (LCH)

Name

- HMAS *Success*
- HMAS *Westralia*
- HMAS *Tobruk*
- HMAS *Kanimbla*
- HMAS *Manoora*
- HMAS *Balikpapan*
- HMAS *Betano*
- HMAS *Brunei*
- HMAS *Labuan*
- HMAS *Tarakan*
- HMAS *Wewak*

Base

- Sydney, NSW
- Garden Island, WA
- Sydney, NSW
- Sydney, NSW
- Sydney, NSW
- Darwin, NT
- Darwin, NT
- Cairns, Qld
- Cairns, Qld
- Cairns, Qld
- Cairns, Qld

Patrol Boat

Type of vessel

- 15 Fremantle-class patrol boats (FCPB)

Name

- HMAS *Bendigo*
- HMAS *Bunbury*
- HMAS *Cessnock*
- HMAS *Dubbo*
- HMAS *Fremantle*
- HMAS *Gawler*
- HMAS *Geelong*
- HMAS *Geraldton*
- HMAS *Gladstone*
- HMAS *Ipswich*
- HMAS *Launceston*
- HMAS *Townsville*
- HMAS *Warrnambool*
- HMAS *Whyalla*
- HMAS *Wollongong*

Base

- Cairns, Qld
- Darwin, NT
- Darwin, NT
- Darwin, NT
- Darwin, NT
- Darwin, NT
- Darwin, NT
- Darwin, NT
- Cairns, Qld
- Cairns, Qld
- Darwin, NT
- Cairns, Qld
- Darwin, NT
- Cairns, Qld
- Darwin, NT

Submarine

Type of vessel

- 6 Collins-class submarines (SSG)

Name

- HMAS *Collins*
- HMAS *Dechaineaux*
- HMAS *Farncomb*
- HMAS *Sheean*
- HMAS *Rankin*
- HMAS *Waller*

Base

- Garden Island, WA
- Garden Island, WA
- Garden Island, WA
- Garden Island, WA
- Garden Island, WA
- Garden Island, WA

Hydrographic

Type of vessel

- 2 Hydrographic survey ships (HS)

- 4 Survey motor launches (SML)

- 1 Laser airborne depth sounder (LADS)

Name

- HMAS *Leeuwin*
- HMAS *Melville*
- HMAS *Benalla*
- HMAS *Mermaid*
- HMAS *Paluma*
- HMAS *Shepparton*
- LADS Unit

Base

- Cairns, Qld
- Cairns, Qld
- Cairns, Qld
- Cairns, Qld
- Cairns, Qld
- Cairns, Qld
- Cairns, Qld

Aviation

Squadron

723 SQN helicopter training, electronic warfare and utility squadron

805 SQN operational fleet utility Anzac ship helicopter squadron

816 SQN anti-submarine helicopter squadron

817 SQN operational fleet utility support helicopter squadron

Non-Defence Administered Activity

Type of vessel

1 Youth sail training ship

Aircraft

12 AS 350B Squirrel

Yet to be accepted into service

16 S-70B2 Seahawk

7 Sea King Mk 50A/B

Base

Nowra, NSW

Nowra, NSW

Nowra, NSW

Nowra, NSW

Name

STS *Young Endeavour*

Base

Sydney, NSW

Commissioned Establishments

Description

Headquarters/area administration

Naval air station

Ship and submarine base (Fleet Base West)

Patrol boat base and marine science

Patrol boat base and communications station

Mine warfare

Training establishments

Name

HMAS Kuttabul

HMAS Albatross

HMAS Stirling

HMAS Cairns

HMAS Coonawarra

HMAS Waterhen

HMAS Cerberus

HMAS Creswell

HMAS Penguin

HMAS Watson

HMAS Harman

Location

Sydney, NSW

Nowra, NSW

Garden Island, WA

Cairns, Qld

Darwin, NT

Sydney, NSW

Western Port, Vic

Jervis Bay, ACT

Middle Head, NSW

Watsons Bay, NSW

Canberra, ACT

Communications station/area administration

Non-Commissioned Establishments

Facility/unit

Fleet Base East

Jervis Bay Range Facility

East Coast Armaments Complex

Naval Communications Station

Naval communications area master stations

Naval communications area local stations

Naval Transmitting Station

Naval Headquarters Southern Queensland

Naval Headquarters South Australia

Naval Headquarters Tasmania

Naval fuel installations

Location

Garden Island, NSW

Jervis Bay, ACT

Point Wilson, Vic

Canberra, ACT

Canberra, ACT

Perth, WA

Cairns, Qld

Sydney, NSW

Sale, Vic

Brisbane, Qld

Adelaide, SA

Hobart, Tas

Chowder Bay, NSW

Darwin, NT

Appendix

Naval accommodation, Lady Gowrie House
West Head Gunnery Range

Bondi, NSW
Flinders, Vic

AUSTRALIAN ARMY

Army Headquarters – Canberra, ACT

Formation/unit

1 Army Headquarters
1 Aviation Support Group Workshop
1 Land Warfare Studies Centre (Integrated)
1 Army History Unit
1 Army Financial Services Unit (Army Reserve)
1 Australia’s Federation Guard
1 Directorate of Officer Career Management – Army
1 Soldier Career Management Agency
1 Directorate of Reserve Career Management – Army
1 Australian Army Cadets

Designation

AHQ
Avn Spt Gp Wksp
LWSC

AHU
AFSU

AFG
DOCM-A

SCMA
DRCM-A

AAC

Location

Canberra, ACT
Oakey, Qld
Duntroon, ACT

Campbell, ACT
Campbell, ACT

Campbell, ACT
Campbell, ACT

Melbourne, Vic
Campbell, ACT

Canberra, ACT

Combat Forces

Formation/unit

1 Land Headquarters
1 Deployable Joint Force Headquarters (Integrated)
1 Divisional Headquarters (Army Reserve)
9 Brigade Headquarters (6 Army Reserve, 1 Integrated)

Designation

LHQ
DJFHQ

HQ 2 Div
HQ 1 Bde

HQ 3 Bde
HQ 4 Bde
HQ 5 Bde
HQ 7 Bde
HQ 8 Bde
HQ 9 Bde
HQ 11 Bde
HQ 13 Bde
SO HQ

Location

Paddington, NSW
Enoggera, Qld

Randwick, NSW
Palmerston, NT

Townsville, Qld
Macleod, Vic
Liverpool, NSW
Enoggera, Qld
Dundas, NSW
Keswick, SA
Townsville, Qld
Karrakatta, WA
Canberra, ACT /
Garden Island, NSW

Randwick, NSW
Holsworthy, NSW
Swanbourne, WA
Holsworthy, NSW
Holsworthy, NSW

Randwick, NSW

1 Special Operations Headquarters

2 Commando Battalions

1 Special Air Service Regiment
1 Incident Response Regiment
1 Special Operations Combat Service Support Company

1 Logistic Support Force Headquarters (Integrated)

1 Ground Liaison Group (Integrated)	1 GL GP	Glenbrook, NSW
1 Combat Training Centre	CTC	Lavarack, Qld
1 Armoured Regiment (Integrated)	1 Armd Regt	Palmerston, NT
4 Reconnaissance Regiments (2 Army Reserve, 1 Integrated)	2 Cav Regt	Palmerston, NT
	1/15 RNSWL (Recon)	Parramatta, NSW
	4/19 PWLH (Recon)	Macleod, Vic
	2/14 LHR (QMI)(Recon)	Enoggera, Qld
1 Armoured Personnel Carrier Regiment (Army Reserve)	12/16 HRL (APC)	Tamworth, NSW
1 Independent Reconnaissance Squadron (Army Reserve)	A Sqn 10 LH (Recon)	Karrakatta, WA
2 Independent Armoured Personnel Carrier Squadrons (1 Integrated)	B Sqn 3/4 Cav Regt (APC)	Townsville, Qld
	3/9 LH (SAMR) (APC)	Smithfield, SA
2 Medium Artillery Regiments (1 Army Reserve)	8/12 Mdm Regt	Palmerston, NT
	2/10 Mdm Regt East	St Kilda, Vic
5 Field Artillery Regiments (2 Army Reserve, 1 Integrated)	1 Fd Regt	Enoggera, Qld
	4 Fd Regt	Townsville, Qld / Holsworthy, NSW
	7 Fd Regt	Pymble, NSW
	23 Fd Regt	Kogarah, NSW
	6/13 Fd Regt	Keswick, SA
1 Air Defence Regiment (Integrated)	16 AD Regt	Woodside, SA
4 Independent Field Artillery Batteries (3 Army Reserve)	7 Fd Bty 3 Fd Regt	Karrakatta, WA
	16 Fd Bty	Launceston, Tas
	48 Fd Bty	Keswick, SA
	A Fd Bty	Holsworthy, NSW
1 Locating Battery (Integrated)	131 STA Bty	Enoggera, Qld
6 Combat Engineer Regiments (3 Army Reserve, 1 Integrated)	1 CER	Palmerston, NT
	2 CER	Enoggera, Qld
	3 CER	Townsville, Qld
	4 CER	Ringwood East, Vic
	5 CER	Penrith, NSW
	8 CER	Adamstown, NSW
9 Command Support Regiments	1 CSR	Palmerston, NT
	3 CSR	Lavarack, Qld
	4 CSR	Macleod, Vic
	5 CSR	Liverpool, NSW
	7 CSR	Enoggera, Qld
	8 CSR	Dundas, NSW
	9 CSR	Keswick, SA
	11 CSR	Townsville, Qld
	13 CSR	Karrakatta, WA

1 Headquarters Engineer Support Regiment	HQ ESR	Enoggera, Qld
2 Construction Regiments (2 Army Reserve)	21 Const Regt 22 Const Regt	Haberfield, NSW Oakleigh South, Vic
3 Field Engineer Squadrons, Combat Engineer Regiments (3 Army Reserve)	3 Fd Sqn, 9 CER	Warradale, SA
2 Construction Squadrons	13 Fd Sqn, 13 CER 35 Fd Sqn, 11 CER	Karrakatta, WA Mount Isa, Qld
1 Chief Engineer Works (Integrated)	17 Const Sqn	Holsworthy, NSW
1 Topographic Survey Squadron (Integrated)	21 Const Sqn	Enoggera, Qld
1 Joint Support Unit (Integrated)	19 CE Wks	Randwick, NSW
2 Signal Regiments (1 Army Reserve)	1 Topo Svy Sqn	Enoggera, Qld
3 Independent Signal Squadrons (1 Integrated)	1 JSU	Enoggera, Qld
19 Infantry Battalions (13 Army Reserve, 1 Integrated)	7 Sig Regt	Cabarlah, Qld
	8 Sig Regt	Randwick, NSW
	110 Sig Sqn	Paddington, NSW
	130 Sig Sqn	Holsworthy, NSW
	145 Sig Sqn	Liverpool, NSW
	1 RAR	Townsville, Qld
	2 RAR	Townsville, Qld
	3 RAR	Holsworthy, NSW
	5/7 RAR	Palmerston, NT
	6 RAR	Enoggera, Qld
	9 RQR	Enoggera, Qld
	25/49 RQR	Enoggera, Qld
	31 RQR	Townsville, Qld
	42 RQR	Rockhampton, Qld
	1/19 RNSWR	Orange, NSW
	2/17 RNSWR	Pymble, NSW
	4/3 RNSWR	Ingleburn, NSW
	41 RNSWR	Lismore, NSW
	5/6 RVR	Hawthorn, Vic
	8/7 RVR	Ballarat, Vic
	10/27 RSAR	Keswick, SA
	11/28 RWAR	Karrakatta, WA
	16 RWAR	Karrakatta, WA
	12/40 RTR	Glenorchy, Tas
3 Regional Force Surveillance Units (3 Army Reserve)	Norforce	Larrakeyah, NT
	Pilbara Regt	Karratha, WA
	51 FNQR	Cairns, Qld
1 Aviation Brigade	16 Bde (Avn)	Enoggera, Qld
2 Aviation Regiments	1 Avn Regt	Oakey, Qld
	5 Avn Regt	Townsville, Qld
1 Intelligence Battalion	1 Int Bn	Paddington, NSW
9 Combat Service Support Battalions	1 CSSB	Palmerston, NT

(5 Integrated, 2 Army Reserve)	3 CSSB	Townsville, Qld
	4 CSSB	Broadmeadows, Vic
	5 CSSB	Banksmeadow, NSW
	7 CSSB	Enoggera, Qld
	8 CSSB	Dundas, NSW
	9 CSSB	Warradale, SA
	11 CSSB	Townsville, Qld
	13 CSSB	Karrakatta, WA
3 Force Support Battalions (3 Integrated)	2 FSB	Glenorchy, Tas
	9 FSB	Randwick, NSW
	10 FSB	Townsville, Qld
1 Force Support Group	HQ FSG	Randwick, NSW
3 Ships Army Detachment	SAD HMAS <i>Tobruk</i>	Garden Island, NSW
	SAD HMAS <i>Manoora</i>	Garden Island, NSW
	SAD HMAS <i>Kanimbla</i>	Newcastle, NSW
3 Health Support Battalions (1 Integrated) (2 Army Reserve)	1 HSB	Holsworthy, NSW
	2 HSB	Enoggera, Qld
	3 HSB	Keswick, SA
1 Petroleum Company (Army Reserve)	1 Petr Coy	Oakleigh South, Vic
1 Recovery Company (Army Reserve)	3 Recov Coy	Korumburra, Vic
1 Military Police Battalion (Integrated)	1 MP Bn	Liverpool, NSW
1 Psychology Unit	1 Psych Unit	Randwick, NSW
1 Deployed Forces Support Unit (Integrated)	DFSU	Randwick, NSW
1 Logistic Support Force Workshop	LSF WKSP	Glenorchy, Vic
Individual Training Formation/unit	Designation	Location
Headquarters Training Command	HQ TC-A	Georges Heights, NSW
Royal Military College	RMC	Duntroon, ACT
Army Logistic Training Centre	ALTC	Bonegilla, Vic
Army Recruit Training Centre	ARTC	Kapooka, NSW
Parachute Training School	PTS	Nowra, NSW
Army Combined Arms Training Centre	CATC	Puckapunyal, Vic
Special Forces Training Centre	SFTC	Singleton, NSW
Army Aviation Training Centre	AAVNTC	Oakey, Qld
Defence Intelligence Training Centre	DINTTC	Canungra, Qld
Training Technology Centre	TTC	Enoggera, Qld
Army Military Police Training Centre	AMPTC	Holsworthy, NSW
Joint Telecommunications School (Integrated)	JTS	Cabarlah, Qld
Land Warfare Development Centre	LWDC	Puckapunyal, Vic
Headquarters Regional Training Centres	HQ RTC	Canungra, Qld

Appendix

8 Regional Training Centres (7 Army Reserve, 1 Integrated)	RTC (NSW) RTC (VIC) RTC (SA) RTC (WA) RTC (Tas) RTC (NT) RTC (SQ) RTC (NQ)	Liverpool, NSW Macleod, Vic Greenacres, SA East Fremantle, WA Brighton, Tas Palmerston, NT Wacol, Qld Townsville, Qld
7 Tertiary Institution Training Units (7 Army Reserve)	QUR SUR UNSWR MUR MON UR AUR WAUR	Lucia, Qld Darlington, NSW Kensington, NSW Carlton, Vic Mt Waverley, Vic Adelaide, SA Fremantle, WA.
12 Army Bands (7 Army Reserve)	AAB (B) AAB (S) AAB (N) RACT Pipes & Drums AAB (K) AAB (M) AAB (A) AAB (P) AAB (T) AAPD (P) AAB (D) RMC Band	Enoggera, Qld Paddington, NSW Adamstown, NSW Adamstown, NSW Kapooka, NSW Macleod, Vic Warradale, SA Karrakatta, WA Hobart, Tas Karrakatta, WA Larrakeyah, NT Duntroon, ACT

ROYAL AUSTRALIAN AIR FORCE

Air Force Headquarters – Canberra, ACT

Formation/unit	Designation	Location
Air Force Headquarters	AFHQ	Canberra, ACT
Directorate General of Technical Airworthiness – ADF	DGTA-ADF	Laverton, Vic
Directorate of Flying Safety – ADF	DFS-ADF	Canberra, ACT
Airworthiness Coordination and Policy Agency – ADF	ACPA-AF	Canberra, ACT
Aerospace Centre	DAC	Fairbairn, ACT
RAAF Aeronautical Information Services Agency	AIS-AF	Melbourne, Vic
Joint Centre for Airspace Management	JCAM	Canberra, ACT
Infrastructure Development Agency	IDA	Canberra, ACT
Directorate of Security and Policing – Air Force	DOSP-AF	Canberra, ACT
Management Services Agency		Canberra, ACT
Air Force Ground Safety Agency	AFGSA	Canberra, ACT
Air Command - Glenbrook		

Formation/unit	Designation	Location
Headquarters Air Command	HQAC	Glenbrook, NSW
Aircraft Research and Development Unit	ARDU	Edinburgh, SA
Headquarters Air Combat Group	HQACG	Williamtown, NSW
Headquarters No 82 Wing	HQ82 Wing	Amberley, Qld
2 Strike and reconnaissance squadrons	1 Sqn	Amberley, Qld
	6 Sqn	Amberley, Qld
Forward Area Control Development Unit	FACDU	Williamtown, NSW
Combat Support Unit	CSU AMB	Amberley, Qld
Headquarters No 81 Wing	HQ81 Wing	Williamtown, NSW
3 Tactical fighter squadrons	3 Sqn	Williamtown, NSW
	75 Sqn	Tindal, NT
	77 Sqn	Williamtown, NSW
Headquarters No 78 Wing	HQ78 Wing	Williamtown, NSW
1 Tactical fighter operational conversion unit	2OCU	Williamtown, NSW
1 Lead-in fighter training squadron	76 Sqn	Williamtown, NSW
No 79 Squadron	79 Sqn	Pearce, WA
Combat Support Unit	CSU WIL	Williamtown, NSW
Headquarters Surveillance and Control Group	HQSCG	Williamtown, NSW
Support Flight	ADGE + ATC	Williamtown, NSW
1 Surveillance and control squadron	2 Sqn	Williamtown, NSW
Information Operations Squadron	IOSQN	Canberra, ACT
Headquarters No 44 Wing	HQ44 Wing	Williamtown, NSW
11 Air traffic control flights	ATCFLT AMB	Amberley, Qld
	ATCFLT DAR	Darwin, NT
	ATCFLT ESL	East Sale, Vic
	ATCFLT EDN	Edinburgh, SA
	ATCFLT NOWRA	Nowra, NSW
	ATCFLT OAK	Oakey, Qld
	ATCFLT PEA	Pearce, WA
	ATCFLT RIC	Richmond, NSW
	ATCFLT TDL	Tindal, NT
	ATCFLT TVL	Townsville, Qld
	ATCFLT WLM	Williamtown, NSW
Headquarters No 41 Wing	HQ41 Wing	Williamtown, NSW
1 Radar surveillance unit	1RSU	Edinburgh, SA
1 Mobile control and reporting unit	114MCRU	Darwin, NT
2 Control and reporting units	2 CRU	Tindal, NT
	3 CRU	Williamtown, NSW
1 Surveillance and control training unit	SACTU	Williamtown, NSW
Headquarters Maritime and Patrol Group	HQMPG	Edinburgh, SA
Headquarters No 92 Wing	HQ92 Wing	Edinburgh, SA
2 Maritime patrol squadrons	10 Sqn	Edinburgh, SA
	11 Sqn	Edinburgh, SA
1 Operational conversion squadron	292 Sqn	Edinburgh, SA

Formation/unit	Designation	Location
No 92 Wing Detachment A	92WG Det A	Butterworth, Malaysia
Combat Support Unit	CSU EDN	Edinburgh, SA
Headquarters Air Lift Group	HQALG	Richmond, NSW
Headquarters No 84 Wing	HQ84 Wing	Richmond, NSW
1 Long-range transport squadron	33 Sqn	Richmond, NSW
2 Special transport squadrons	34 Sqn	Fairbairn, ACT
	32 Sqn	East Sale, Vic
Headquarters No 85 Wing	HQ85 Wing	Richmond, NSW
1 Air movements training and development unit	AMTDU	Richmond, NSW
No 285 Squadron	285 Sqn	Richmond, NSW
Headquarters No 86 Wing	HQ86 Wing	Richmond, NSW
2 Medium range transport squadrons	36 Sqn	Richmond, NSW
	37 Sqn	Richmond, NSW
2 Tactical transport squadrons	35 Sqn	Townsville, Qld
	38 Sqn	Amberley, Qld
No 38 Squadron Detachment A	38 Sqn Det A	Pearce, WA
No 38 Squadron Detachment B	38 Sqn Det B	Townsville, Qld
Combat Support Unit	CSU RIC	Richmond, NSW
Air Command Band		Richmond, NSW
Headquarters Combat Support Group	HQCSG	Amberley, Qld
Headquarters No 395 Expeditionary Combat Support Wing	HQ395ECSW	Townsville, Qld
4 Expeditionary combat support squadrons	381ECSS	Williamtown, NSW
	382ECSS	Amberley, Qld
	383ECSS	Amberley, Qld
	386ECSS	Richmond, NSW
1 Combat communications squadron	1 CCS	Richmond, NSW
1 Combat logistics squadron	1 CLS	Townsville, Qld
1 Air terminal squadron	1ATS	Richmond, NSW
Headquarters No 396 Combat Support Wing	HQ396CSW	Darwin, NT
3 Combat support squadrons	321CSS	Darwin, NT
	323CSS	Townsville, Qld
	324CSS	Butterworth, Malaysia
Headquarters No 322 Combat Support Wing	HQ322CSW	Tindal, NT
3 Military airfields (bare bases)	RAAF Learmonth RAAF Curtin	Learmonth, WA Curtin, WA

Formation/unit	Designation	Location
No 23 Squadron	RAAF Scherger	Scherger, Qld
No 24 Squadron	23 Sqn	Amberley, Qld
No 25 Squadron	24 Sqn	Edinburgh, SA
No 26 Squadron	25 Sqn	Pearce, WA
No 27 Squadron	26 Sqn	Williamtown, NSW
No 28 Squadron	27 Sqn	Townsville, Qld
No 29 Squadron	28 Sqn	Fairbairn, ACT
Training Command - Laverton, Vic		
Formation/unit	Designation	Location
Headquarters Training Command	HQTC	Laverton, Vic
Air Training Wing	ATW	East Sale, Vic
Australian Defence Force Basic Flying Training School	ADFBFTS	Tamworth, NSW
No 2 Flying Training School	2FTS	Pearce, WA
Central Flying School	CFS	East Sale, Vic
School of Air Navigation	SAN	East Sale, Vic
School of Air Traffic Control	SATC	East Sale, Vic
Combat Survival Training School	CSTS	Townsville, Qld
RAAF Institute of Aviation Medicine	AVMED	Edinburgh, SA
Combat Support Unit	CSU ESL	East Sale, Vic
RAAF College	RAAFCOL	Point Cook, Vic
Officers' Training School	OTS	Point Cook, Vic
No 1 Recruit Training Unit	1 RTU	Edinburgh, SA
School of Post-Graduate Studies	SPS	Point Cook, Vic
Ground Training Wing	GTW	Wagga Wagga, NSW
School of Technical Training	RAAFSTT	Wagga Wagga, NSW
RAAF Security and Fire School	RAAFSFS	Amberley, Qld
RAAF School of Management and Training Technology	RAAFSMTT	Wagga Wagga, NSW
ADF School of Languages	ADFLANGS	Point Cook, Vic
Defence International Training Centre	DITC	Laverton, Vic
3 Combat Support Units	CSUWAG	Wagga Wagga, NSW
	CSUPEA	Pearce, WA
	CSUWIL	Laverton, Vic
Health Services Training Flight		Laverton, Vic
Band	RAAFBAND	Laverton, Vic
Museum	RAAF Museum	Point Cook, Vic

GLOSSARY

Accrual Accounting: the system of accounting in which items are brought to account as they are earned or incurred (and not necessarily as money is received or paid) and included in the financial statements for the accounting periods to which they are related.

Additional Estimates: a Government process to update the annual Budget for the Department for issues which have emerged since it brought down the Budget.

Administered Appropriation: revenues, expenses, assets and liabilities administered by an agency for the Commonwealth generally (such as taxes, benefits payments and public debt) which are not concerned with running the agency or its commercial activities.

Administered Items: resources administered on behalf of the Commonwealth, including grants, subsidies and benefits. Such resources may be used by third party organisations.

Agency: assets, liabilities, revenues and expenses which are controlled by Defence or a subsidiary. Includes officials allocated to the department.

Appropriation: is an authorisation by Parliament to spend money from the Consolidated Revenue Fund.

Assets: future economic benefits controlled by Defence as a result of past transactions or other past events. Physical assets are initially recognised at the cost of acquisition. They are periodically revalued on the basis of their written-down current replacement cost.

Australian Accounting Standard (AAS): Australian Accounting Standards specify techniques of accounting practice and the method of presenting financial information about a reporting entity.

Balanced Scorecard: an approach to performance measurement that translates an organisation's strategic objectives into a useful set of performance measurements. It supplements the traditional financial measures with information on three additional perspectives of organisational performance: customer satisfaction, internal business processes, and innovation and learning. The Defence version is known as *Defence Matters*.

Business Plan: the operational plan for the organisation which sets in place the specific strategies and action plans which will enable the organisation to achieve its overall corporate plan targets.

Capital Budget: all proposed capital expenditure funded by appropriation for outputs, by equity injections or loans and/or appropriations for administered capital, or by other sources.

Capital Use Charge: the Government's required return, or dividend, on its capital investment in departments. The objective of this charge is to better reflect the

true costs of outputs and to encourage good asset management practices. The Capital Use Charge is imposed by multiplying the closing net assets (ie. total assets minus total liabilities) of Defence by the Government-specified rate of 12 per cent, based on the long-term bond rate (currently around 6 per cent) plus a margin of risk (6 per cent). The charge ceased on 30 June 2003.

Chief Executive Instruction: instructions issued by the Chief Executive of Defence for the administration of the department. These instructions are issued under the authority of the *Financial Management and Accountability Act 1997* and carry the force of the law.

Chief of the Defence Force's Preparedness Directive: *see* Preparedness Concepts and Planning.

Combined Exercise: an exercise/activity involving one or more Services of the ADF with the forces of other countries.

Customer-Supplier Arrangement: an agreement between internal customers and suppliers for the supply of a service at an agreed quantity, standard and price.

Defence Assistance to the Civil Community: is a program which provides Defence resources, in exceptional circumstances, for the performance of emergency or non-emergency tasks which are the responsibility primarily of the civil community. While a high priority is given to civil emergencies and natural disasters where lives or property are at risk, other tasks include flyovers and displays at significant public events and various support tasks for local authorities and charitable organisations around Australia.

Defence Matters scorecard: *see* Balanced Scorecard.

Defence Management and Finance Plan: this is extracted from the Defence Plan and will form part of the Portfolio Budget submission to Government.

Defence Plan: Defence's principal internal planning document which satisfies whole-of-Government budget requirements. It provides a 'whole-of-business' focus with important links between the strategic resource and capability planning.

Departmental Items: resources directly controlled by Defence including salaries, allowances, military equipment and costs associated with the Defence organisation. Such resources, including outsourced activities funded and controlled by Defence, are used to produce outputs for the Government.

Employee: any Australian Public Service (APS) officer of Defence or serving Defence force member who receives a salary or wage, along with other benefits, for the provision of services whether on a full-time, part-time, permanent, casual or temporary basis.

Equity Injection: an additional contribution to Defence by the Commonwealth as owner. It is determined on the basis of the amount additional to the departmental output appropriation required to fund Defence up to the Government-agreed level of global funding. Within Defence's global flexibilities, the injection can be used for any purpose that increases the net assets of Defence. The injection is not tied to any specific capital projects.

Expenses: consumptions or losses of future economic benefits, in the form of reductions in assets or increases in liabilities of Defence, other than those relating to distributions to the Commonwealth, that result in a decrease in equity during the reporting period.

Financial Management and Accountability Act 1997: the Act replaced the Audit Act on 1 January 1998. It establishes the regulatory framework for financial management within Defence and other public sector agencies. Agencies are agents of the Commonwealth, in that they do not own monies or assets separately from the Commonwealth.

Force Element: a component of a unit, a unit or an association of units having common prime objectives and activities.

Force Element Group: a grouping of force elements with an appropriate command and control structure for a specified role or roles.

Force Structure: *see* Preparedness Concepts and Planning.

Forward Estimates: the level of proposed expenditure for future years (based on relevant demographic, economic and other future forecasting assumptions). The Government requires forward estimates for the following three financial years to be published in each annual Budget paper.

Group: an organisational grouping of functions and activities used by the Defence Executive as its primary management grouping.

Infrastructure: ancillary items owned, leased or otherwise under the control of Defence in support of activities on land and within buildings. Infrastructure includes items such as runways, roads, car parks, parade grounds, ovals, lighting, water, sewerage and other general service related items. It does not include land upon which, or within which, it is constructed or those fixed items integral to, and under buildings.

Interoperability: the ability of systems, units or forces to provide the services to, and accept services from, other systems, units or forces and to use the services so exchanged to enable them to operate effectively together.

Joint Exercise: an exercise/activity involving two or more Services of the ADF.

Liabilities: sacrifices of future economic benefits that Defence is presently obliged to make to other entities as a result of past transactions or other past events.

Military Capability: *see* Preparedness Concepts and Planning.

Other Property, Plant and Equipment: comprises the following sub classes; Administrative Assets, Commercial Vehicles, General Military Assets, Heritage Assets and Other (includes all items not specific to one of the classes or sub-classes referred to above and can include testing equipment and non-specific non rotatable spares.)

Outcome: the result, impact or consequence of actions by the Australian Government for the Australian community, including for the Government, in return for appropriations to deliver outputs.

Output: the product or service produced by Defence.

Portfolio Additional Estimates Statements: similar to the Portfolio Budget Statements and prepared at Additional Estimates time to support an update on the Government's original annual Budget for the Department.

Portfolio Budget Statement: a document presented by the Minister to Parliament to inform Senators and Members of the basis for the Defence Budget appropriations in support of the provisions in Appropriation Bills 1 and 2. The statements summarise the Defence Budget and provides detail of Output performance forecasts and resources in order to justify expenditure for Defence.

Preparedness Concepts and Planning: Military capability is achieved by developing a force structure appropriately prepared for operations. Preparedness is a measure of how ready (readiness) and how sustainable (sustainability) the ADF is to undertake military operations. Preparedness, therefore, is of fundamental importance to Defence, which must be able to manage it effectively and communicate its status to the Government.

Directed Level of Capability (DLOC): the funded level of capability maintained during a specified budget period. DLOC is formally agreed in organisational performance agreements between the Chief of the Defence Force/Secretary of Defence and each of Defence's six Output Executives. DLOC captures the levels of capability to be maintained to meet preparedness, ongoing operations, and known national task requirements.

Force Structure: the type of force required – personnel, equipment, facilities and military doctrine – to achieve the operational level of capability necessary to conduct operations effectively.

In the medium to long term, military capability will vary due to changes in force structure generated by the capability development process. In the short term, force structure is the more constant component of military capability and the level of capability available for operations is determined by Defence's management of preparedness of the current force.

Changes to force structure usually affect on the preparedness of the associated forces. For example, the introduction of a new platform, retirement of an old platform or capability enhancement will have a direct impact on the resource, training and facility requirements of the forces involved.

Military Capability: the two levels of military capability specified for forces within the ADF are derived from the concept of maintaining forces at an appropriate minimum level of capability (or MLOC) in peacetime to ensure that those forces are ready to work up to an appropriate higher level of task-specific capability (or operational level of capability – OLOC), within a given time, in order to conduct operations effectively.

The maintenance of a force at a higher level of preparedness or at an operational level of capability for a prolonged period is resource intensive. Defence balances the mix of capabilities, or outputs, from within its budget to meet Government tasking priorities.

Preparedness Planning: the preparedness planning process begins with a strategic appreciation involving an analysis of the national security objectives

which are specified in Government guidance. These objectives are considered against current strategic circumstances and defence policy. In the light of this appreciation, military strategies are developed or refined to achieve the objectives. Military strategic objectives and military response options are then derived from the military strategies and are used to provide preparedness planning guidance.

Readiness: the readiness of forces to be committed to operations within a specified time, dependent on the availability and proficiency of personnel, equipment, facilities and consumables.

Sustainability: the ability to provide personnel, equipment, facilities and consumables to enable a force to complete the needed period of operations.

The Chief of the Defence Force's Preparedness Directive: a principal strategic-level directive containing strategic planning guidance. It lists military response options and sets preparedness requirements. It informs all subordinate preparedness directives at the operational level, which set specified levels of preparedness and contain the capability standards against which force units measure and report.

The implementation of preparedness involves the allocation of resources to the current force to ensure that preparedness objectives can be met and managed properly. The evaluation and reporting of preparedness ensure that there is regular feedback in the process and that objectives and resource allocations are refined as necessary.

Qualifying Assets: assets under construction.

Readiness: *see* Preparedness Concepts and Planning.

Revenues: inflows or other enhancements, or savings in outflows, of future economic benefits in the form of increases in assets or reductions in liabilities of Defence, other than those relating to contributions by the Commonwealth, that result in an increase in equity during the reporting period.

Risk Management: at the highest level, it involves the identification and mitigation of those risks that have the potential to affect adversely the achievement of agreed output performance at the agreed output price.

Specialist Military Equipment: items of a specific military nature and that are not available through the normal external market in their current form to other than government military purchasers. It includes the prime military equipment plus the direct support items associated with the equipment.

Sustainability: *see* Preparedness Concepts and Planning.

Theatre: the area in which military operations/activities take place.

Write Offs: the recording in the accounting records of losses of public moneys, irrecoverable and uneconomic to recover debts, overpayments and revenues and losses of public property.

ACRONYMS AND ABBREVIATIONS

A

ABW	Air Base Wing
ACT	Australian Capital Territory
ADF	Australian Defence Force
ADM	Admiral
AEW&C	Airborne Early Warning and Control
AIRMSHL	Air Marshal
AMRL	Aeronautical and Maritime Research Laboratories
ANAO	Australian National Audit Office
Anzus	Australia, New Zealand, United States
APS	Australian Public Service
ASIO	Australian Security Intelligence Organisation
ASIS	Australian Secret Intelligence Service
ASLAV	Australian Light Armoured Vehicle
ASPI	Australian Strategic Policy Institute
AMRAAM	Advance Medium Range Air-to-Air missile
ASRAAM	Advance Short Range Air-to-Air missile
ASTI	Australian and Torres Strait Islander
ATSIC	Australian and Torres Strait Islander Commission
AUC	Assets Under Construction
AUD	Australian dollar
AVM	Air Vice Marshal

B

BORIS	Budgetary and Output Reporting Information System
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C

CDF	Chief of the Defence Force
CEO	Chief Executive Officer
COD	Chief of Division
COMSARM	Computer Aided Armament System

Appendix

CSA	Customer Service Agreement
CSIG	Corporate Support and Infrastructure Group

D

DACC	Defence Assistance to the Civil Community
DCC	Defence Capability Committee
DCIC	Defence Capability and Investment Committee
DHA	Defence Housing Authority
DIMIA	Department of Immigration and Multicultural and Indigenous Affairs
DLOC	Directed Level of Capability
DMO	Defence Materiel Organisation
DSD	Defence Signals Directorate
DSTO	Defence Science and Technology Organisation

E

EIS	Environmental Impact Statement
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F

FBT	Fringe Benefit Tax
FFG	Guided Missile Frigate
FOI	Freedom of Information
FMA	<i>Financial Management and Accountability Act 1997</i>
FMC	Fully Mission Capable
FMS	Foreign Military Sales

G

GST	Goods and Services Tax
-----	------------------------

I

IT	Information Technology
IMATT	International Military Advisory and Training Team

H

HMAS Her Majesty's Australian Ship

HUG Hornet upgrade

L

LTGEN Lieutenant General

M

MAJGEN Major General

MLOC Minimum Level of Capability

MP Member of Parliament

MV Merchant Vessel

N

NATO North Atlantic Treaty Organisation

NESB Non-English speaking background

NSW New South Wales

NT Northern Territory

NZ New Zealand

O

OPA Organisational Performance Agreement

O/S Overseas

P

PAES Portfolio Additional Estimates Statements

PBS Portfolio Budget Statements

PMKeyS Personnel Management Key Solution

PWD People with a disability

Q

QC Queen's Counsel

Qld Queensland

R

RAAF Royal Australian Air Force

Appendix

RADM	Rear Admiral
RAN	Royal Australian Navy
ROMAN	Resource and Output Management Accounting Network
RAR	Royal Australian Regiment

S

SA	South Australia
SDSS	Standard Defence Supply System
SEC	Secretary, Department of Defence
SES	Senior Executive Service
SIEV	Suspected Illegal Entry Vessel
SPP	Special Purpose Payment
SMART	Strategic Materiel Acquisition Request for Tender
SME	Specialist Military Equipment

T

Tas	Tasmania
TNI	Indonesian Armed Forces

U

UIG	Urgent Issues Group
UK	United Kingdom
UNMISSET	United Nations Mission of Support in East Timor
UNTAET	United Nations Transitional Administration in East Timor
USD	United States dollars
USS	United States Ship

V

VADM	Vice Admiral
VCDF	Vice Chief of the Defence Force
Vic	Victoria

W

WA	Western Australia
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ALPHABETICAL INDEX

A

Accountability, 14, 51-55
Acronyms, 459, 466
Advertising and Market Research, 396, 406
Air Force *see Outputs*
Alliance contracting, 364
Anzac-class, 276, 277, 278

Appropriation, 32, 41, 48, 257-261
Army Military History Research Grants
Scheme *see Discretionary Grants*, 306
Army *see Outputs*

Asset Management, 303, 304

Auditor-General's Report, 71-74
Australian Defence College, 429

Australian Defence Force Academy, 254,
422, 425
Australian National Audit Office, 10-13, 25,
72-74, 303-305, 366

B

Border Protection, 125, 139, 148

Bougainville *see also Defence Cooperation*, 4, 18,
40, 46, 96, 171

C

Cadets *see also Vice Chief of the Defence Force*,
313, 314, 416

Capability, 9-11, 17, 18-21

Capital Budget, 269

Equipment, 16, 17, 29, 30, 270, 273-286
Facilities, 287-302, 366

Capital Use Charge, 32, 33, 40, 209, 247

Certain Maritime Incident, 71

Child care, 22, 425

Collins-class submarine, 19, 278, 283, 316,
393

Commercial Support Program, 360, 361

Compensation, 20, 42, 421, 435

Consultants, 374-394

Contract Reporting, 365

Corporate Governance, 51-64, 70, 362

Customer-Supplier Arrangements, 51

D

Decisions of Courts and Tribunals, 75

Defence Assistance to the Civil

Community *see also Output One*, 90-93

Defence Audit Committee *see Senior Defence
Committees*

Defence Capability and Investment
Committee *see Senior Defence Committees*

Defence Capability Plan, 9, 17, 43

Defence Committee *see Senior Defence
Committees*

Defence Cooperation *see Output Five*

Defence Employee Certified Agreement, 20,
421, 422

Defence Family Support Funding Program
see Discretionary Grants

Defence Force (Home Loans Assistance) Act 1990,
439

Defence Force Ombudsman, 74, 79

Defence Housing Authority, 305, 369

Defence Information Environment, 370-373

Defence Materiel Reform, 362, 363

Defence Matters, 22, 456, 457

Defence Operations *see also Output One*, 44-47

Defence People Committee *see Senior
Committees*

Defence Plan, 17, 43, 269

Defence Renewal, 13, 14

Defence Science and Technology, 315-320

Defence Service Charter, 78-81

Defence White Paper, 15-30

Discretionary Grants, 306

Army Military History Grants Scheme, 306

Defence Family Support Funding Program, 307-310

E

East Timor *see also* Defence Cooperation, 4, 45, 96, 164, 177, 178

Education and training, 422, 428-431

Energy *see Environment and Ecology*

Enterprise Risk Management, 67

Environment and Ecology, 328

Equity *see also* People, 423, 430-434

Ethics *see also* People, 65

F

F-111, 19, 153-156, 242, 317, 383, 386, 390

Financial Management *see also* Financial Statements, 11-13, 206

Financial Performance *see also* Financial Statements, 193

Financial Statements, 193-268

Cash Flows, 196, 197

Financial Performance, 193

Financial Position, 194, 195

Notes to and forming part of the Financial Statements, 205-268

Schedule of Commitments, 198, 199

Schedule of Contingencies, 200

Five Power Defence Arrangements *see also* Output One, 27, 108, 175, 177, 179

Fraud, 65

I

Improvement Initiatives, 360, 361

Indigenous Australians, 430-432

Indonesia *see also* Defence Cooperation, 69, 164, 177

Intellectual Property *see* Purchasing

Intelligence *see* Output Six

J

Jindalee Operational Radar Network, 19, 279, 280

Joint Strike Fighter, 9, 10

M

Market testing, 360

N

National Support, 90-93

Navy *see* Output Two

New Zealand, 109, 110, 164

Non-Operational Training, 427-429

O

Occupational Health and Safety, 435-438

Operations *see also* Output One, 44-47

Organisational changes, 51

Outputs

Output One: Defence Operations, 85-123

ADF Exercises, 102-122

ADF Operations, 88, 89, 96-101

Output Two: Navy Capabilities, 124-137

Output Three: Army Capabilities, 138-152

Output Four: Air Force Capabilities, 153-162

Output Five: Strategic Policy, 163-179
Defence Cooperation, 170-179

Output Six: Intelligence, 180-185

P

Papua New Guinea, 170

Parliamentary Committees, 68-71

People, 20-22, 53, 87, 126, 139, 154, 183, 320, 323, 365, 408-435

Disability, 432

Indigenous Australians, 430-432

Women, 411-416, 432
Workplace Equity and Diversity, 430,
431

Performance *see Outputs*

Portfolio Evaluations, 66, 73, 440

Public Affairs and Corporate
Communication, 324-327, 357

Purchasing, 335, 363, 365, 366
Intellectual Property, 278

R

Recruitment, 20, 154, 408-420

Reserves *see also Vice Chief of the Defence Force*,
21, 22, 312, 313, 399, 409-417

Retention, 20, 49, 140, 154, 426

Risk Management, 67, 329

S

Security, 4, 9, 10, 14, 15, 90, 91, 138, 142, 144,
167, 180-182, 311, 319, 321-323, 327, 370, 409

Senior Committees, 54

Defence Audit Committee, 60

Defence Capability and Investment
Committee, 11, 55, 58, 59, 303

Defence Committee, 12, 55-57, 373

Defence People Committee, 63, 424, 425

Senior Executive Service, 63, 64

Remuneration, 53, 54

Special Forces, 3, 9, 10, 109, 111, 139-142, 321

Staffing *see People*

Strategic Policy *see Outputs*

Superannuation, 211, 226, 260

T

Training, 54, 70, 126, 368, 422, 426

V

Vice Chief of the Defence Force, 311-314

Cadets, 313, 314

Reserve Policy, 312

W

White Paper *see Defence White Paper*

Woomera, 264

Workplace Equity and Diversity *see
People*