

DEFENCE

ANNUAL

REPORT

2001-02

HEADLINE RESULTS FOR 2001-02

Operational

- Defence met the Government's highest priority tasks through:
 - effectively contributing to the international coalition against terrorism
 - playing a major role in assisting East Timor in its transition to independence
 - strengthening Australia's border security
 - increasing the Australian Defence Force's (ADF) counter-terrorism capability
 - providing substantial assistance to the Bougainville and Solomon Islands' peace processes
 - supporting civil agencies in curbing illegal fishing in Australian waters.
- The ADF was at its highest level of activity since the Vietnam war.

Social

- 86 per cent of Australians said they were proud of the ADF – the highest figure recorded over the past 20 years. 85 per cent believed the ADF is effective and 87 per cent considered the ADF is well trained. Unacceptable behaviour in the ADF continued to be the community's largest single concern.
(Defence community attitudes tracking, April 2002)
- ADF recruiting:
 - Enlistments were **up**,
 - Separations were **down**,
 - Army Reserve retention rates were the highest for 40 years.
- The new principles-based civilian certified agreement formally recognised a balance between employees' work and private commitments.
- Intake of 199 graduate trainees was highest ever.
- Defence was awarded the Australian Public Sector Diversity Award for 2001.

HEADLINE RESULTS FOR 2001-02

Financial

- Defence recorded a net surplus of \$4,410 million (before the Capital Use Charge of \$4,634 million), when compared to the revised budget estimate of \$4,772 million.
- The net asset position is \$45,589 million, an increase of \$1,319 million or 3% over 2000-01. At 30 June 2002, Defence held some 71% of the non-financial assets of the Commonwealth General Government sector.
- The current asset ratio has further strengthened at 103%, exceeding the revised budget estimate equivalent ratio of 88%. In addition, the liquidity coverage of cash for meeting obligations to suppliers has improved to 0.81 when compared to the revised budget estimate of 0.75.
- Total expenses (including borrowing costs) amounted to \$14,581 million compared to \$12,739 million for 2000-01. Significant increases in non-cash expense items, such as asset write-downs, have contributed to this result. Defence is the largest employer in the Commonwealth General Government sector and controls a significant and unique non-financial asset base.

Environmental

- New Defence environment policy released in December 2001.
- Annual energy consumption **reduced** by 191,276 gigajoules.
- Greenhouse gas emissions **reduction** target for 2000-01 of 25,000 tonnes is **surpassed** by 18,825 tonnes – on target to achieve a further reduction of 80,000 tonnes in 2001-02 (results available in November 2002).
- Expenditure on water **increased** to \$13.3m (from \$12.9m in previous year). Water conservation strategy will be developed in 2002-03.

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25 October 2002

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 2002 which 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 2001-02, as well as containing other mandatory 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 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

A handwritten signature in black ink, appearing to read 'M Roche'.

Michael Roche
Acting Secretary
Department of Defence

A handwritten signature in black ink, appearing to read 'P Cosgrove'.

Peter Cosgrove
General
Chief of the Defence Force

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USER GUIDE

The format and content of this annual report reflect 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*.

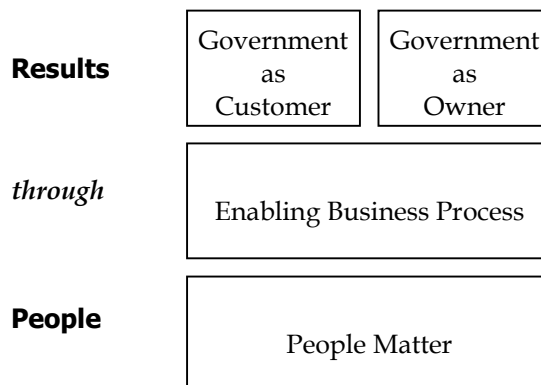
The *Defence Annual Report 2001-02* addresses the Department of Defence and the Australian Defence Force (ADF), which are collectively referred to as 'Defence', while the Department of Veterans' Affairs and the Defence Housing Authority, which are parts of the Defence portfolio, have separate annual reports.

The primary purpose of annual reports of departments is accountability, in particular to the Parliament. Annual reports serve to inform the Parliament (through the responsible Minister), other stakeholders, educational and research institutions, the media and the general public about the performance of departments.

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

In addition, Defence's annual reports are designed as linking documents between Defence's actual performance in the year under review and the performance forecasts contained in the portfolio budget statements for the following financial year.

The structure of this annual report reflects the development of an integrated performance framework within Defence using the *Defence Matters* balanced scorecard. The scorecard focuses on four perspectives:



The report is divided into five chapters. With the exception of the first chapter (Overview), each of the subsequent chapters reflects a perspective of the *Defence Matters* balanced scorecard.

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 published in December 2000, a summary of financial performance for the year, as well as accountability arrangements. It includes an organisational chart that shows the formal structure of Defence as at 30 June 2002. Because there was a significant number of senior executive changes in mid-2002, a further chart is provided depicting the organisation after the changes had been effected.

Chapter Two reports on the results to the Government as Defence's customer. This chapter contains information on output delivery and prices, including explanations for significant variations from budget estimates. Information covering ADF operations, ADF exercises and a summary of Defence cooperation activities is also provided.

Chapter Three reports on the results to the Government as Defence's owner. The bulk of this chapter comprises the 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 are provided as well as information on a number of owner-support responsibilities and activities. The chapter also includes information required to be published under the Freedom of Information Act.

Chapter Four contains information relating to Defence's enabling business processes. This chapter includes information on improvement initiatives – efficiency savings, the Commercial Support Program, customer-supplier arrangements, Defence materiel reform, an assessment of purchasing policies and principles, and enhancing internal service delivery. The chapter includes information on consultants engaged by Defence and contracts exempt from publication in the *Commonwealth Purchasing and Disposals Gazette*, together with details of advertising and market research organisations used by Defence.

Chapter Five focuses on people management and information required pursuant to specific statutory provisions relating to the annual reports of all Commonwealth departments.

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

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 where appropriate. Figures referred to in the text are usually to the nearest million dollars for ease of reading. The rounding convention used is that rounding downwards occurs if the end digit is less than five, and rounding upwards occurs if the end digit is five or more. Totals are the sums of unrounded figures.

CHAPTER ONE

OVERVIEW

YEAR IN REVIEW

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

IMPLEMENTING THE WHITE PAPER

FINANCIAL PERFORMANCE

ACCOUNTABILITY ARRANGEMENTS

CORPORATE GOVERNANCE

**INTERNAL AUDIT AND RISK MANAGEMENT
ARRANGEMENTS**

EXTERNAL SCRUTINY

**REPORT ON THE OPERATION OF THE DEFENCE
SERVICE CHARTER FOR 2001-02**

YEAR IN REVIEW

REVIEW BY THE SECRETARY AND THE CHIEF OF THE DEFENCE FORCE

2001-02 was another big year for Defence. The significantly increased operational tempo reported in 2000-01 was maintained on all fronts – and increased further in response to two developments: the 11 September terrorist attacks in the United States and the need to step up border protection.

These operational demands were matched by management challenges associated with the first full year of Defence White Paper¹ implementation, including capability decisions involving some \$5.5b of capital investment. The groundwork for improved management, as reported in last year's annual report in relation to our 'renewal agenda', assisted in ensuring that this investment program accorded with the Defence Capability Plan's strategic direction.

THE TEMPO OF OPERATIONS

With Australia's commitment to the international coalition against terrorism, our role in the interception of illegal immigrants and the maintenance of border integrity, combating illegal fishing, the Bougainville Peace Monitoring Group and our ongoing security role in East Timor, the Australian Defence Force (ADF) is at its highest level of activity since the Vietnam war. This high operational tempo is expected to continue, with the Government's commitment to strengthen Australia's defences, fight the war against terrorism and protect our borders.

Resources are stretched due to our operational commitments. The Government's highest priority requirements have been met, although concurrent commitments have placed pressure on the availability of Defence personnel and capabilities. The demands of high operational tempo and competing priorities mean that this pressure is unlikely to be relieved in the near future, and some lower priority operations will remain dormant.

The increased rate of effort, together with equipment upgrades and maintenance, has reduced the availability of assets for some surveillance operations as well as some major international exercises. Training in some core warfighting areas has also been constrained by operational commitments and will require remediation to assure longer-term sustainability.

WAR AGAINST TERRORISM

On 11 September 2001, terrorists attacked buildings in New York and Washington DC, killing over 3,000 people. Ten Australian citizens were among the victims. The attacks demonstrated the capacity of small and ruthless groups to cause significant loss of life for dramatic strategic effect.

1. *Defence 2000 - Our Future Defence Force*, released in December 2000.

The al Qaeda-organised terrorist attacks represented a fundamental assault on the values and freedoms of modern societies. In the increasingly globalised world, the attacks were a challenge to the order that underpins our security and prosperity.

In response to these attacks, Australia joined the international coalition against terrorism led by the United States. For the first time in the Treaty's fifty-year history, on 14 September 2001, Australia invoked the Anzus alliance, under Article IV, providing for the parties to take joint action in response to an attack on the metropolitan territory of either Australia or the United States. The response was consistent with the right of self defence and the resolutions carried by the United Nations' Security Council after the attacks.

As usual, Defence provided advice and options to the Government and, following the decision to commit forces, implemented a timely and effective ADF deployment totalling over 1,550 personnel. As announced by the Prime Minister on 17 October 2001, these forces were committed to combined operations against the terrorist groups responsible for the 11 September attacks, to support the forces of the United States and other coalition partners in the campaign, and to provide protection for key coalition forward bases.

The ADF has performed conspicuously well within the international coalition. Australian special forces deployed to fight in Afghanistan have proved to be a welcome and highly effective contribution. Navy and Air Force units have played an important and successful role in supporting the land forces and participating in related coalition operations.

The Government has also directed Defence to raise a second tactical assault group and an incident response regiment in response to the 11 September attacks. These units have been formed to assist civil authorities to cope with major terrorist incidents, including the potential use of chemical, biological and radiological weapons.

The attacks in September 2001 changed Australia's strategic environment in some important ways. They altered the international security agenda by giving renewed prominence to the threat from transnational terrorist groups and the proliferation of weapons of mass destruction. They have had an important effect on the policies and priorities of our major ally, the United States. And they have resulted in our involvement in new and demanding military commitments.

While there are still fundamental aspects of our environment that are little changed by the events of last September, we now pursue our interests in a different world to that described in the Defence White Paper.

That is why the Government has decided to review the changes in our strategic environment, the adequacy of our current and planned capabilities to manage the broader range of potential contingencies that might arise, and the ability of Defence to sustain its operations. In particular, the capability development objectives set out in the White Paper need to be reviewed. During the year, Defence provided advice to assist the Government in its consideration of some of these issues. We also began a strategic review that will be submitted to the Government later in 2002.

BORDER PROTECTION

Defence made a major contribution during the year to assisting other Commonwealth government agencies with surveillance of Australia's maritime approaches and enforcement of migration laws.

Illegal immigration arrivals have been the prominent focus of Australian border protection policy over the last year. A major ADF operation, Operation Relex, which involves air and surface patrols across Australia's northern approaches, began in September 2001 and has been successful in deterring and preventing people smugglers from illegally landing people in Australia.

A precursor to Operation Relex was the boarding, by Australian special forces, of the MV *Tampa*, in August 2001, to detain suspected illegal immigrants.

During this period, allegations were made that the Defence Signals Directorate (DSD) had intercepted communications between the MV *Tampa* and two trade unions. An independent inquiry, undertaken by the Inspector-General of Intelligence and Security, found that there was no substance to the allegations. The inquiry did find, however, that in the process of collecting foreign intelligence, DSD did not adhere to the rules of reporting on Australian persons. As a result of the inquiry, DSD has put into place measures to prevent a repeat of these breaches.

The events surrounding the reporting of the rescue of over 200 people following the sinking of 'SIEV 4'², in October 2001, exposed failures in command and reporting arrangements within Defence.

At its essence, the then Chief of the Defence Force, Admiral Chris Barrie, believed that children had been thrown overboard in the incident, based on reporting up through the chain of command. He invited the chain of command to advise him if the record needed to be corrected. This never occurred, and it was not until Admiral Barrie took the unusual step of pursuing his own inquiries late in February this year that he was convinced that the incident never happened. He then took immediate steps to correct the record.

The Senate Select Committee on a Certain Maritime Incident conducted an inquiry which examined the SIEV 4 incident, and other Operation Relex interceptions, in detail.

A key focus of the committee's inquiry centred around the misrepresentation of photographs purporting to show children being thrown overboard from SIEV 4. Doubts over the dates of the photographs, and what they purported to show, were expressed through oral advice and an exchange of emails between the Secretary and uniformed and civilian officers of Defence and with ministerial advisers and the then Minister for Defence's media adviser.

The matter was not adequately resolved and, as a result, the Secretary accepted accountability for this situation and offered his resignation. No doubt these matters will be dealt with in the committee's report.

Concurrent with the Senate inquiry, we set up an internal task force, under Rear Admiral Gates, to make recommendations on fixing the deficiencies revealed by the incident. We

2. The fourth 'suspected illegal entry vessel' detected during Operation Relex.

have subsequently approved changes to command and control arrangements, as well as to the flow of information to the media, to ensure that the situation will not recur.

The final stages of the inquiry focused on events surrounding the sinking of a vessel that has become known as 'SIEV X'³. This vessel was an overloaded boat that left an Indonesian port in October 2001 and sank with the loss of over 350 lives.

There was nothing that Defence could have done in relation to the fate of SIEV X. In the weeks leading up to this tragic event, Defence received numerous, conflicting reports of a possible departure. These reports indicated different times and ports of departure. At no stage was Defence aware that this vessel was in distress. Even now, the exact location of where the boat foundered is not known.

There was no conspiracy to let innocent people die. SIEV X was a human tragedy, but it is not one for which Defence is responsible.

What should be remembered is that, throughout Operation Relex, the operational professionalism and the courage of the ADF was never in question. Senators from all sides represented on the committee were unanimous in their praise. The ADF is justifiably proud of its record in 'safety of life at sea' situations, as demonstrated by the bravery of our sailors in rescuing people from SIEVs when those vessels sank or were in difficulty.

OTHER OPERATIONS

The commitment of elements of the ADF to the international coalition against terrorism and increased border security occurred at a time of significant involvement by Defence in other operations.

Australia continues to be the largest force contributor to the peacekeeping operation in East Timor, where an independence government was elected and successfully assumed its responsibilities from the United Nations transitional administration on 20 May 2002. Independent East Timor will continue to require support from Australia and the international community for some years to come.

In Bougainville, after a number of years of service, the Peace Monitoring Group continues to be a most cogent factor in the social rehabilitation of the island and the move to an enduring solution to the causes of conflict. We have progressively reduced the size of the group, in concert with our partners, as levels of confidence and cooperation have improved on the island.

Defence had personnel involved in United Nations and other peacekeeping missions around the world – in the former Yugoslavia, the Sinai, Israel, Syria, Lebanon, Sierra Leone, Ethiopia, Eritrea, and the Solomon Islands. These commitments continued throughout the year, despite the increasing operational tempo, and Australia remains committed to cooperation with the United Nations into the future.

Defence contributes to fisheries patrols in support of Australian sovereign rights and fisheries law enforcement in the Southern Ocean. Navy and Air Force patrols were responsible for several arrests of illegal fishing vessels in the Southern Ocean during the year.

3. Where 'X' denotes unknown, rather than the tenth vessel in the series.

Defence's contribution to peacetime national support tasks was highlighted by the key role played by some 2,400 ADF men and women in providing security and support, including counter-terrorism and air defence support, to the Commonwealth Heads of Government Meeting held in Queensland in March 2002.

A continuing national support task which deserves special mention is the community assistance program, which began in late 1996. Overseen by the Aboriginal and Torres Strait Islander Commission in cooperation with the Army and the Department of Health and Ageing, the program is a practical way of improving environmental health infrastructure in remote indigenous communities. The Army commitment includes the construction of housing, water and sewerage reticulation systems and rubbish tips, the maintenance of roads, tracks and barge landing sites, and upgrades to electrical supplies.

All Army contingents include military medics and dentists to assist communities with primary-care medical and dental treatment. On occasions, specialist support has been provided from cardiologists, ophthalmologists and dermatologists, as well as tuberculosis screening.

The Army undertakes projects only after close consultation with the indigenous communities, ensuring cultural sensitivities are considered. As well as benefiting the communities concerned, the program provides invaluable training and experience for Army engineers.

Projects in communities south-west of Katherine in the Northern Territory concluded in September 2001. Work is continuing in Dampier peninsula communities in Western Australia's Kimberley region. In 2003, work will focus on Palm Island, in northern Queensland.

FORCE CAPABILITY

During the year, Defence made significant progress in implementing the long-term force capability priorities set out in the Defence White Paper.

The Government announced its decision to participate in the development phase of the F-35 Joint Strike Fighter, with the expectation that the F-35 will meet Australia's future air combat and strike requirements. Other major Defence Capability Plan decisions announced during the year included upgrading of tracked armoured vehicles, ordering armed reconnaissance helicopters and seeking proposals for the replacement patrol boats.

Defence continues to grapple with a number of legacy projects begun prior to the introduction of reforms embodied in the creation of the Defence Materiel Organisation. Such projects include the Collins submarines, FFG frigates and Seasprite helicopters.

The task of resolving issues associated with these projects has been complicated by past contracts and arrangements. Industry has not always met its obligations either. Delays faced by some projects may never be fully recoverable, even under an improved contract management regime.

More recent projects – acquisition of the VIP aircraft, airborne early warning and control aircraft and the armed reconnaissance helicopters – are performing on schedule and within budget, demonstrating that the reforms are working.

FINANCIAL MANAGEMENT

2001-02 has seen an unprecedented commitment across Defence to improve financial management support for decision making.

Such an improvement was vital, given that Defence received its first \$500m tranche of the Government's Defence White Paper commitment to increase Defence's funding by \$28b over the next decade. Work began during the year on a number of new capability programs identified in the White Paper as critical to the defence of Australia and our national interests.

In February this year, the Government agreed to provide Defence with a further \$343m in new funding to address the strategic issues emerging both at Australia's door and globally. This funding primarily provided Defence with the means to increase its protection of Australia's northern and western borders from unauthorised arrivals and to contribute to the international coalition fighting terrorism.

Defence's financial accounting information is a vital link in managing this diverse and complex organisation. As part of the first year of implementing the Government's White Paper commitments, Defence made significant inroads into moving to a more informed and active model of managing its financial resources. This incorporated two significant initiatives:

- an analysis of Defence's financial performance for the previous year was a key part of updating the 2001-02 Budget at Additional Estimates time and in establishing a resourcing strategy late in 2001 that supported Defence in addressing its rapidly emerging needs; and
- each month throughout 2001-02, the Defence Committee considered comprehensive 'balanced scorecard' reports integrating performance in financial and all other major aspects, against budgets and other planned targets, and aligning performance across the organisation to Defence's primary objectives.

This approach in ensuring that Defence's financial plans better recognise, and respond to, actual performance and emerging issues has seen Defence largely achieve its underlying accrual budget in 2001-02 for the first time since implementing accrual budgeting.

As by far the biggest employer and asset-owner in the Commonwealth Government, it is the sort of accounting issues faced by Defence that make the move from a traditional cash-focus to accrual accounting more difficult – and more important. The accounting task for other 'large' agencies, in fact, focuses primarily on transfer payments on behalf of the Government.

Preparation of Defence's 2001-02 financial statements is one more step in pursuing an accounting regime that fully supports active and informed decision making. The size of this task is demonstrated by the emergence in 2001-02 of sizeable corrections required to past years' accounting for military equipment.

Nevertheless, Defence's 2001-02 financial statements will provide a sound source of information for continuing to manage our financial resources and fixed assets. Preparation of the associated statements has involved an enormous effort from both within Defence and the Australian National Audit Office to substantiate the financial accounts. The focus in 2002-03 will be on improved systems, processes and controls.

Defence, working closely with the Audit Office, has systemically identified the problems that have perennially dogged our financial systems and reporting. The remaining issues identified in the 2001-02 financial statements related primarily to the accounting valuations of military assets, many items of which have been on Defence's books for some years. Defence continues to improve its accounting for these assets, but the financial valuations of existing military assets are only one element in how we manage military capabilities.

A number of these accounting problems are being remediated through process change and improvement. Others will require large-scale system enhancements which will take a minimum of two to three years to resolve. This work is essential if Defence is to avoid the present amount of manual work required to produce accurate financial reports.

2001 FEDERAL ELECTION

Following the 2001 federal election, Senator the Hon Robert Hill became Minister for Defence; the Hon Danna Vale MP became Minister for Veterans' Affairs and the Minister Assisting the Minister for Defence; and the Hon Fran Bailey MP began her new role as Parliamentary Secretary to the Minister for Defence. Former Defence Minister Peter Reith did not contest the election; the former Minister Assisting, Bruce Scott, returned to the backbench; and the former Parliamentary Secretary, Dr Brendan Nelson, was promoted into Cabinet as Minister for Education, Science and Training.

The challenge for Defence was to assist the new team and their staffs in quickly getting across emerging issues, especially given the tempo and scope of current operations. The challenge remains, in 2002-03, to improve the provision of timely, accurate and considered advice to the Government. A number of avenues to this end are being pursued.

ADF PARLIAMENTARY PROGRAM

Seven senators and one member of parliament took part in the inaugural annual program conducted during July and August 2001. The program involves attachments to Defence units for periods of about five days. A further three senators and 15 members of parliament participated over the same period in 2002. Activities included an operational attachment to RAN ships in the Persian Gulf, working with Army engineers building accommodation and facilities in remote communities in the Northern Territory, and attachment to a battalion group training for deployment to East Timor.

Exposure to ADF operations and training, and interaction with servicemen and women, is designed to enhance parliamentarians' understanding of defence matters. Excellent feedback from all concerned has been received. The program is in addition to regular briefings on defence topics provided to parliamentarians by senior military and civilian officers.

DEFENCE RENEWAL

The 2000-01 annual report outlined initial steps taken to foster a capacity for 'renewal from within' in Defence – a capacity for Defence itself to identify and tackle chronic management problems rather than be subject to seemingly endless external reviews.

Three priority areas for management improvement, referred to as 'renewal themes', were identified. They highlighted a need to:

- build better alignment with the Government's strategic direction;
- build clearer accountability for results; and
- build a leadership culture.

The drivers for Defence's renewal were two-fold.

First, there was a need for Defence to bring itself up to speed with public sector reform imperatives, and thereby to improve the working relationship with Government. In particular, there was a requirement for Defence to become:

- more results-focused (in line with the whole-of-government output-based accrual management framework, and the requirements of the *Financial Management and Accountability Act 1997*); and
- more values-based (in line with the *Public Service Act 1999* and consistent with the Government's White Paper direction that Defence develop a 'leadership' as opposed to a 'bureaucratic' culture).

Second, there was a need to prepare Defence for significant demographic trends which, over the coming decade, will make it harder to recruit and retain enough people in the key 15 to 24-year-old age group. Here, the requirement was for greater accountability among leaders for creating the right climate for their people to make a contribution to Defence's mission. This calls for a greater focus on the day-to-day workplace behaviour of Defence's senior leaders, and a broadening of the criteria for leadership away from technical competence alone to include relationships and 'people skills'. This distinctive leadership approach is central to Defence's renewal, and is summed up in the 'results through people' slogan.

Taken together, these two drivers of change inside Defence – legislated public sector reform and demographic trends – represented a non-negotiable requirement to review the fundamental settings of Defence's management, a renewal process which was outlined in the 2000-01 annual report.

Broadly, 2001-02 marked the completion of an initial two-year development phase of the renewal program – a phase that focused on engagement with the 245 or so of Defence's most senior leaders, and that featured completion of various top-down elements of a new performance framework that integrated financial and non-financial performance reporting through a balanced scorecard approach.

By the end of 2001-02, preparations had begun for engagement with the 2,000 or so people who report directly to Defence's senior leadership, and for the initiation of a voluntary Results through People Network through which wider participation in renewal could take place, in the context of a more transparent performance framework.

The research literature on similar corporate renewal efforts indicates that a minimum of five years, and up to ten years, is required to embed a different way of doing things in the day-to-day activities of an organisation as large and culturally complex as Defence. We are, therefore, some two years into a change journey that is likely to extend beyond the tenure of many of today's senior Defence leaders.

We are confident that the foundations for that long-term renewal program are now solidly in place.

We are, of course, conscious that the past two years have entailed a fairly abstract, high-level body of work – for example, in reconfiguring the way that Defence does business in Canberra.

For most people inside – and outside – Defence, such renewal efforts can seem very remote from the operational realities that our people face (which they are). Yet the chronic problems that loom large in Defence’s high-level administration – in relation to poor alignment, accountability and senior leadership – cast a long shadow. They have a systemic effect on the rest of the organisation.

We are tackling these entrenched problems at their source – in our Canberra offices – and we anticipate that the benefits will become much more apparent during 2002-03.

Documenting and disseminating news of concrete gains from renewal is vital in the early stages of any major change effort – in particular in internally focused organisations where cynicism about externally imposed change runs deep.

For this reason, the Defence Committee will be taking the lead during 2002-03 in driving a series of structured Defence renewal projects (outlined below under Alignment), with a view to demonstrating the benefits of a whole-of-Defence approach to getting results, and of working together in a values-based way across functional lines.

Our next role in renewal, as co-leaders of Defence, is to hold senior leaders more firmly to account than ever before for the workplace climate that they create for their people. Detailed evidence of what each senior leader has done to achieve ‘results through people’ will be provided to us in personal letters by 6 December 2002. We will be showcasing good news stories from these letters at the Senior Leadership Summit in February 2003, and will be taking the content of the letters into account in our judgement of the performance of each senior leader.

This is important because Defence’s people are rightly concerned about a rhetoric-reality gap when they hear talk of how ‘people matter’ in Defence. We are committed, therefore, to generating and communicating hard evidence that people do indeed matter greatly in the twenty-first century Defence organisation.

It is in this context – as we enter the third of a five-to ten-year program of fundamental ‘renewal from within’ – that we report here on the current state of play in relation to each of the three renewal themes that were outlined in the 2000-01 annual report.

Alignment

The conceptual basis for Defence’s business model, as outlined in last year’s annual report (at pages 7 and 8), features a notion of two distinctive working relationships that Defence has with the Government of the day: first, as ‘customer’ of our business, with an interest in purchasing value-for-money outputs in support of the Defence mission (the outcome sought by the Government); and second, as the ‘owner’ of our business in a stewardship capacity, with an interest in the ability of the organisation to continue to meet performance expectations sustainably over the long term.

This concept, drawn from the then Management Advisory Board's watershed 1997 report, *Beyond Bean Counting*, offered a systematic means by which Defence could identify and value important long-term roles – roles that are particularly important for a

Commonwealth agency with the largest asset base in Australia, and with some of the longest investment lead times.

Progress in implementing the Defence business model, as outlined below, is vital in relation to our capacity to provide assurances in relation to the December 2000 White Paper strategic direction – given the ten-year funding commitment associated with the Defence Capability Plan.

Since 1997, Australian Government administrations have sought to ensure that agencies have in place performance frameworks that integrate financial and non-financial information, in ways that position decision makers to focus on likely future, as well as past, performance.

Consistent with this policy direction, the balanced scorecard approach (as advocated in the *Beyond Bean Counting* report) was selected in 2000 as the best basis for Defence's planned new performance framework.

In its implementation of the *Defence Matters* balanced scorecard, Defence drew on research that highlighted the vital importance of linking scorecards to corporate strategy, via simple depictions of assumed cause-and-effect relationships in that strategy, ie 'strategy maps'.

Such strategy maps assist in identification and management of increasingly important 'intangible assets', like workforce morale and knowledge management, that are notoriously difficult to measure and yet can make or break an organisational strategy.

A simplified whole-of-Defence strategy map was finalised by the Defence Committee in November 2001 (see adjacent page). It features 20 strategic objectives, grouped into 'Results for Government as Customer' and 'Results for Government as Owner' perspectives, together with a third perspective that identifies key areas for business improvement that will drive better results over the long haul.

Taken together, this set of strategic objectives represents the things that Defence must do well in order to deliver sustainably on the Government's strategic direction, as published in the Defence White Paper. They are shown as contributing to an overarching strategic theme of 'Delivering the capability to win, today and tomorrow'.

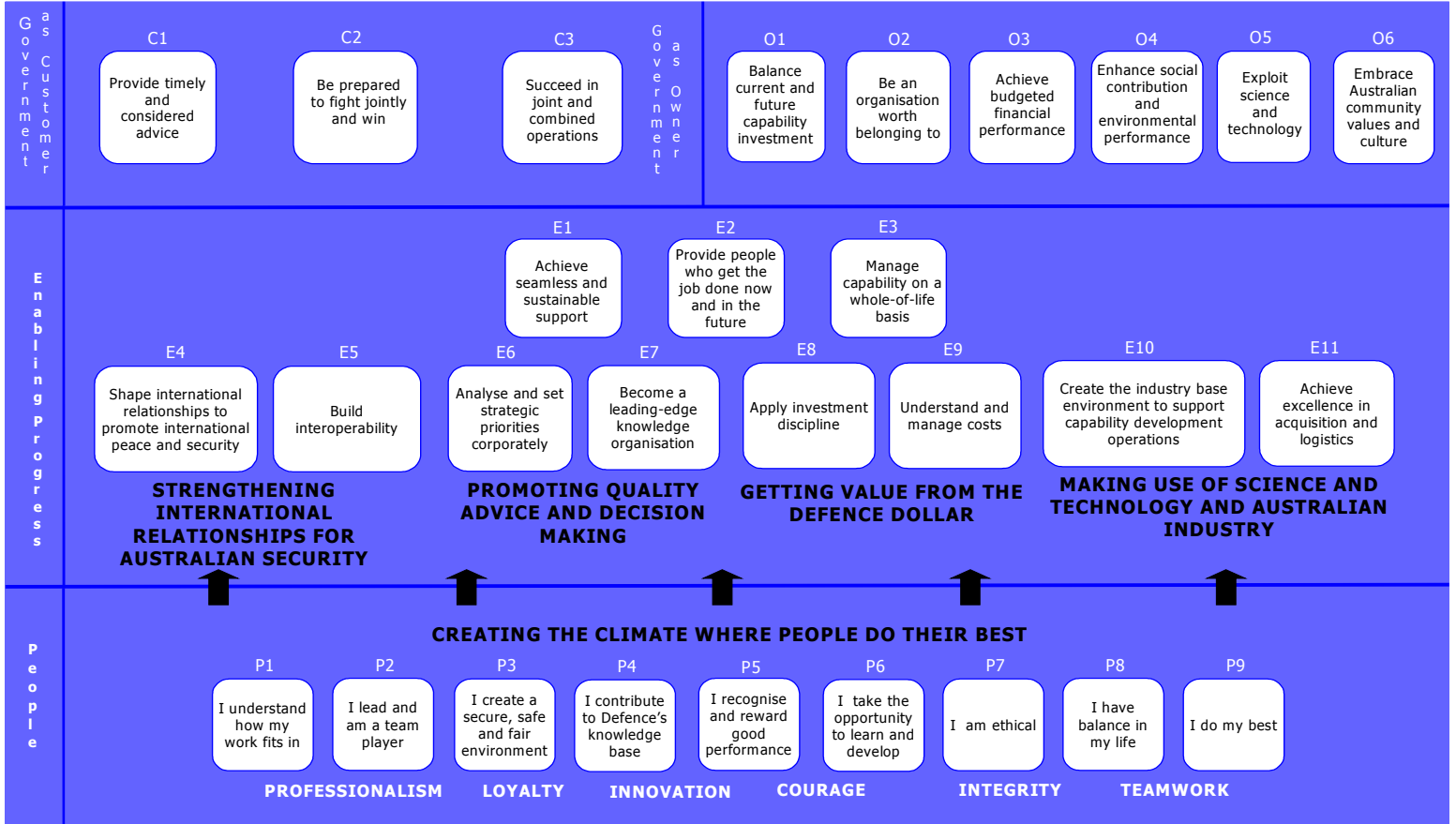
The four enabling strategic themes are:

- strengthening international relationships for Australia's security;
- promoting quality advice and decision making;
- getting value from the Defence dollar; and
- making use of science and technology and Australian industry.

WHOLE-OF-DEFENCE STRATEGY MAP

OUR MISSION - DEFENDING AUSTRALIA AND ITS NATIONAL INTERESTS

DELIVERING THE CAPABILITY TO WIN TODAY AND TOMORROW



In an organisation with the functional diversity and cultural complexity of Defence, it is hard to overstate the significance of agreement by Service Chiefs and Group Heads on such a relatively straightforward depiction of 'what matters and why' at the whole-of-Defence level.

Many areas of Defence had, over the years, developed quite sophisticated performance frameworks – but those frameworks existed in isolation from a whole-of-Defence perspective. This created the conditions for 'the whole' to always be somewhat less than the sum of the parts. All too often, the need for internal resource trade-offs was masked by decision avoidance. It was far easier to start new projects than to identify projects that should be stopped in the interests of a sustainable, whole-of-Defence future.

These factors have led to the serious 'block obsolescence' problem that the Government began to tackle with its White Paper capability decisions.

We don't underestimate the scale of the challenge we face in ensuring that resources are allocated more holistically in future.

Even though the three Services, the then Department of Supply and the Department of Defence were merged in 1973, the disparate cultures of those five organisations remained unaligned with whole-of-Defence goals. The past three decades have been marked by competition for resources rather than collaboration for results.

In his November 1973 *Report on the Reorganisation of the Defence Group of Departments*, the then Secretary of the Department of Defence, Sir Arthur Tange noted that: 'A test of the plan proposed would be whether it makes rationalisation a self-generating process, which it is not at present when Defence is separate from Service administration.'

The Tange reforms were successful in many respects, and positioned Defence well in its modernisation efforts. However, until relatively recently, public sector performance management was not sufficiently well-developed to provide visibility to the Government of the long-term impacts of resource allocation decisions. In such a setting, 'rationalisation' could not become self-generating - it had to be imposed on Defence periodically by a succession of Ministers impatient with the unresponsiveness of an inwardly-focused organisation that seemed unwilling or unable to be accountable for its management performance.

The net result was that, by late 1999, Defence had dug itself into a hole. Our operational skills and courage were matchless, but our organisational and project management skills undermined our capability. The prognosis and prescription of the joint Defence/Finance *Performance Information Review* of July 1997 had been set aside.

By contrast, our initial renewal efforts have already led to some improvements in the quality of decision-support information - the Defence Committee has been receiving reports using a basic balanced scorecard format since October 2000.

The increasing integration of financial and non-financial performance data informed preparation of a classified 2002-12 Defence Management and Finance Plan, in March 2002, that featured more explicit links between 'cost and capability' than had been feasible in previous Commonwealth Budget considerations.

Balanced scorecards - featuring measures, targets and strategic initiatives - will be developed, over time, for each of the 20 whole-of-Defence strategic objectives. A high priority is being placed on four particular objectives identified by us as being 'hot spots' on the whole-of-Defence strategy map - that is, in relation to the quality of advice to Ministers; financial management; sustainable workforce; and logistics systems. These constitute the first set of Defence renewal projects announced in late July 2002.

During 2001-02, the whole-of-Defence strategy map was used as the basis for a 'cascade' of strategy maps in each Service and Group. The initial result of this body of work is the development of a shared language for talking about performance across very disparate work areas. Each Service and Group strategy map features the same explicit assumptions about how getting the people side of things right leads to improved business processes which, in turn, lead to better results. This sets the scene for the longer-term goal of individuals anywhere in Defence having a clear line of sight from their day-to-day work to whole-of-Defence results.

The fourth, or 'People Matter', perspective of the whole-of-Defence strategy map lists nine objectives that relate to the capacity of individuals to make a contribution to whole-of-Defence results - objectives such as 'I understand where my job fits in' and 'I lead and am a team player'. Together, these objectives comprise the sixth and final strategic theme: **'Creating the climate for people to do their best'**.

Many aspects of this People Matter perspective on performance are explicitly and formally supported by the *Defence Employees Certified Agreement 2002-03* which was overwhelmingly voted into effect in March 2002 by the civilian workforce and certified by the Australian Industrial Relations Commission in April 2002.

The new certified agreement codifies arrangements for a 'performance exchange' process that civilians undertake twice a year. Here, the emphasis is on frank, one-on-one discussions about results and the means by which they are achieved - discussions that are recorded in a simple 'plan-on-a page' format. The intent is for people to build a clear picture of how they contribute to the Defence mission.

Back in mid-2000, the goal of everyone in Defence being able to align their day-to-day work with the mission was remote and seemingly unachievable. Now it appears within our reach, if not yet within our grasp.

This goal, from which we could easily be distracted by critics of so-called 'management-speak', is vitally important.

This is not only because we must ensure efficient, effective and ethical use of Commonwealth resources (in line with departmental Secretaries' responsibilities in relation to the *Financial Management and Accountability Act 1997*), but also because we know that context and meaning makes work more rewarding for people. A Defence organisation with clear, big-picture objectives is more likely to be able to recruit and retain the high-calibre people it needs to deliver the capability to win, today and tomorrow.

In summary, the benefits to Defence of more transparently aligning its activities and resource allocation with the Government's strategic direction are gradually becoming clearer to our people. Our hope is that, over time, a commitment to such alignment

will translate to improvements in the degree of confidence that the Government has in the decision-support information that Defence provides.

Accountability

Accountability for balanced performance (ie for financial as well as non-financial results) is being strengthened through implementation of the new Defence business model.

Defence is implementing an internal purchaser-provider model that we call our 'customer-supplier arrangements'. One aspect of this model involves each Service Chief and Group Head having an Organisational Performance Agreement (OPA) with us, specifying what we expect by way of sustainable performance from them.

The second aspect of the internal business relationships is codified in Customer Service Agreements (CSAs) between Output and Owner Support Executives and their internal suppliers for the provision of the goods and services needed to deliver on OPA performance standards. Over time, these arrangements will ensure that those who have the responsibility for a particular result also have control over the resources necessary to achieve that result (alignment) and that they can therefore be held more fully to account for their performance.

We committed to the Government that customer-supplier arrangements would be introduced in Defence from 1 July 2001. Significant progress has been achieved in bedding down the CSAs and OPAs, but much remains to be done – in particular, in relation to the articulation of meaningful performance measures and targets, and the development of pricing that reflects a detailed understanding of long-term cost drivers.

As noted in last year's annual report, management information systems continue to present a challenge – decision makers cannot be held properly to account in the absence of decision-quality information.

Over the past year, we have undertaken a substantive data improvement exercise in relation to our three key information systems (finance, personnel and inventory management). We are implementing an enterprise risk management framework to identify the systematic risks and shortcomings of these systems and developing detailed remediation strategies. We have also invested a lot of effort over the past year in improving our business skills training to ensure data integrity and accuracy of information entered into, and manipulated in, our management information systems.

Given the scale of Defence's assets, and the need for greatly improved accountability for the capital investment associated with White Paper capability decisions, Defence placed a major focus in 2001-02 on asset management policy and processes. In the process, Defence's drive to bring itself in line with the Government's output- and outcome-based accrual accounting policies brought to light yet more of the systemic problems that have bedevilled our inventory management system for well over a decade. These problems have continued to impact significantly on our ability to produce audit-quality financial statements.

We therefore put in place a major improvement agenda in relation to the development and improvement of financial management information. A financial statement preparation plan was developed to take into account lessons learnt from the preparation

of the 2000-01 statements, to resolve high-risk areas and to ensure that appropriate resources were allocated to key areas.

Costing of internal services has for years blocked progress on providing the Government with greater visibility of the real price of Defence's outputs. But difficulties in acquiring quality management information are only part of the story. The other part of the story is the need to clarify what, precisely, each Service Chief and Group Head is expected to deliver.

We have sought to improve such individual accountability for results via a set of one-page documents – 'charters' – that outline the results ('ends') expected of each Service Chief and Group Head, and the minimal limitations placed on the 'means' that these individuals may use to achieve those results. These principles were applied to the development of the Directive to the Secretary and CDF from the Minister for Defence, drafted in a format that lent itself to being 'cascaded' to Service Chiefs and Group Heads.

A Ministerial Directive was signed by Minister Robert Hill on 25 November 2001. However, we faced an apparently intractable problem in assigning unambiguous responsibility for striking the balance between current and future capability. As Chair of the Defence Capability and Investment Committee (the DCIC), the then Vice Chief of the Defence Force was a candidate for this task, yet functional responsibility for preparedness (ie current capability) resided with the then Deputy Secretary Strategic Policy.

Pending resolution of this impasse, the charters remained unsigned for the remainder of 2001-02. In July 2002, the incoming Defence Committee resolved to tackle the problem through more explicit responsibility being assigned to a reconstituted and more tightly-focused DCIC – chaired by the Secretary and comprising the Chief of the Defence Force, the Service Chiefs and the Under Secretary Defence Materiel – which focuses on the overall shape of capability.

A new sub-committee of the DCIC, the Defence Capability Committee (DCC), now performs a vital role in reviewing capability investment proposals, thereby positioning the DCIC to take a more strategic view of the balance of current and future capability investment. The DCC is chaired by the Vice Chief of the Defence Force and comprises Deputy Secretary Strategic Policy, an Under Secretary Defence Materiel representative, Deputy Chief of the Navy, Deputy Chief of the Army, Deputy Chief of the Air Force, the Chief Finance Officer, the Chief Defence Scientist, Head Capability Systems, Deputy Chief Information Officer, Head Defence Personnel Executive, a Department of Finance and Administration representative and the First Assistant Secretary Capability, Investment and Resources.

Charters for Service Chiefs and Group Heads reflecting these changed arrangements were signed in September 2002.

In other changes to Defence's senior committees, the Defence Committee now has fourteen members, since the Chief Information Officer and Head Defence Personnel Executive joined in July 2002. These changes reflect the importance of considering people and information management issues at the Defence Committee, and to support us in meeting our obligations under the Ministerial Directive.

From September 2002, the Defence People Committee has been chaired by Head Defence Personnel Executive. The committee will build on its achievements by taking a more strategic focus on the roles of Defence's people. Implementing a new strategic workforce plan will be one of its principal concerns.

The Defence Information Environment Committee became a senior Defence Committee on 1 July 2002. It is chaired by the Chief Information Officer and advises on governance arrangements, strategic planning, coordination and direction of the Defence information environment.

The changes in the senior Defence committee structure have been reflected in the revision of the governance principles for all the senior Defence committees.

Another milestone in improving Defence's accountability for performance and supporting a results-focused, values-based approach to Defence business has been the complete revision of Defence's Chief Executive Instructions, which are issued pursuant to subsection 52(1) of the *Financial Management and Accountability Act 1997* and Financial Management and Accountability Regulation 6.

Much prescriptive detail has been removed from the instructions, and a new more explicitly values-based approach has been taken in which people at all levels of Defence are encouraged to think through how to 'do the right thing' in various circumstances, while taking into account all relevant issues including formal compliance requirements.

The enhanced instructions now place substantially less reliance on rules and red tape in a deliberate move away from the process-driven way of doing business, which is costly to administer and which can stifle innovation.

In a complementary strand of work on the accountability renewal theme, a whole-of-Defence risk management framework was developed during 2001-02. Both this and the enhanced Chief Executive Instructions depend for their success on people's ability to see the big picture consequences of their decisions. Work on the alignment theme of Defence's renewal, in particular on the strategy maps, is therefore vital to the success of the accountability theme.

During the year, significantly more attention was paid to ensuring the timely implementation of agreed audit recommendations. Importantly, this included reinforcing the personal responsibility of action officers to ensure that recommendations were dealt with expeditiously by recording their names on the audit recommendations database, with regular progress reports being made to the Defence Committee and Defence Audit Committee.

The success of these steps can be gauged by the fact that the overall number of active audit recommendations, ie where action is outstanding, reduced by almost one third from 535 in July 2001 to 360 by June 2002, despite the addition of 717 new recommendations. Furthermore, the total number of overdue recommendations fell by 85 per cent from 288 to 43 during the same period.

Leadership

Since 2000, Defence's senior leaders have done much of the groundwork required for a broader implementation phase of renewal to get under way in 2002-03. The guiding leadership philosophy for this phase, summed up in the term 'results through people',

was introduced and developed during twice-yearly team-building events for senior leaders, and a 'Capstone' program for new senior leaders (military and civilian).

The intent has been to uphold the Government's White Paper commitment that Defence would transform itself from a 'bureaucratic' culture to a 'leadership' culture.

An important step in this direction occurred on certification in April 2002 of the new principles-based *Defence Employees Certified Agreement 2002-03*. This is designed to support renewal activities by civilians across Defence and to establish a 'results through people' approach in the day-to-day work of people in Defence and in the management of organisational performance. It provides for greater flexibility and discretion regarding aspects of civilian pay and conditions than ever before, with a view to securing greater long-term productivity.

A unique aspect of this certified agreement is the recognition that the Defence workforce is very much an integrated one, in which some responsibilities are shared between ADF members and civilians.

At the end of August 2001, the Australian Defence Force Remuneration Review findings and recommendations were presented to the Ministers for Defence and Finance and Administration. The review was undertaken to ensure that future ADF remuneration arrangements provide an effective, efficient and flexible framework, consistent with reforms in the wider public and private sectors.

The focus of the review was to produce options that improve the attractiveness, flexibility, simplicity, efficiency and transparency of employment conditions offered to ADF personnel. The Ministers subsequently directed the then Chief of the Defence Force, Admiral Barrie, and the three Service Chiefs to undertake an extensive consultative process to gain the views of serving and former Defence personnel and interest groups of the recommendations.

A consolidated Defence response was developed, taking these findings into consideration, and was forwarded to the Minister for Defence by Admiral Barrie. The Minister is currently considering that submission and the Government is expected to decide on its approach to the review in the near future.

Following a detailed environmental scan by the Defence Personnel Executive in August 2001, it became all too apparent that Defence faced a big challenge in recruiting and retaining the people it needed to achieve its mission. Pressures in our environment include an ageing population and the prospect of a declining full-time labour supply of young people.

In December 2001, we therefore commissioned a major review of strategic workforce planning to investigate ways in which we could enhance the people component of Australia's defence capability through improved strategic decision making and practical initiatives to shape the future Defence workforce.

The review is focusing on producing useful tools to enable senior planners and decision makers to work through the complex options available to achieve the workforces necessary to deliver capability. This is not just about recruiting from a more competitive labour supply, but also a need to focus on improving retention – on ways to sustain our workforce and knowledge base by reducing separation rates – and supporting an

effective transition out of uniform for former ADF members. The review will present its findings to us in October 2002, but it is already clear that we have improved both recruitment and retention in all three of the uniformed Services through adoption of a series of measures.

Making a Difference

Leadership, culture, change, transformation and strategic vision are the key words associated with 21st century exemplary CEOs⁴. Changes in our societal framework, the impact of information technology and demographic trends all add up to a fundamental change in the nature of the workplace – a power shift from executives to the people who constitute the organisation. Unless executives get in touch with their people’s opinions and respond to the need for meaningful, rewarding work, those people will increasingly vote with their feet.

The old social contract – a job for life – is a thing of the past for most workers. People have, for the most part, now got the message that they have to plan and manage their own career. Loyalty to employers is dying, if not dead, in most organisations. This is often accompanied by a lack of trust in management.

These are important findings. There is a strong correlation between trust and a positive workplace culture that emphasises reward, supportiveness and stability. Higher levels of job satisfaction, commitment, trust, loyalty and respect are associated with higher performing organisations⁵.

And employees like working for companies where they feel they can make a difference-whether that is in their own job or in identifying with the organisation’s values. This “make a difference” element was identified by nearly 40 per cent of respondents as “most important”, while only 16 per cent nominated money as “most important”⁶.

Professor Lynda Gratton argues commitment, trust and pride as being critical to long-term success and that these factors are an unmistakable source of competitive advantage⁷. In the exemplar she quotes:

- 80 per cent described themselves as highly committed;
- 80 per cent trust their manager; and
- 90 per cent said they were proud to be part of their organisation.

The March 2002 survey on attitudes and opinions on life in Defence provided an update from the April 2001 Defence Staff Attitude Survey data on attitudes to senior leaders. The survey results indicated that communication by senior leaders continues to be an issue of concern, although there were evident improvements in some areas.

The survey gave us some indications of where improvement is taking place – for example, that individuals feel that they have a greater understanding of what is expected of them in their work, and that they feel that recent changes in the organisation are

4. Financial Review “Boss”, August 2001.

5. Australian Institute of Management/Monash University study.

6. TMP monster.com.au survey.

7. *Living Strategy: Putting People at the Heart of Corporate Purpose*, London, Financial Times Prentice Hall, 2000.

improving job satisfaction. The following graphs, comparing results from the 1999 and 2001 surveys, demonstrate the significant improvement that has taken place over a relatively short time frame.

Chart 1.1: Organisational Commitment (80% benchmark)

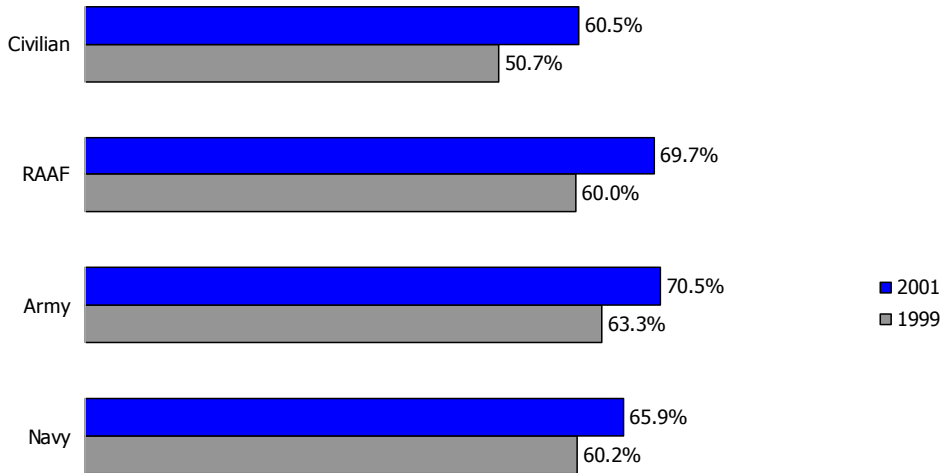


Chart 1.2: Trust - manager (80% benchmark)

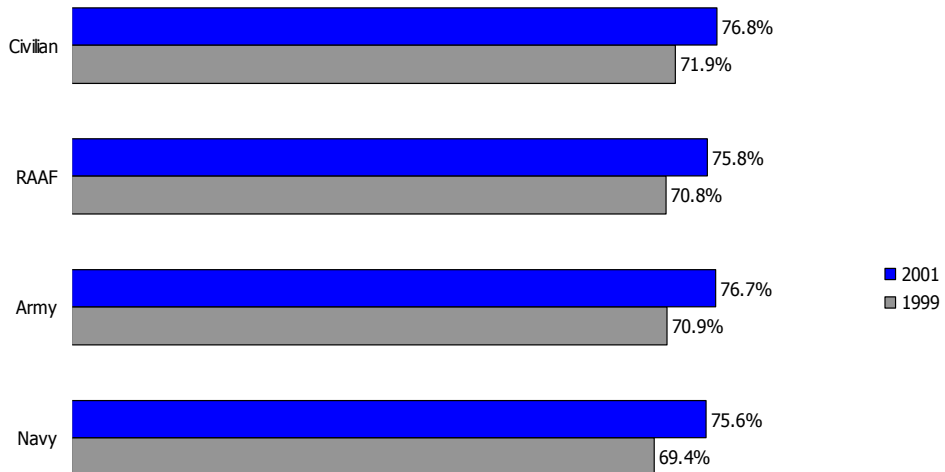


Chart 1.3: Pride (90% benchmark)



Such results suggest to us that the renewal agenda is having a positive impact on people in Defence and that the organisational climate is improving. We expect to see these encouraging signs translated into concrete evidence of improved organisational and project management results in 2002-03. A further staff attitude survey is scheduled for October 2002.

We are now shifting our renewal focus from the senior leadership to the 2,000 or so people who work at the military O-6 (Colonel equivalent) and civilian EL2 levels, and their regional counterparts. These levels of leadership constitute the interface between the strategic and operational realms. The role of these officers in creating the climate where people can do their best is critical to the long-term success of Defence's renewal – not only because of their specific role today, but because the senior leaders of tomorrow will be drawn from their ranks.

Allan Hawke
Former Secretary
Department of Defence

Peter Cosgrove
General
Chief of the Defence Force

IMPLEMENTING THE WHITE PAPER

As outlined in the Defence White Paper, the Government has established five strategic objectives to which Defence contributes⁸:

- ensuring the defence of Australia and its direct approaches;
- fostering the security of Australia's immediate neighbourhood;
- promoting stability and cooperation in South-east Asia;
- supporting strategic stability in the wider Asia-Pacific region; and
- supporting global security.

The Government has identified for Defence four strategic tasks, which guide the development of defence capabilities⁹. These are:

- to be capable of defending Australian territory from any credible attack, without relying on help from the combat forces of any other country;
- to have Defence Forces able to make a major contribution to the security of Australia's immediate neighbourhood;
- to be able to contribute effectively to international coalitions of forces to meet crises beyond Australia's immediate neighbourhood where Australia's interests are engaged; and
- to undertake a number of regular or occasional tasks in support of wider national interests.

The Defence White Paper is the Government's long-term strategic direction and capability enhancement framework for Defence. Within the context of the Government's strategic objectives, it identifies the most important Defence priorities and establishes the primary priority as the defence of Australia. Most importantly, it sets the direction of Defence for future years.

In doing so, the Defence White Paper provides guidance on those elements of capability required to meet the Government's strategic objectives. It aligns the acquisition of new equipment and the future needs of the workforce with realistic interpretations of available resources and the challenges faced by Defence and industry in making the best use of science and technology. The White Paper initiatives have been grouped under five categories: Capability, Advice and Decision Making, Value for the Defence Dollar, Strategic Relationships and Best Use of Science and Technology and Industry. Each category has one or more long-term development goals. The following paragraphs outline Defence's progress in 2001-02 in implementing the White Paper initiatives against these goals. The Defence White Paper assessments will be updated by the current annual strategic review.

OVERVIEW OF 2001-02

2001-02 represents the first time White Paper implementation has been reported across a full 12-month period and, despite the impost of an increasing commitment to operations across the year, a great deal was achieved. While the ADF provided support to coalition operations in Afghanistan and continued to contribute to the

8. Further details can be found in Chapter Four of the Defence White Paper.

9. Further details can be found in Chapter Six of the Defence White Paper.

United Nation's support for East Timor's transition to independence, it also improved recruitment and retention within each of the three Services which, in turn, supported capability enhancements to the land, air and maritime forces. The result has been an ADF that is more efficient, better trained, more flexible and better managed than it was at the start of the financial year.

INITIATIVES TO IMPROVE CAPABILITY

Land Forces Goal

The land forces goal is to provide land forces that can respond swiftly and effectively to any credible armed lodgment on Australian territory, provide forces for more likely types of operations in our immediate neighbourhood and contribute to coalition operations further afield. To achieve this, the Government's emphasis has been towards providing a professional, well-trained, well-equipped force that is available for a range of operations at short notice.

In 2001-02, the ADF's land forces made a substantial contribution to the United States-led war against terrorism in Afghanistan and to operations in East Timor. In doing so, the ADF has demonstrated a level of capability and professionalism consistent with Government and community expectations and in line with achieving the land forces goal.

To ensure that this standard of performance can be maintained, Defence has, over the last year, progressed a number of previously approved major capital equipment projects that will greatly enhance the land forces' mobility and firepower. These included taking delivery of equipment to improve the commando capability and signing contracts for the acquisition of armed reconnaissance helicopters and night-fighting and surveillance equipment. In addition, tendering processes for additional point ground-based air defence weapons and the upgrade of the M113 armoured personnel carrier fleet were progressed.

Other activities included the project definition study for the modernisation of general service field vehicles and the commencement of installation of new components to improve online availability of the C130H medium tactical airlift capability. The enhancement of the Combat Training Centre was further advanced with the release of a tender request, and the project definition study commenced for the joint theatre distribution upgrade/replacement. The latter relates to improving the ADF capability to control and deliver logistic support in a joint area of operation.

Air Combat Goal

Air combat is one of the most important single capabilities for the defence of Australia, because control of the air over our territory and maritime approaches is critical to all other types of operations in this context. Our air combat capability is based on the fleet of 71 F/A-18 aircraft with their sensor systems and missiles, supported by other systems including air-to-air refuelling and an integrated command, control and communication system. Our aim is to maintain this air-combat capability at a level that is at least of comparative quality to any in the region, and with a sufficient margin of superiority to provide an acceptable likelihood of success in combat.

During 2001-02, Defence maintained the force structure and the broad preparedness levels planned for air combat. In addition, a contingent of F/A-18 and B707 air-to-air refuelling aircraft deployed successfully as part of the ADF's contribution to the United States-led anti-terrorism forces. However, logistics shortages and the higher operational tempo have limited the ADF's ability to sustain and conduct concurrent operations and to maintain full proficiency in some of the more demanding air combat roles.

In the longer term, achievement of the desired air combat goals will be driven primarily by a range of equipment upgrades and acquisitions, including upgrades to the F/A-18 fighter force and acquisition of airborne early warning and control aircraft.

During 2001-02, the upgrade program on the F/A-18 fleet was continued in order to assure its force superiority. Significant milestones were achieved, including the installation of a new and improved radar in two aircraft, and induction of a further six aircraft. Phase 1 of the upgrade was completed in June 2002 and included mission computers and radios, global positioning systems and mission software. Definition studies also commenced for further phases of the upgrade program. This program is planned to be completed around 2007 and will provide the F/A-18 force with a range of capability enhancements including advanced tactical data links to enable the aircraft to exchange information instantly with other units, allowing better cooperative tactics, and structural improvements to extend the life of the aircraft and reduce its detectability by enemy aircraft.

Major design reviews towards acquiring four airborne early warning and control aircraft were also completed. These aircraft will significantly multiply the combat power of the F/A-18 fleet and improve command and control. The first aircraft are scheduled to be delivered in 2006.

In June 2002, the Government announced its decision to participate in the development phase of the F-35 Joint Strike Fighter. This project involves Defence and industry in the design and development phases and will meet the requirements of the new aerospace combat capability project, Air 6000, in replacing the F/A-18 and the F-111 aircraft.

Maritime Forces Goal

The maritime forces capability goal is to maintain an assured capability to detect and attack any major surface ships, and to impose substantial constraints on hostile submarine operations in our extended maritime approaches. It also includes the ability to support Australian forces offshore, to contribute to maritime security in Australia's wider region, to protect Australian ports from sea mines and to support civil law enforcement and coastal surveillance operations. This is to be achieved by maintaining a highly-capable fleet with sufficient offensive and defensive combat power and endurance to operate either unilaterally or with coalition forces in a range of circumstances. As an integrated component of the ADF, the Navy has a vital role to play in the majority of the envisaged strategic tasks outlined in the Defence White Paper.

In 2001-02, Defence continued to enhance the surface fleet by improving the adequacy of ships' defences against anti-ship missiles through the introduction and further

development of the Nulka active missile decoy and Defence Science and Technology Organisation-led studies into anti-ship missile defences for the Anzac ship project. The surface fleet's long-range air-defence capacity is also being enhanced through the incorporation of the Evolved SeaSparrow missile system for the Anzac frigates. Firings of the missile from a United States self-defence test ship have been conducted and have confirmed the viability of the system.

There are five Collins-class submarines in service, with the sixth, HMAS *Rankin*, expected to be delivered in early 2003. As a result of the McIntosh/Prescott report in 1999, two related projects have been initiated to enhance the sustainability and reliability of the class and to improve the level of operational capability in specified boats. As part of this latter initiative, HMAS *Rankin* commenced sea trials with fast-track platform modifications installed.

Other activities in 2001-02 that have contributed to the maritime forces goal have included the completion of contract negotiations for the acquisition of new amphibious watercraft and continuation of the P-3C maritime patrol aircraft, hydrographic survey motor launch and Anzac frigate underwater and surface weapons upgrades.

Strike Goal

The strike capability grouping covers the forces that enable Australia to attack hostile forces in the territory of an adversary, in forward operating bases and in transit to Australia. It is an important element of Defence capability, as it provides the ADF with the flexibility to destroy hostile forces before they are launched towards Australia, and when they may be most vulnerable. The strike capability consists primarily of the fleet of F-111 long-range bombers. The aim is to enhance this capability so that, in the event of an attack against Australia, the ADF can attack significant military targets or infrastructure within a wide radius of Australia.

During 2001-02, trials of stand-off weapons were commenced to provide the fleet with the capability to launch attacks outside the range of some air defence systems. Preliminary studies have also been completed on the acquisition of further stand-off weapons with longer ranges and with different guidance and targeting systems to provide more attack options and better capability against hardened and area targets.

However, progress towards achieving the desired enhancements to the F-111 fleet has been slower than expected due to a range of unexpected maintenance problems with the ageing fleet. These problems have significantly reduced aircraft availability, preventing the more demanding preparedness and some training targets from being met and delaying trials of new equipment. A number of programs were commenced during 2001-02 to remediate these maintenance problems and these are expected to continue throughout 2002-03. The Air Force will continue to monitor and manage the ageing fleet carefully.

Information Goal

The information goal is to enhance the levels of intelligence, surveillance systems, communications, command, logistics and business systems over the coming decade. To achieve this, Defence will need to be able to harness advances in information technology to ensure access to timely, accurate and secure information.

In 2001-02, Defence continued to progress access to secure information through the development of an e-Defence capability – a secure electronic messaging system – and the tendering for the provision of military satellite ground-support infrastructure. The commitment to electronic warfare techniques was expanded to enhance the protection of Australia's forces, and improvements to joint command support, logistics and other management information systems continued.

People Goal

The people goal is to ensure that Defence has the right people, with the right skills, appropriate training, leadership and experience to ensure that the capability initiatives outlined in the Defence White Paper can proceed. Defence has adopted a 'results through people' approach which recognises that the strength of Defence is in its people and that they are fundamental to capability. This recognition was explicitly and formally reflected in the *Defence Employees Certified Agreement 2002-03* which was certified in April 2002 for Defence's civilian arm.

In 2001-02, Defence endorsed a Defence people strategy that provides strategic guidance for attracting, recruitment, retention, development and transition strategies in the newly developed Defence People Plan. The plan contains projects that improve recruitment and retention through improved ADF family support and child care facilities and programs, new alcohol management and mental health strategies and improved accommodation for members.

Recent improvements in both recruiting and separation rates are encouraging and clearly indicate that the Government's initiatives to improve ADF workforce strength are effective. Retention rates have increased, with separation rates for all three Services now less than 12 per cent, with Army Reserve retention rates the highest in over 40 years. This further increases Defence's ability to ensure the size and structure of its workforce into the future.

Initiatives have been undertaken to provide greater workplace security for Reservists and to revitalise the ADF Cadets program. An attractive support package has been provided for employers of ADF Reservists that will enhance employer support and, hence, job security for Reserve members who take leave to contribute to Defence activities. The cadets program has been allocated additional funds to improve access to facilities, uniforms and training and development opportunities for members.

INITIATIVES TO IMPROVE PROVISION OF ADVICE AND DECISION MAKING

The Government recognised that our strategic and business environment can change rapidly and required Defence to improve the provision of advice and decision making. To that end, Defence has improved responsiveness and adopted a new approach to capability planning and Defence funding.

In 2001-02, Defence demonstrated transparency and accountability through improvements in quality, timely and accurate advice to the Government on how it allocates and spends its funds annually and into the future. Defence also improved decision support by continuing the remediation of management information systems to support performance management and measurement tools such as the *Defence Matters* balanced scorecard and internal customer-supplier arrangements.

Roll-out of the Defence accrual-based transaction recording system across Australia was completed in 2001-02. Current and ongoing system enhancements included:

- implementation of a revised Defence Master Chart of Accounts, aligning charts of subsidiary systems with the primary general ledger;
- a revised corporate suite of management reports reorganising a range of information needs across Defence for example, differing requirements for output executives, owner support executives and enablers;
- implementation of the Resource and Output Management and Accounting Network (ROMAN) in the major overseas posts of London and Washington;
- better integration of accounting management systems with other Defence systems to reduce the amount of manual interventions required in current business processes; and
- development of output reporting capabilities in support of Defence's statutory obligations and decision-support requirements.

Defence also introduced a systematic approach to risk assessment and mitigation. The enterprise risk management policy and supporting framework, developed and formally adopted by Defence in April 2001, was implemented in 2001-02. In addition, a Defence-wide strategic risk assessment has been conducted, risks have been identified and strategies to manage them are being developed.

A number of improvements to the capability development process have been put in train. 2001-02 saw the establishment of a project development fund – \$10m in 2001-02 and a further \$20m in 2002-03 – in order to better scope projects prior to submission to the Government for approval. This fund serves to provide support to project definition and risk mitigation from the inception stage, particularly necessary given the complexity of most of the major capital investment projects included in the Defence Capability Plan. Targeted expenditure on project definition in the early development stages has the potential to save money through better definition of the project concept, to assist in clarifying capability and acquisition options, to support early engagement with industry and to mitigate project risks.

To complement the benefits of the project development fund, the Defence Materiel Organisation has developed detailed capability definition documentation. The Defence Materiel Organisation has adopted the approach of developing capability definition documents to better define the capabilities it acquires and sustains for the ADF. The capability definition documents consist of an operational concept document, function and performance specification and test concept document. These documents are produced in integrated project teams consisting of representatives from the end-user, capability development staff and the Defence Materiel Organisation. The end result will be the acquisition of systems that truly meet the user's needs and, due to getting the requirements right in the early stages, minimal requests for changes to requirements during the implementation of the project.

INITIATIVES TO GET THE BEST VALUE FOR THE DEFENCE DOLLAR

The Defence White Paper provides the long-term guidance needed to ensure that today's decisions are made with an appreciation of tomorrow's requirements within an

environment that strives to gain the best value for the Defence dollar. To this end, Defence has implemented a range of reforms in the capability decision and acquisition processes.

These reforms are being achieved by decentralising capital equipment project staff to bases, defining a role for industry in the capability decision process and improving supporting management information systems to meet business management requirements.

With the implementation of a continuous improvement program and alignment of the whole-of-Defence budget with the Government's strategic direction, and by ensuring resourcing decisions are reflected in the Defence Plan, Defence has been able to redistribute resources in order to deal with current operational requirements as well as delivering efficiency savings of almost \$60m for 2001-02.

These savings have been achieved by a Fringe Benefits Tax liability reduction, a reduction in, and improved management of, the Defence commercial vehicle fleet and savings in travel. The savings from the reduction in Fringe Benefits Tax effectively increased Defence's net accumulated surplus. Savings from commercial vehicles and from the travel rebate have been redirected towards operational support.

INITIATIVES TO ENHANCE STRATEGIC RELATIONSHIPS

Defence will continue to support an extensive range of strategic relationships through continued involvement in multilateral security forum arrangements in the Asia Pacific region as well as bilateral defence and security relationships, including the Anzus alliance. In 2001-02, Defence strengthened Australia's international strategic relationships through visits, exercises and operations. These included:

- the contribution of personnel and equipment to anti-terrorist operations in Afghanistan;
- peace monitoring operations in Bougainville and the Solomon Islands;
- continuation of Australia's Pacific patrol boat program; and
- supporting the establishment of the East Timor Defence Force and negotiation of the post-independence Australian and United Nations security presence in East Timor.

Other achievements included the development and introduction of the Defence International Engagement Strategic Plan and Defence International Engagement Plan. These documents have improved the provision of integrated and current guidance to Defence on the objectives of the international engagement program.

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 its Defence Science and Technology Organisation and a competitive industry base to support a technologically-advanced ADF.

In 2001-02, Defence continued implementation of the Defence and industry policy statement and released a public version of the Defence Capability Plan to provide industry with greater certainty and a firmer planning base. These initiatives were undertaken in concert with a number of highly successful Defence/industry seminars and conferences that facilitated closer ties with industry.

Defence has continued with its science and technology program to provide support and advice to the ADF, particularly through the capability and technology demonstrator program and further research in areas such as 'Revolution in Military Affairs' technologies and network security. This research activity has strengthened links with industry and universities and improved access to best-practice skills and innovative technologies.

The Defence Science and Technology Organisation has continued to implement the Government's 2001 innovation statement, *Backing Australia's Ability*. In support of this, a technology transfer and commercialisation office was created with the aim of enhancing the discovery, management and take-up of Defence Science and Technology intellectual property. This enables industry to capitalise on such intellectual property, thereby improving its responsiveness to Defence's needs. Ultimately, this can also lead to wider economic benefit.

FINANCIAL PERFORMANCE

OVERVIEW

The Defence White Paper was reflected in the Budget announced in May 2001, providing the most specific long-term funding commitment for Defence in over 25 years. After the 2001-02 Budget was introduced, the Government, in support of its strategic priorities, placed a number of additional requirements on Defence. Defence was provided with net additional funding for the new initiatives.

Total resourcing for Defence in 2001-02 was \$21,540m. This comprised funding from the Government for outputs of \$17,843m, own-source revenue of \$435m¹⁰, an equity injection of \$754m and capital receipts of \$218m, as well as \$2,290m administered by Defence on behalf of the Government. Table 1.1 summarises the sources of total funding for Defence.

Table 1.1: Defence Resourcing Summary 2001-02

2000-01 Result \$'000		2001-02			
		Budget Estimate \$'000	Revised Estimate \$'000	Result \$'000	Variation \$'000
		17,113,920	Appropriation from Government for Outputs	17,515,619	17,859,244
408,710	Add Other Revenues ⁽¹⁾	324,568	277,591	435,174	157,583
17,522,630	Total Revenue for Outputs	17,840,187	18,136,835	18,278,651	141,816
1,282,937	Add Administered Revenues from Government	1,800,548	2,300,179	2,289,635	-10,544
18,805,567	Total Defence Revenue	19,640,735	20,437,014	20,568,286	131,272
	Add Capital Funding:				
93,522	Equity Injection	10,564	754,175	754,175	0
87,142	Capital Receipts	1,099,047	198,914	217,977	19,063
18,986,231	Total Defence Resourcing	20,750,346	21,390,103	21,540,483	150,335

Note

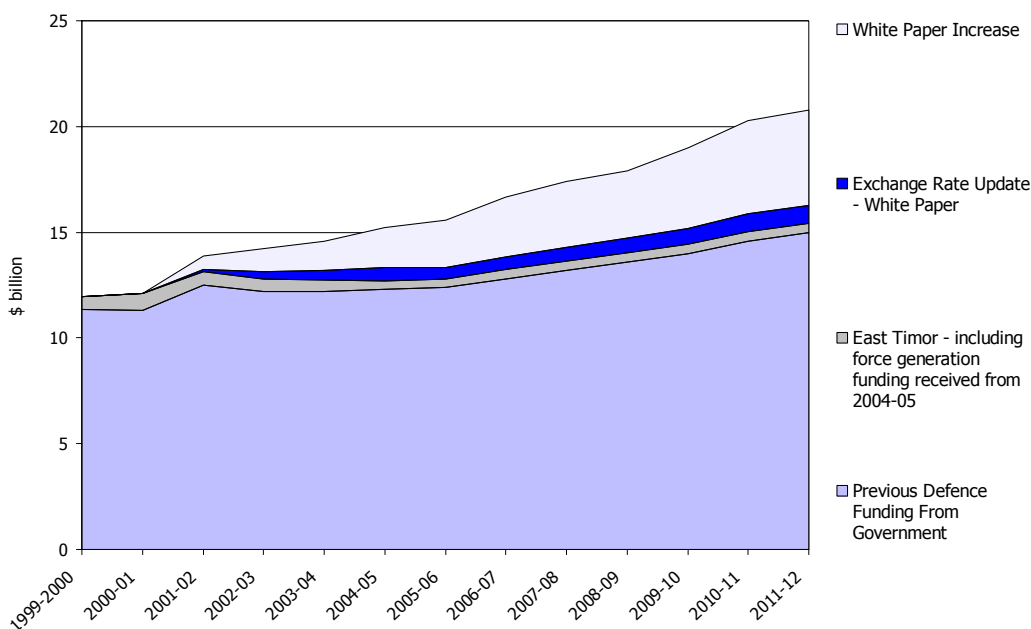
- To provide a better reflection of the resourcing of Defence's activities in 2001-02, this calculation includes resources received free of charge and excludes revenues recognising adjustments to the value of existing non-financial assets. Gains from sales of assets have been excluded from Other Revenues as the sale proceeds are included in Capital Receipts.

Defence received increased funding of \$507m in the 2001-02 Budget to enable implementation of the Defence Capability Plan as detailed in the Defence White Paper. A further \$343m in funding was provided in the 2001-02 additional estimates to meet the price of outputs in addressing new Government-directed initiatives. In addition, a further \$744m was allocated as an equity injection for price and exchange growth, and included retrospective exchange adjustments.

Chart 1.4 illustrates the movement in Defence's funding from the Government since 1999-2000, including projections over the next decade. (For comparative reasons, the cost of the annual capital use charge, which has been budgeted for on a 'no-win, no-loss' basis, has been excluded from total appropriation levels.)

10. See note to Table 1.1.

Chart 1.4: Total Defence Funding - Actual and Projected (excluding estimated Capital Use Charge)



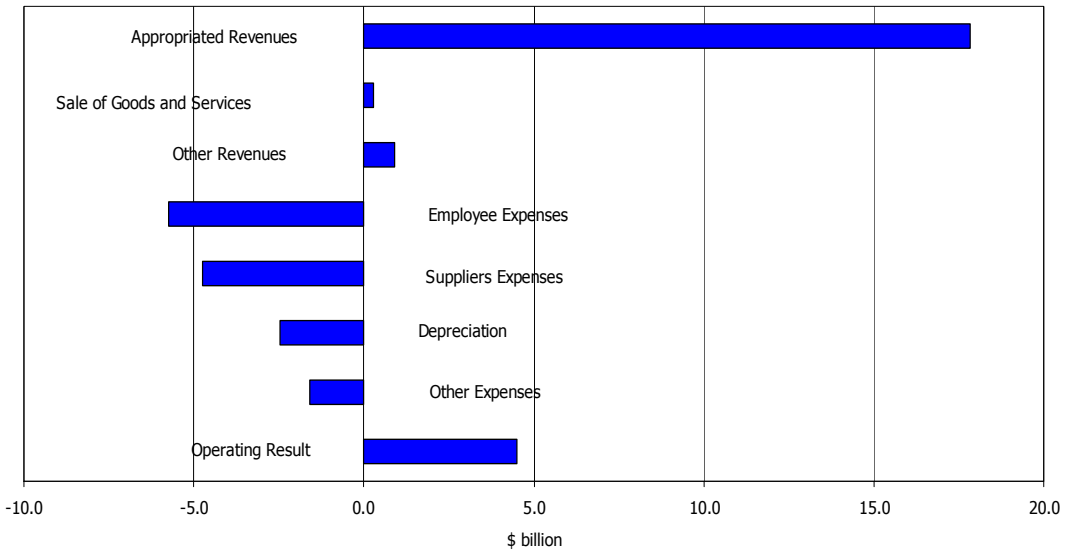
SUMMARY OF DEPARTMENTAL 2001-02 OPERATING PERFORMANCE

The operating surplus for 2001-02 (before the capital use charge) was \$4,410m, representing a decrease of \$362m on the revised budget for the year (as published in the *Portfolio Additional Estimates Statements 2001-02*). All of the operating surplus has been returned to the Government through a capital use charge of \$4,634m. On an accrual basis, Defence has incurred a technical loss of \$232m after the capital use charge and a dividend of \$8m. The operating surplus (before the capital use charge) is less than the revised 2001-02 budget due to a higher level of expenses recognised in the year, particularly in relation to the net write down of assets and inventory.

The 2001-02 financial year saw the emergence of a number of asset accounting and technical factors. Initiatives undertaken by Defence in support of the validation of the financial statements for 2001-02 have resulted in significant improvements being realised in accounting for Defence’s assets. A significant substantiation exercise was undertaken which resulted in a number of asset-related adjustments, including some \$694m of assets now recognised and \$1,573m of asset write downs. Excluding the effect of these asset adjustments, the net expenses for the year for Defence’s significant ‘manageable’ operating items (employee, supplier and depreciation expenses, offset by revenues from the sale of goods and services) were \$12,726m, compared to the Government’s revised estimate of \$12,825m for these items.

The audited financial statements for the year ended 30 June 2002 are provided in Chapter Three of this report. Chart 1.5 illustrates Defence's financial performance for the year.

Chart 1.5: Operating Performance – 2001-02



Total operating revenue was \$18,991m, a decrease of \$147m on the previous year's results and a \$854m increase over the revised budget for 2001-02. The significant revenue items contributing to this amount included the Government's appropriation of \$17,843m for the delivery of outputs, as well as own-source revenues principally comprising \$228m of sales of goods and services and \$15m of interest. The technical requirement to recognise revenue of \$694m for adjustments to the value of existing non-financial assets was the main reason for the change. This had no effect on Defence's cash position.

The Government's payment to Defence for delivery of its outputs is based currently on that portion of Defence's overall departmental funding required to offset its budgeted net expenses (net of own-source revenues) and the expected payment for the capital use charge. Given this method of proportioning Defence's appropriations, it is more useful when comparing the Government's funding over time to include the Government's capital injection appropriation (the remainder of Defence's departmental funding requirement) and exclude the capital use charge (which has been budgeted for on a no-win, no-loss basis).

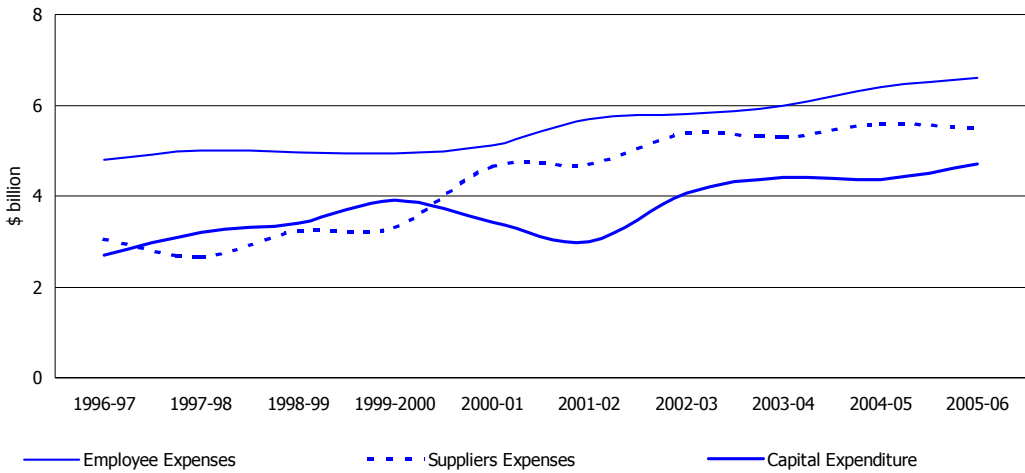
Although the cost of Defence's personnel continues to rise at a higher rate than the consumer price index, employee expenses were only \$17m higher than the revised estimate. While costs increased in respect of superannuation expenses, compensation and health services, they were largely offset in other areas of employee expenses. Expenditure of civilian employees continues to trend upwards compared with recent

years due to ongoing civilianisation of military positions in support functions and expanded intelligence, science and technology and project activities.

Defence’s suppliers expenses in 2001-02 increased by \$745m in comparison with the previous year’s result. The significant movements in actual suppliers expenses between 2000-01 and 2001-02 are reflected in the categories of repair and overhaul, general goods and services and professional service providers. The increases were the result of the heightened operational tempo, classification changes (the cost of outsourcing functions is a charge to supplier expenses), movements in the Australian dollar, and the need for specialised skills to progress essential work in support of capital projects, information technology support and improvements to Defence financial management and reporting.

The trend in the major components of Defence’s spending since 1996-97, and projected for the current forward estimates, is illustrated below.

Chart 1.6: Major Categories of Defence Spending (Actual and Projected)



The Government’s capital use charge on Defence was \$4,634m for 2001-02, representing an 11 per cent return to the Government on its investment in Defence (as represented by Defence’s closing net assets balance).

PRICE OF DEFENCE’S OUTPUTS

The price of Defence’s six outputs exceeded the revised estimate by \$210m as shown in Table 1.2. Further details relating to the outputs can be found in Chapter Two of this report.

Table 1.2: Price of Defence's Outputs

Output	2001-02			
	Budget Estimate	Revised Estimate	Result	Variation
	\$m	\$m	\$m	\$m
1. Defence Operations	947	1,156	807	-349
2. Navy Capabilities	5,652	5,684	5,796	112
3. Army Capabilities	5,029	5,070	5,392	322
4. Air Force Capabilities	5,331	5,361	5,526	165
5. Strategic Policy	171	191	209	18
6. Intelligence	385	397	339	-58
Total	17,515	17,859	18,069	210

APPROPRIATIONS FOR ADF OPERATIONS IN EAST TIMOR

Funding for Australia's continuing deployment of troops to East Timor during 2001-02 was provided within Defence's single appropriation for the delivery of its outputs to the Government. The Government funds the deployment element of East Timor funding and operations in East Timor on a no-win, no-loss basis.

Expenditure in 2001-02 totalled \$665m, which exceeded the revised estimate by \$8m.

Table 1.3 outlines costs associated with the East Timor deployment and force generation funds.

Table 1.3: Appropriations for ADF Operations in East Timor

2000-01	Output	2001-02			
Result		Budget Estimate	Revised Estimate	Result	Variation
\$'000		\$'000	\$'000	\$'000	\$'000
815,153⁽¹⁾	Total Resourcing of Operations	650,971	657,000	664,851	7,851

Note

- This figure differs from the figure published in the *Defence Annual Report 2000-01*, which was incorrect due to a calculation error.

SUMMARY OF 2001-02 CAPITAL INVESTMENT AND SALES

Capital spending of \$3b, combined with receipts from capital sales (\$218m), resulted in net capital expenditure for the year of \$2,775m (new investments less proceeds from sales of assets). This net outcome was \$496m lower than the expected outcome.

The following table summarises Defence's investment activities during the year, in terms of both new acquisitions and sales, and shows how the new investment was financed.

Table 1.4: Defence Capital Budget - 2001-02

2000-01 Result		2001-02			Variation
		Budget Estimate	Revised Estimate	Result	
\$'000		\$'000	\$'000	\$'000	\$'000
CAPITAL INVESTMENT					
341,388	Purchase of Land and Buildings	206,599	206,599	274,732	68,133
2,702,214	Purchase of Specialist Military Equipment	2,803,648	2,979,417	2,482,883	-496,534
369,569	Purchase of Property, Plant and Equipment	283,139	283,139	234,929	-48,210
3,413,171	Total Capital Investment	3,293,386	3,469,155	2,992,544	-476,611
FINANCING OF CAPITAL INVESTMENTS					
87,142	Retained Capital Receipts	465,547	127,124	120,093	-7,031
3,232,507	Self Funding	2,817,275	2,587,766	2,118,276	-469,490
93,522	Equity Injection	10,564	754,175	754,175	0
3,413,171	Total Financing for Capital Payments	3,293,386	3,469,065	2,992,544	-476,521
CAPITAL RECEIPTS					
87,142	Proceeds on Asset Disposal	1,022,514	198,914	217,977	19,063
-	Other Capital Receipts	76,533	0	0	0
-	Less: Capital Withdrawal	-633,500	-71,700	-97,884	-26,184
87,142	Retained Capital Receipts	465,547	127,214	120,093	-7,121

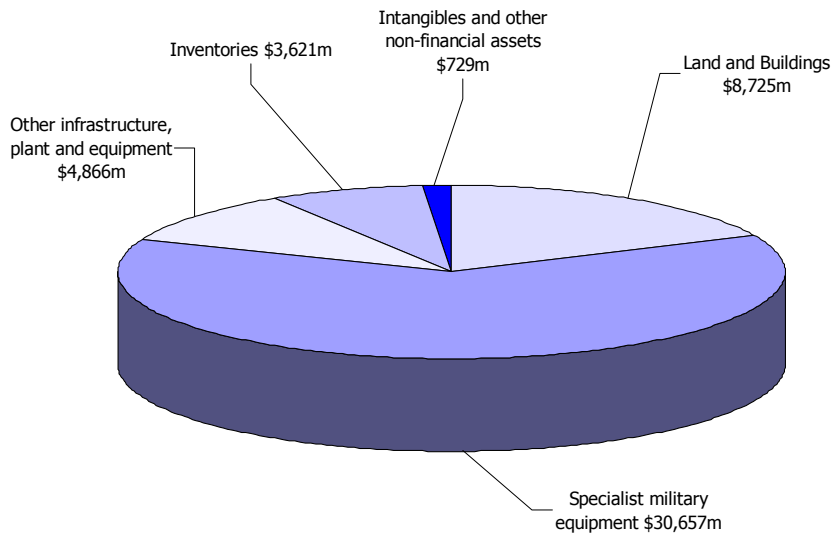
Payments for new specialist military equipment of \$2,483m were \$497m less than the budget estimate. About half of this variation was the result of reclassification of specialist military equipment expenses. Some of the actual expenses to achieve planned project activities did not meet the relevant definition for specialist military equipment and were, therefore, reclassified as either other capital or operating expense items. The postponement of the additional estimates from November 2001 to February 2002 meant that there was less lead time for newly approved projects to be commenced in 2001-02. This contributed to both a re-phasing of planned expense into 2002-03 and a very minor slippage in planned specialist military equipment expenditure.

Payments for land and buildings (\$68m) and property, plant and equipment (-\$48m) were \$20m collectively over the revised estimates.

Proceeds from sales of Defence's assets (\$218m) were \$19m more than the revised budget estimates. Some \$160m of the proceeds were generated from the sale of land and buildings. Capital receipts were partially reduced by the \$98m dividend paid to the Government. The 2001-02 budget figures contained a much higher level of expected property disposals, with the return to the Government of some \$634m estimated at that time, but were revised down in the revised estimates.

Defence's non-financial asset balances at the end of year are illustrated in Chart 1.7:

Chart 1.7: Defence's Non-financial Assets as at 30 June 2002



ADMINISTERED ITEMS

Administered items are revenues, expenses, assets and liabilities which are controlled by the Government and administered by Defence on the Government's behalf. For Defence, these items are almost entirely represented by ADF employee entitlements relating to personal benefits – their cost, outstanding liabilities and funding to meet them as they emerge.

In 2001-02, total revenues administered on behalf of the Government were \$850m. These included \$9m in interest revenue, an \$89m dividend from the Defence Housing Authority and \$753m in non-taxation revenue. These other sources of non-taxation revenue included contributions for military superannuation (\$607m) and \$123m from foreign governments and the United Nations as reimbursements for East Timor costs.

Administered expenses relating to military personnel entitlements for 2001-02 were \$2,271m, some \$408m less than the previous year's result. This is due mainly to a downwards adjustment to the consumer price index assumptions.

The movement in the military superannuation liabilities between 2000-01 (\$26,006m) and 2001-02 (\$26,900m) shows a net increase of \$894m. This increase is the net result of a revaluation of the growing provisions for superannuation by the Government Actuary, offset by actual payment of some of the liabilities during the year.

ACCOUNTABILITY ARRANGEMENTS

CORPORATE GOVERNANCE

ORGANISATIONAL CHANGES

There have been three substantive administrative changes since a simplified organisational structure reflecting the new internal business model (featuring Output Executives, Enabling Executives and Owner Support Executives) was introduced on 1 July 2000.

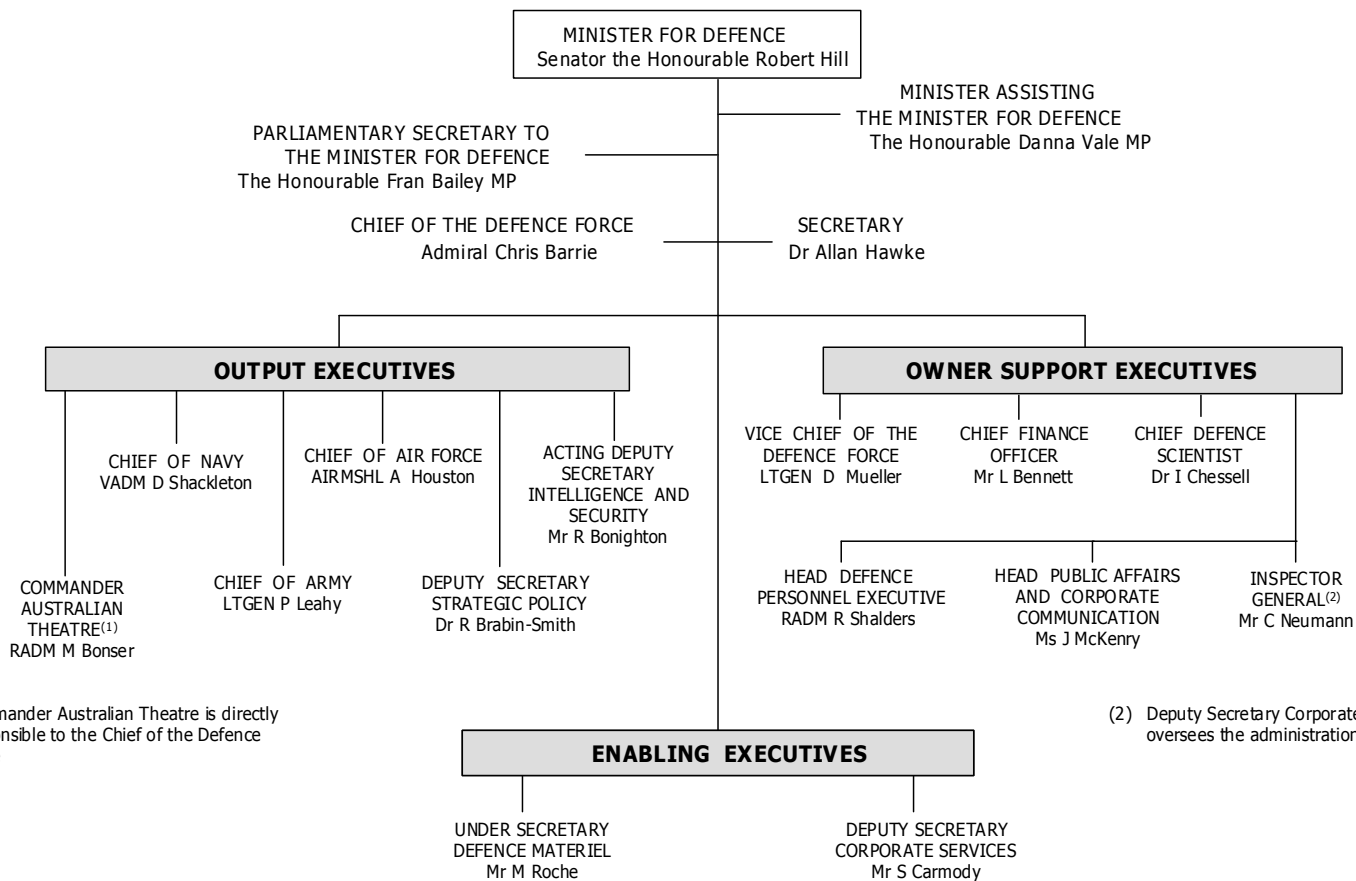
These structural changes reflect refinements to the operation of the Defence business model following development of internal customer-supplier arrangements. They took effect from 1 July 2001.

- The new Intelligence and Security Group (incorporating security functions previously located in the Inspector General's Division) now provides services to the Secretary and the Chief of the Defence Force directly related to the new Intelligence output.
- Emergency Management Australia transferred from Defence to the Attorney-General's Department.
- The Defence Science and Technology Organisation is now recognised as providing owner-support services to the Secretary and the Chief of the Defence Force.
- The Corporate Services Group has been renamed as the Corporate Services and Infrastructure Group.

ORGANISATIONAL CHART

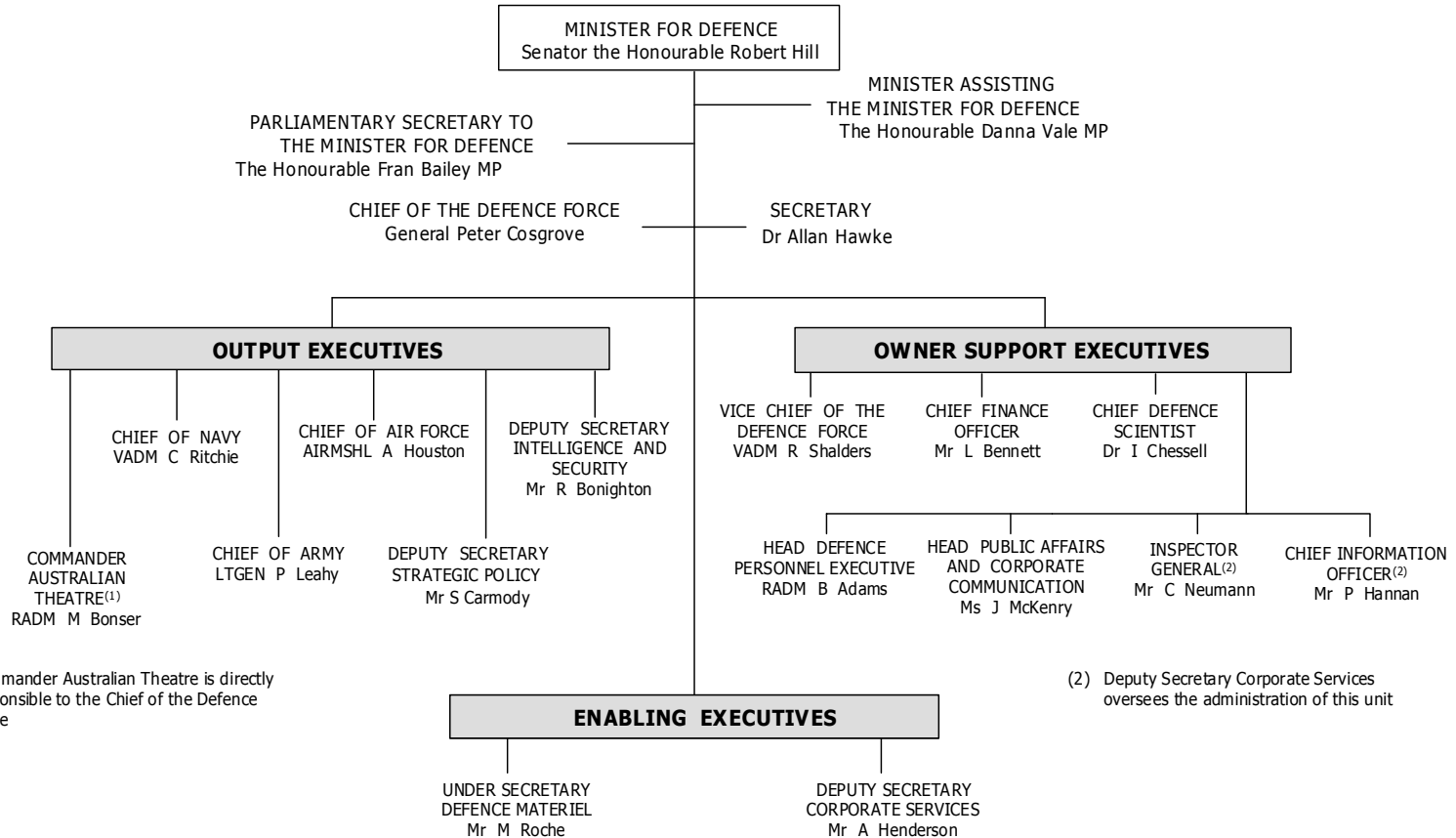
The following charts depict the structure of the organisation at 30 June 2002 and 26 August 2002.

As at 30 June 2002



(1) Commander Australian Theatre is directly responsible to the Chief of the Defence Force

(2) Deputy Secretary Corporate Services oversees the administration of this unit



SENIOR EXECUTIVE SERVICE

Changes

Admiral Chris Barrie, Chief of the Defence Force, retired in July 2002 and was replaced by General Peter Cosgrove, formerly Chief of Army. Major General Peter Leahy was promoted to Lieutenant General and took over as Chief of Army in late June 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.

Mr Jeff Whalan, Deputy Secretary Corporate Services, left Defence in February 2002 to take up an appointment with the Department of Prime Minister and Cabinet. This position was filled by Mr Shane Carmody who was formerly Deputy Secretary Intelligence and Security. Mr Ron Bonington was promoted from Director Defence Signals Directorate to Deputy Secretary Intelligence and Security in August 2002.

In July 2002, Dr Richard Brabin-Smith vacated the position of Deputy Secretary Strategic Policy, to head the Annual Strategic Review. The position of Deputy Secretary Strategic Policy was then filled by Mr Shane Carmody, who transferred from Deputy Secretary Corporate Services. Mr Alan Henderson transferred from the Department of Prime Minister and Cabinet in July 2002 into the position of Deputy Secretary Corporate Services. Mr Patrick Hannan filled the new position of Chief Information Officer in July 2001.

Mr Greg Harper, Chief Finance Officer, left Defence to take up a position with the Australian Research Council in April 2002. He was replaced by Mr Lloyd Bennett in June 2002, who was promoted from First Assistant Secretary Business Strategy, within the Chief Finance Officer group.

Remuneration for Period in Office

Senior executive officers' remuneration in the table below includes salaries, employer superannuation contributions, long service leave accrued during the period of office and other benefits. Not all of the benefits included in the calculations can be cashed out and some are net of an employee contribution. The Secretary and Under Secretary are eligible for performance bonuses. Variances are due to a number of factors such as superannuation, housing, leave, cars and travel and their FBT impact.

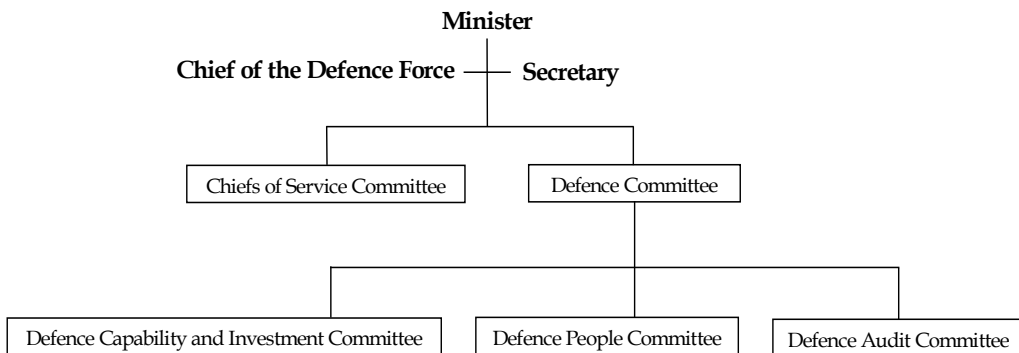
Secretary	
Dr Allan Hawke	\$360,000 - \$369,999
Chief of the Defence Force	
Admiral Chris Barrie AO	\$390,000 - \$399,999
Vice Chief of the Defence Force	
Lieutenant General Des Mueller AO	\$290,000 - \$299,999
Chief of Navy	
Vice Admiral David Shackleton AO	\$310,000 - \$319,999
Chief of Army	
Lieutenant General Peter Cosgrove AC, MC (to 27 June 2002)	\$320,000 - \$329,999
Lieutenant General Peter Leahy AO (from 28 June 2002)	\$40,000 - \$49,999
Chief of Air Force	
Air Marshal Angus Houston AM, AFC	\$220,000 - \$229,999
Under Secretary	
Mr Mick Roche	\$300,000 - \$309,999

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 by the Department of the Senate during 2001-02 through its seminar - *Parliament, Privilege and Accountability*. A further 39 Senior Executive Service and military-equivalent officers attended the seminar during 2001-02, taking the total who have attended to approximately 210 out of 246, or 85 per cent. Arrangements are now in place to facilitate the remainder to attend, including by circulating a videotape of the seminar to officers posted overseas. (This figure does not include officers acting at Senior Executive Service or military-equivalent levels, or officers who left Defence during 2001-02).

SENIOR COMMITTEES

The senior Defence committees are one of the key elements of Defence's Governance framework. There were five senior Defence committees in 2001-02:



Defence Committee

In 2001-02, membership comprised 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, and Deputy Secretary Strategic Policy.

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 a Defence Management and Finance Plan, which incorporates the above points, for the approval of the Minister.

The Defence Committee gives direction and assesses performance in delivering those results, with a focus on the longer term. The Defence Committee held nine scheduled business meetings in 2001-02 (July, August, October, November, February, March, April, May and June) and ten additional extraordinary meetings (September, November, three in December, January, February, March and two in June).

Attendance was as follows:

Position and Name	Meetings Held	Meetings Attended
Secretary (Dr Allan Hawke)	19	16/3 ⁽¹⁾
Chief of the Defence Force (Admiral Chris Barrie)	19	13/6 ⁽¹⁾
Under Secretary Defence Materiel (Mr Mick Roche)	19	16/3 ⁽¹⁾
Vice Chief of the Defence Force (Lieutenant General Des Mueller)	19	17/2 ⁽¹⁾
Chief of Navy (Vice Admiral David Shackleton)	19	16/3 ⁽¹⁾
Chief of Army (Lieutenant General Peter Cosgrove)	19	16/2 ⁽¹⁾
Chief of Air Force (Air Marshal Angus Houston)	19	17/2 ⁽¹⁾
Deputy Secretary Strategic Policy (Dr Richard Brabin-Smith)	19	16/1 ⁽¹⁾
Deputy Secretary Corporate Services	19	
(Mr Jeff Whalan - until 13 Feb 2002)	10	9/1 ⁽¹⁾
(Mr Shane Carmody - from 18 Feb 2002)	9	7/1 ⁽¹⁾
Chief Finance Officer	19	
(Mr Greg Harper - until 4 Apr 2002)	14	14
(Mr Lloyd Bennett - acting from 5 Apr to 5 Jun 2002)	2	2
(Mr Lloyd Bennett - from 6 Jun 2002)	3	3
Chief Defence Scientist (Dr Ian Chessell)	19	12/6 ⁽¹⁾
Deputy Secretary Intelligence and Security	19	
(Mr Shane Carmody - until 17 Feb 2002)	11	10/1 ⁽¹⁾
(Mr Frank Lewincamp - acting from 18 Feb 02 until 28 Apr 2002)	4	4
(Mr Ron Bonighton - acting from 29 Apr 2002)	4	4

Note

1. Substitute attended in place of member.

Chiefs of Service Committee

In 2001-02, membership comprised 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.

The Chiefs of Service Committee (formerly the Chiefs of Staff 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 twelve times (July, August, September, October, November, December, March (twice), April (twice), May and June) in 2001-02.

Attendance was as follows:

Position and Name	Meetings Held	Meetings Attended
Chief of the Defence Force (Admiral Chris Barrie)	12	12
Secretary (Dr Allan Hawke)	12	11
Vice Chief of the Defence Force (Lieutenant General Des Mueller)	12	10/2 ⁽¹⁾
Chief of Navy (Vice Admiral David Shackleton)	12	9/3 ⁽¹⁾
Chief of Army (Lieutenant General Peter Cosgrove)	12	8/4 ⁽¹⁾
Chief of Air Force (Air Marshal Angus Houston)	12	11/1 ⁽¹⁾

Note

1. Substitute attended in place of member.

Defence Capability and Investment Committee

In 2001-02, membership comprised the Vice Chief of the Defence Force (chair), Deputy Secretary Strategic Policy (deputy chair), Under Secretary Defence Materiel (representative), Deputy Secretary Intelligence and Security, Deputy Secretary Corporate Services, Chief Finance Officer, Chief Defence Scientist, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Head Capability Systems, Head Knowledge Systems, Head Defence Personnel Executive, Department of Finance and Administration representative and First Assistant Secretary Capability, Investment and Resources (secretary).

Within limits established by the Secretary and the Chief of the Defence Force, the role of the Defence Capability and Investment Committee is to endorse, for Government consideration, affordable options for current and future capability that will achieve the Defence outcome in a cost-effective way, taking into account risk.

The primary responsibility of the committee is to ensure that capability and investment proposals:

- are consistent with the Government’s strategic policy and priorities;
- fit into the Defence Capability Plan as contained in the Defence White Paper;
- take a whole-of-life/whole-of-capability perspective;
- meet interoperability requirements;
- provide an acceptable return on capital and recurrent expenditure;
- avoid unacceptable strategic, technical or financial risks;
- consider trade-offs between capability, cost and schedule;
- are supported by appropriate performance measures; and
- are subject to independent scrutiny.

The Defence Capability and Investment Committee met 15 times (July, August, September, October, November (twice), December (twice), January, February, March, April, May (twice) and June) in 2001-02. Attendance was as follows:

Position and Name	Meetings Held	Meetings Attended
Vice Chief of the Defence Force (Lieutenant General Des Mueller)	15	14/1 ⁽¹⁾
Deputy Secretary Strategic Policy (Dr Richard Brabin-Smith)	15	14/1 ⁽¹⁾
Under Secretary Defence Materiel Representative:	15	
(Ms Ann Thorpe)	1	1
(Major General Peter Dunn)	8	8
(Dr Ian Williams)	5	5
(Mr David Learmonth)	1	1
Deputy Secretary Intelligence and Security	15	
(Mr Shane Carmody - until 17 Feb 2002)	9	6/3 ⁽¹⁾
(Mr Frank Lewincamp - acting from 18 Feb 02 until 28 Apr 2002)	3	1
(Mr Ron Bonighton - acting from 29 Apr 2002)	3	2/1 ⁽¹⁾
Deputy Secretary Corporate Services	15	
(Mr Jeff Whalan - until 13 Feb 2002)	9	4/3 ⁽¹⁾
(Mr Shane Carmody - from 18 Feb 2002)	6	0/5 ⁽¹⁾
Chief Finance Officer	15	
(Mr Greg Harper - until 4 April 2002)	11	10
(Mr Lloyd Bennett - acting from 5 Apr to 5 Jun 2002)	3	3
(Mr Lloyd Bennett - from 6 Jun 2002)	1	1
Chief Defence Scientist (Dr Ian Chessell)	15	11/4 ⁽¹⁾
Deputy Chief of Navy (RADM Brian Adams)	15	11/4 ⁽¹⁾
Deputy Chief of Army (MAJGEN Peter Leahy)	15	12/3 ⁽¹⁾
Deputy Chief of Air Force (AVM Chris Spence)	15	14/1 ⁽¹⁾
Head Capability Systems	15	
(Rear Admiral Chris Ritchie - until 23 Jul 2001)	1	1
(Major General David Hurley - from 24 Jul 2001)	14	13/1 ⁽¹⁾
Head Knowledge Systems	15	
(Air Vice Marshal Peter Nicholson -until 17 Sep 2001)	3	1/2 ⁽¹⁾
(Rear Admiral Peter Clarke - from 18 Sep 2001)	12	7/5 ⁽¹⁾
Head Defence Personnel Executive	15	
(Major General Simon Willis - until 7 Aug 2001)	1	0/1 ⁽¹⁾
(Rear Admiral Russ Shalders - from 8 Aug 01 until 10 Jun 2002)	13	7/6 ⁽¹⁾
(Air Commodore Roxley McLennan - acting from 11 Jun 2002)	1	1
First Assistant Secretary Capability, Investment and Resources (Dr Ralph Neumann)	15	15
Department of Finance and Administration representative	15	14

Note

1. Substitute attended in place of member.

Defence People Committee

In 2001-02, membership comprised the Deputy Secretary Corporate Services (chair), Vice Chief of the Defence Force, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Head Defence Personnel Executive, Deputy Head Defence Personnel Executive and Ms Noela L' Estrange, an independent external member of the committee.

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 issues in the implementation of the Defence Plan. The committee is also responsible for ensuring there are clear linkages between the range of planning and people initiatives across Defence before consideration of specific proposals by the Defence Committee.

The Defence People Committee met seven times (July, September, October, November, February, March and May) in 2001-2002. Attendance was as follows:

Position and Name	Meetings Held	Meetings Attended
Deputy Secretary Corporate Services	7	
(Mr Jeff Whalan - until 13 Feb 2002)	5	5
(Mr Shane Carmody - from 18 Feb 2002)	2	2
Vice Chief of the Defence Force (Lieutenant General Des Mueller)	7	2
Deputy Chief of Navy (Rear Admiral Brian Adams)	7	4/2 ⁽¹⁾
Deputy Chief of Army (Major General Peter Leahy)	7	5/2 ⁽¹⁾
Deputy Chief of Air Force (Air Vice Marshal Chris Spence)	7	6/1 ⁽¹⁾
Head Defence Personnel Executive	7	
(Major General Simon Willis - until 7 Aug 2001)	1	1
(Rear Admiral Russ Shalders - from 8 August 2001)	6	5/1 ⁽¹⁾
Deputy Head Defence Personnel Executive	7	
Mr Brendan Sergeant (until 15 May 2002)	7	6/1 ⁽¹⁾
Mr Felix Bleaser (acting from 16 May 2002)	0	0
Ms Noela L' Estrange	7	7

Note

1. Substitute attended in place of member.

Defence Audit Committee

In 2001-02, membership comprised Mr Paul McGrath (chair) and Mr Will Laurie (deputy chair), both independent external members of the committee, along with Major General Peter Dunn, Mr Frank Lewincamp, Mr Rod Corey (to 17 December 2001) and Ms Shireane McKinnie (from 2 January 2002). The Chief Finance Officer and Inspector-General attended as advisers. The Auditor-General, or 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 substantive positions and, as such, substitutes are not permitted.

The Defence Audit Committee is responsible to the Secretary for identifying good practice and opportunities to improve the performance and management of Defence activities arising from audits, evaluations, and other committee activities. Its role is to:

- review the preparation and audit of the Defence financial statements and provide advice to the Chief Executive on the adequacy of these statements;
- approve Defence annual and strategic internal audit plans;
- review all internal and external audit reports, including reports of the Parliamentary Joint Committee of Public Accounts and Audit, with specific attention to those including matters of concern;
- provide advice to the Chief Executive on action to be taken on matters raised in internal audit, Auditor-General and Joint Committee of Public Accounts and Audit reports concerning Defence, and advice concerning how all identified matters of concern are being addressed;
- monitor risk management policies and practices;
- monitor the establishment of a Defence fraud control plan and oversee its implementation;

- monitor the conduct of ethics awareness activities within Defence;
- review the direction of Defence internal evaluation programs and activity, including approval of formal evaluation topics, the oversight of the conduct of evaluations, and the review of recommendations arising from evaluations and subsequent implementation;
- provide advice to the Chief Executive and other relevant authorities on risk management, identified good practice and opportunities to improve the performance and management of Defence activities arising from audits, evaluations, and other Committee activities; and
- have a standing arrangement requiring members and advisers to raise issues of significant concern for appropriate scrutiny.

The Defence Audit Committee held 11 scheduled business meetings (July, August, September, October, November, December, February, March, April, May and June) in 2001-02 and four additional extraordinary meetings (October, April, May and June). Attendance was as follows:

Name	Meetings Held	Meetings Attended
Mr Paul McGrath	15	15
Mr Will Laurie	15	15
Major General Peter Dunn	15	13
Mr Frank Lewincamp	15	9
Mr Rod Corey (to 31 Dec 2001)	7	2
Ms Shireane McKinnie (from 2 Jan 2002)	8	6

INTERNAL AUDIT AND RISK MANAGEMENT ARRANGEMENTS

DEFENCE AUDIT COMMITTEE AGENDA

The Defence Audit Committee addressed the following subjects during its meetings in 2001-02:

- The final draft 2000-01 Defence Financial Statements.
- 2000-01 Financial Statements – Action plan for improvement of financial statement processes.
- 2000-01 Financial Statements – Quality Assurance Report.
- 2001-02 Financial Statements – ANAO Interim Audit Report.
- 2000-01 Financial Statements – ANAO Closing Audit Report.
- Progress with development of a management action plan to address each of the recommendations in the ANAO Closing Audit Report of the 2000-01 Defence Financial Statements.
- Defence Risk Management Implementation Plan 2002-03.
- ANAO Audit Strategy Document 2001-02.
- ANAO performance audit work in Defence.
- Lessons learned from Defence Fraud Control Plan No. 3.
- The progress and implementation of Defence Fraud Control Plan No. 4.
- Proposed strategy for implementation of Defence Fraud Control Plan No. 5.
- Progress reports on the Audit Recommendation Management System.
- Management Audit Branch Annual Report 2000-01.
- Management Audit Branch's Medium Term Audit Strategy 2002-05.
- Management Audit Branch Audit Work Program 2002-03.
- Follow-up of completed Level 1 Management Audit Branch recommendations.
- 2000-01 Financial Statements – Issues arising and reassessment of the Management Audit Branch Work Program for 2001-02.
- Progress report on the implementation of Parliamentary Joint Committee of Public Accounts and Audit's recommendations.
- Schedule of portfolio-level evaluations 2002-03.

ETHICS AWARENESS AND FRAUD CONTROL

Ethics Awareness

Defence has a well-developed program of ethics awareness, which includes material such as videos and newsletters and a dedicated intranet site providing information

and advice. In 2001-02, around 170 separate ethics awareness presentations were delivered to approximately 5,900 Defence personnel across Australia.

Fraud Control

During 2001-02, Defence completed its *Defence Fraud Control Plan No. 4* which was developed from a Defence-wide fraud risk assessment undertaken in 2001. The plan was endorsed by the Defence Audit Committee, prior to signature by the Secretary and the Chief of the Defence Force. The plan was developed in line with the fraud control guidelines of the Commonwealth.

There were 689 fraud investigations registered within Defence during 2001-02 and 494 investigations were completed. During the period, approximately one quarter of completed fraud cases led to criminal, disciplinary or administrative action. Of this, approximately half related to action under the *Defence Force Discipline Act*.

The determined fraud loss for completed cases in 2001-02 was some \$1.5m and, during the year, recoveries amounted to around \$0.4m. Over the last seven financial years, detected fraud in Defence has averaged an estimated \$2.0m 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 that strategy, the Defence Committee authorised a schedule of portfolio evaluations covering 2001-02 and 2002-03. In calendar year 2001, the principal evaluation topics were :

- enterprise resource planning in Defence;
- Defence progress in pursuing the national support agenda; and
- the management of equity and diversity in Defence.

The principle evaluation topics for calendar year 2002 are :

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

Topics foreshadowed for 2003 in the *Portfolio Budget Statements 2002-03* are :

- corporate governance of the Defence information environment (Phase 2);
- implementation of the customer-supplier arrangements; and
- implementation of ADF remuneration arrangements (the Nunn Report).

Implementation of the Balanced Scorecard is also likely to be completed in 2003.

Schedule of Portfolio-level Evaluations for 2001-02

The following evaluation activities were completed in 2001-02:

Defence Progress in Pursuing the National Support Approach. This evaluation report was presented to the Secretary and the Chief of the Defence Force in December 2001 and was subsequently endorsed. The report found that:

- While the endorsed national support concept and end states were universally agreed, there was no policy, strategy or plans to transition from concept to the end states. The *Defence Plan 2001-11* did not address these concerns.
- National support policy, strategy and plans could not be developed and progressed unless they fed into a higher-level Defence deliberate planning process, which did not exist.

This requires high-level Defence commitment to develop strategies and set priorities so as to translate the national support approach concept into purposeful action. It will require the involvement of the Strategic Policy and Military Strategy Branches in order to develop an appreciation of the capability of the existing force structure to meet likely threats and pinpoint priorities.

The Management of Equity and Diversity in Defence. This evaluation report was endorsed by the Secretary and the Chief of the Defence Force in May 2002. The report found that:

- commitment to equity and diversity principles is widespread in Defence, although there remained pockets of resistance at the mid-levels in both the ADF and civilian elements;
- commitment, particularly at the lower levels of the ADF, is usually articulated in terms of leadership, rather than esoteric notions of 'equity and diversity';
- commitment would be enhanced through an improved definition and linkage to capability, which should include a vision for success; and
- the plethora of related policies should be rationalised into a single manual.

Enterprise Resource Planning in Defence. This evaluation report was forwarded to the Secretary and the Chief of the Defence Force in May 2002, and has now been endorsed. The report found that:

- Defence needed to develop and implement an information management strategic plan to drive new initiatives and ensure completion of current ones;
- current activities, including the identification of user requirements, mapping existing business processes to enterprise resource planning system processes, reviewing education and training, closing legacy systems and developing and implementing data quality assurance standards were often uncoordinated; and
- there was a need to support operations with deployment-capable enterprise resource planning systems based upon thorough requirement analyses.

ENTERPRISE RISK MANAGEMENT

Significant progress was achieved during 2001-02 in integrating risk management within the governance of Defence at the highest levels. Progress included the development of a Defence risk management framework and the joint commitment of the Secretary and the Chief of the Defence Force to the formal and systematic management of risk throughout Defence.

Milestones during 2001-02 included:

- strategic risk assessments as part of each Service/Group's planning process, with the results reported to the Defence Committee at the end of 2001;
- the Defence Committee's identification of a set of top-level risks that required senior executives' attention at a whole-of-organisation level; and
- in April 2002, senior executive enterprise risk coordinators were tasked to assess enterprise risks in consultation with stakeholders. These assessments are reported regularly to the Defence Committee, with a view to the development of strategies in 2002-03 to effectively manage these risks.

In April 2002, the Defence Committee also approved the *Defence Risk Management Implementation Plan 2002-03* which seeks to strengthen the commitment to sound risk management as part of governance at all levels throughout Defence. The plan includes an updated corporate risk management policy, recognition of the responsibilities for risk management at the various levels throughout Defence, strategies for growing risk management awareness, skills and knowledge, and review mechanisms.

The plan will guide the integration of risk management at all levels throughout Defence including, for example, the types of projects and systems where the ANAO and the Inspector-General have identified scope for improved practices.

Complementing these developments, the Defence Audit Committee charter was extended to include a formal mandate for monitoring and advising on risk management practices in Defence.

EXTERNAL SCRUTINY

PARLIAMENTARY COMMITTEES

Defence interacted with a number of parliamentary committees throughout 2001-02. 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 2002.

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. 383, August 2001 - Review of Auditor-General's Reports, 2000-01, First Quarter

This report considered ANAO Report No. 8, 2000-01, *Amphibious Transport Ship Project*, and ANAO Report No. 11, 2000-01, *Knowledge System Equipment Acquisition Projects in Defence*.

Defence provided submissions and Defence officers attended a public hearing held on 2 March 2002.

Report No. 385, September 2001 - Review of Auditor-General's Reports, 2000-01, Second & Third Quarters

This report considered ANAO Report No 22, 2000-01, *Fraud Control in Defence*, and ANAO Report No 26, 2000-01, *Defence Estate Facilities Operations*.

Defence provided submissions and Defence officers attended a public hearing held on 2 May 2002.

Report No. 386, September 2001 - Inquiry into the Auditor-General Act 1997

Defence provided a submission and Defence officers attended a public hearing held on 15 May 2001.

Report No. 388, June 2002 - Review of the Accrual Budget Documentation

Defence provided a submission and Defence officers attended a public hearing held on 22 June 2002.

Report No. 389, June 2002 - Review of Auditor-General's Reports, 2000-01, Fourth Quarter

This report considered ANAO Report No 33, 2000-01, *Australian Defence Force Reserves*.

Defence provided a submission and Defence officers attended a public hearing on 30 April 2002.

Public Works

Defence Intelligence Training Centre, Canungra

This project will provide new working accommodation for the headquarters, administration, instruction and course development elements. The facility will provide specialised instructional areas and office accommodation for command, management, support and instructional staff together with associated amenities in a secure environment. The project was considered by the committee at a public hearing held in August 2001 and approved by Parliament in September 2001. Construction is expected to be completed by late 2003.

Oakey Base Redevelopment, Oakey

This project will redevelop Oakey Base to enhance support of Army rotary wing flying training, including the future armed reconnaissance helicopter and basic helicopter training which is planned to relocate from Fairbairn, ACT. The project will rationalise, upgrade and expand facilities for rotary wing training and training support. Other elements include an emergency response station, workshops, hot-refuel facility, trainee living-in accommodation and a civil terminal. The project was considered by the committee at a public hearing held in August 2001 and approved by Parliament in September 2001. Construction is expected to be completed by mid-2004.

Lavarack Redevelopment Stage 3, Townsville

This third stage of the multi-stage redevelopment of Lavarack Barracks will replace the working accommodation for 3rd Brigade, other Land Command force elements, Training Command units and area facilities at Lavarack Barracks. In addition, it will provide for the future relocation of the 11th Brigade, currently located at Jezzine Barracks in Townsville. The project was considered by the committee at a public hearing held in July 2001 and approved by Parliament in August 2001. Construction is expected to be completed in December 2005.

RAAF Townsville Redevelopment Stage 2, Townsville

This stage of the project will focus on the domestic infrastructure of RAAF Townsville. The aim of the redevelopment is to enhance the overall effectiveness of the base by grouping related functions, providing facilities to contemporary standards and alleviating occupational health and safety problems stemming from cramped and temporary accommodation. The project was considered by the committee at a public hearing held in August 2001 and approved by Parliament in September 2001. Construction is expected to be completed by December 2003.

Joint Standing Committees

Foreign Affairs, Defence and Trade

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

The Government response to the committee's report had not been tabled by 30 June 2002.

Inquiry into Aspects of the Defence Annual Report for 1998-99 and for 1999-2000

The Government response to the committee's report, *Rough Justice? An investigation into Allegations of Brutality in the Army's Parachute Battalion*, was tabled out of session on 22 March 2002.

Watching Brief on the War Against Terrorism

In May 2002, the committee resolved to conduct a watching brief on Australia's involvement in the war against terrorism and in related actions in response to terrorism. A briefing was provided to the committee on 24 June 2002.

Review of Australia's relations with the United Nations

In May 2002, the committee resolved to commence an annual program of public hearings on Australia's activities at the United Nations. Defence witnesses appeared before the committee at a public hearing on 2 July 2002.

Review of Defence's 2000-01 Annual Report

In March 2002, the committee resolved to examine, inter alia, the *Defence Annual Report 2000-01*. Defence witnesses appeared before the Defence Sub-Committee on 8 May 2002. Responses to 53 questions on notice arising from the hearing were provided to the Sub-committee. The Sub-committee visited RAAF Edinburgh on 9 May as part of the review.

The Sub-committee decided to hold a round table forum on the impact of operational deployment on Service personnel and on transition management issues. The latter involves the provision and management of support to ADF personnel and their families in their transition from military service to civilian life.

Defence witnesses appeared at the forum on 1 July 2002.

Senate Standing Committees

Employment, Workplace Relations, Small Business and Education Committee

Inquiry into the capacity of Public Universities to Meet Australia's Higher Education Needs

On 12 October 2000, the Senate resolved to examine the capacity of public universities to meet Australia's higher education needs. Defence provided a submission in March 2001 and Defence witnesses appeared before the hearing on 13 August 2001. Responses to six questions on notice arising from the hearing were provided to the committee. The committee tabled its report in September 2001.

Finance and Public Administration References Committee

Inquiry into APS Recruitment and Training

In March 2002, the Senate referred recruitment and training in the Australian Public Service to the committee for inquiry and report. Key aspects of the inquiry involved devolved arrangements for recruitment and training; employment and career opportunities for young people; and training and career development opportunities for APS employees in regional areas.

The Defence submission to the inquiry was being considered by the Minister for Defence as at 30 June 2002.

Foreign Affairs, Defence and Trade References Committee

Inquiry into Disposal of Defence Properties

The Government response was tabled on 20 June 2002.

Inquiry into Recruitment and Retention of Australian Defence Force Personnel

In July 2001, the committee visited Defence establishments in New South Wales, Western Australia, the Northern Territory and Victoria and, in August 2001, Defence establishments in New South Wales, Queensland and the Australian Capital Territory. The report was tabled on 4 October 2001.

The Government response had not been tabled by 30 June 2002.

Inquiry into Materiel Acquisition and Management in the Department of Defence

In March 2002, the Senate referred the following matter to the committee for inquiry and report:

- Whether the current materiel acquisition and management framework of the Department of Defence is effective in meeting the organisation's equipment requirements.

In considering this matter, the committee was to examine and report on the following issues:

- whether the current materiel acquisition and through-life system is meeting, and will continue to meet, the needs of Defence and Defence industries in a timely, cost-effective and qualitative manner;
- the impact of the Defence Materiel Organisation acquisition reform program on materiel acquisition and management;
- the current status of major equipment projects in meeting the organisation's requirements;
- the impact of the creation of decentralised System Program Offices on materiel acquisition and management; and
- any other issues relevant to the effectiveness of the current acquisitions framework which arise in the course of the inquiry.

The committee received a briefing on the Defence Materiel Organisation on 27 June 2002. The Defence submission to the inquiry was submitted on 28 June 2002.

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

In March 2002, the Senate referred the following matters to the committee for inquiry and report:

Australia's relationship with Papua New Guinea and the island states of the south-west Pacific (known as Oceania or the South Pacific), with particular reference to:

- the current state of political relations between regional states and Australia and New Zealand;
- economic relations, including trade, tourism and investment;
- development cooperation relationships with the various states of the region, including the future direction of the overall development cooperation program; and
- the implications for Australia of political, economic and security developments in the region.

The committee called for submissions to the inquiry by July 2002. At 30 June 2002, Defence was finalising its submission.

Legal and Constitutional References Committee

Scrutiny of Bills

Application of Absolute and Strict Liability Offences in Commonwealth Legislation

In July 2001, the Senate referred the following matter to the committee:

The application of absolute and strict liability offences in Commonwealth legislation, with particular reference to:

- the merit of making certain offences ones of absolute or strict liability;
- the criteria used to characterise an offence, or an element of an offence, as appropriate for absolute or strict liability;
- whether these criteria are applied consistently to all existing and proposed Commonwealth offences; and
- how these criteria relate to the practice in other Australian jurisdictions, and internationally.

The Defence submission to the inquiry was submitted on 5 April 2002. Defence witnesses appeared before the inquiry on 1 May 2002. The report of the inquiry was tabled on 26 June 2002.

Senate Select Committees

Certain Maritime Incident

In February 2002, the Senate resolved that a Select Committee on a Certain Maritime Incident be appointed to inquire into and report on the following matters:

- the so-called 'children overboard' incident, where an Indonesian vessel was intercepted by HMAS *Adelaide* within Australian waters reportedly 120 nautical miles off Christmas Island, on or about 6 October 2001;
- issues directly associated with that incident, including:
 - the role of Commonwealth agencies and personnel in the incident, including the Australian Defence Force, Customs, Coastwatch and the Australian Maritime Safety Authority,
 - the flow of information about the incident to the Federal Government, both at the time of the incident and subsequently,

- Federal Government control of, and use of, information about the incident, including written and oral reports, photographs, videotapes and other images, and
- the role of Federal Government departments and agencies in reporting on the incident, including the Navy, the Departments of Defence, Immigration and Multicultural and Indigenous Affairs, and Prime Minister and Cabinet, and the Office of National Assessments.
- operational procedures observed by the Royal Australian Navy and by relevant Commonwealth agencies to ensure the safety of asylum seekers on vessels entering or attempting to enter Australian waters;
- in respect of the agreements between the Australian Government and the Governments of Nauru and Papua New Guinea regarding the detention within those countries of persons intercepted while travelling to Australia, publicly known as the 'Pacific Solution':
 - the nature of negotiations leading to those agreements,
 - the nature of the agreements reached,
 - the operation of those arrangements, and
 - the current and projected cost of those arrangements.

Defence witnesses appeared before the inquiry in March, April, May and July 2002.

Parliamentary Joint Committee on ASIO, ASIS and DSD

Members of the Parliamentary Joint Committee on ASIS, ASIO and DSD attended a private briefing at DSD on 30 April 2002. Defence witnesses appeared at the first hearing held on 31 May 2002 to review DSD's administration and expenditure.

AUDITOR-GENERAL'S REPORTS

Six Auditor-General's reports relating specifically to Defence were tabled during the year. The key findings and recommendations of each report have been referred to the 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. 16, 5 October 2001 – Defence Reform Program Management and Outcomes

The Government introduced the Defence Reform Program in 1997 to enable Defence's resources to be focused more efficiently and effectively on its core functions. The objective of the audit was to assess Defence's management and implementation of the Defence Reform Program and the extent to which it achieved savings for reinvestment in the operational capabilities of the ADF.

The ANAO made no recommendations to Defence in this audit.

Audit Report No. 24, 10 December 2001 – Status Reporting of Major Defence Acquisition Projects

The audit focused on evaluating Defence Materiel Organisation reporting processes and confirmation of the completeness of information in its status reporting of major equipment acquisition projects.

The ANAO made no recommendations to Defence in this audit.

Audit Report No. 30, 24 January 2002 – Test and Evaluation of Major Defence Equipment Acquisitions

The audit reviewed Defence's management of the test and evaluation aspects of its capital equipment acquisition program. The audit sought to identify any barriers that might limit the efficiency and effectiveness of Defence's test and evaluation activities.

The ANAO made five recommendations. Defence agreed with two recommendations and two parts of a three-part recommendation, but disagreed with the third part and the other two recommendations. Implementation of two recommendations that Defence agreed has been actioned and is currently in progress. Implementation of the two of the three-part recommendation is also in progress.

Audit Report No. 38, 20 March 2002 – Management of Australian Defence Force Deployments to East Timor

The audit reviewed the role of Australia as the lead nation in the International Force in East Timor and examined the transition to the United Nations Transitional Administration in East Timor. The audit also examined the planning and management of the ADF deployments to East Timor, including financial, personnel, logistic and other systems used to deploy and sustain Australia's military presence.

The ANAO made no recommendations to Defence in this audit.

Audit Report No. 44, 24 April 2002 – Australian Defence Force Fuel Management

The audit sought to assess the efficiency and effectiveness of the ADF's management of fuel and lubricants and to identify possible areas for improvement. The audit focused on major aspects of the fuel supply chain and, in particular, on the strategic management of fuel. The audit also reviewed the fuel supply aspects of fuel procurement practices, storage and handling issues.

The ANAO made eight recommendations, all of which Defence agreed or agreed in principle. Implementation of these eight recommendations are in progress, with some parts of the recommendations complete.

Audit Report No. 58, 17 June 2002 – Defence Property Management

The audit sought to assess the efficiency of Defence property management as well as providing assurance that probity and compliance requirements were being met. It focused on Infrastructure Division's property management, with recognition that other areas manage certain property service contracts, such as those for electricity supply and cleaning.

The ANAO made five recommendations, all of which Defence agreed or agreed in principle. Implementation of these five recommendations are in progress, with some parts of the recommendations complete.

Cross-Portfolio Reports

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

Audit Report No. 1, 9 July 2001 – *Control Structures as part of the Audits of the Financial Statements of Major Commonwealth Entities for the Year Ended 30 June 2001*

Audit Report No. 5, 7 August 2001 – *Parliamentarians' Entitlements: 1999-2000*

Audit Report No. 7, 9 August 2001 – *Audit Activity Report: January to June 2001*

Audit Report No. 10, 17 September 2001 – *Management of Bank Accounts by Agencies*

Audit Report No. 12, 20 September 2001 – *Selection, Implementation and Management of Financial Management Information Systems in Commonwealth Agencies*

Audit Report No. 13, 20 September 2001 – *Internet Security within Commonwealth Government Agencies*

Audit Report No. 15, 2 October 2001 – *Agencies' Oversight of Works Australia Client Advances*

Audit Report No. 18, 1 November 2001 – *Performance Information in Portfolio Budget Statements*

Audit Report No. 22, 4 December 2001 – *Personnel Security – Management of Security Clearances*

Audit Report No. 25, 11 December 2001 – *Accounts Receivable*

Audit Report No. 29, 24 December 2001 – *Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2001*

Audit Report No. 31, 14 February 2002 – *Audit Activity Report: July to December 2001*

Audit Report No. 33, 25 February 2002 – *Senate Order of 20 June 2001 (February 2002)*

Audit Report No. 36, 13 March 2002 – *Benchmarking Implementation and Production Costs of Financial Management Information Systems*

Audit Report No. 62, 26 June 2002 – *Benchmarking the Finance Function Follow-on Report*

Audit Report No. 64, 28 June 2002 – *Management of Learning and Development in the Australian Public Service*

Audit Report No. 67, 28 June 2002 – *Control Structures as part of the Audit of Financial Statements of Major Commonwealth Entities for the Year Ending 30 June 2002*

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 section 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 the year, 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 current law.

Litigation continued in relation to common-law actions for damages for personal injury against the Commonwealth by former crew members of the former HMAS *Melbourne*. Generally, the plaintiffs claim post traumatic stress disorder arising out of the collision of former HMA Ships *Voyager* and *Melbourne*. Hearings of claims for like injuries arising from an accident aboard the former HMAS *Stalwart* have continued.

All matters noted above are being resolved case-by-case.

Judge Advocate General

The Judge Advocate General made a separate report to Parliament concerning the operation of the *Defence Force Discipline Act 1982* for the year 2001. The report refers to military justice issues within Defence that received particular attention. Issues of note were the harmonisation of the *Defence Force Discipline Act* with the Commonwealth Criminal Code and the ongoing implementation of recommendations made by the ADF Military Justice Audit conducted by a former Judge, Jim Burchett QC.

Directorate of Military Administrative Law

Routine work of the Directorate of Military Administrative Law included general advice in relation to administrative law matters, statutory interpretation and departmental instructions. It also has general oversight of administrative inquiries and the redress of grievance processes, including dedicated advice to the Complaints Resolution Agency. The directorate contributed to and facilitated several major administrative inquiries, including the inquiry into the F-111 desearl/reseal Board of Inquiry, and the Exercise Big Wall inquiry into the death of a soldier in the United States on a rock-climbing adventurous training exercise. It has also been involved in the ongoing review of the Administrative Inquiries Manual and the restructuring of tri-Service personnel regulations.

INSTITUTE OF PUBLIC ADMINISTRATION AUSTRALIA ANNUAL REPORT AWARDS

We are pleased to report that Defence received the Institute of Public Administration Australia award for equal best annual report, for the *Defence Annual Report 2000-01*, for Commonwealth departments and agencies reporting under the *Financial Management and Accountability Act 1997*. Defence shared the award with the Department of Foreign Affairs and Trade.

The judges' report commented that the Defence annual report was "noteworthy for its frankness about aspects of its performance and management approaches for the future to improve performance", and remarked upon the clear reporting on corporate governance, people management and the Defence service charter.

The Review by the Secretary and the Chief of the Defence Force was judged to be "particularly informative about new approaches being pursued in Defence, particularly the balanced scorecard approach and leadership issues", and to have "provided a good focus on performance assessment and efforts to improve performance".

REPORT ON THE OPERATION OF THE DEFENCE SERVICE CHARTER FOR 2001-02

The Defence Service Charter was introduced on 1 August 1998 as part of a whole-of-government initiative to provide better service to the public across Commonwealth departments and agencies.

Defence reports annually to the Minister for Defence on the extent to which Defence is meeting the performance standards relating to the charter. The Government requires departments to report on their service delivery achievements through their annual reports. The following report is a full reprint of the report to the Minister for Defence.

The Defence Service Charter is a short plain-language document that sets out the quality of service customers can expect to receive from Defence. The term 'customer' in the context of the charter refers to the people whom the department 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.

The Defence Service Charter assists Defence in focusing on identifying the needs of its customers, the level of service it is committed to provide, and what it will do if it does not meet that goal. By monitoring compliance with the charter and reviewing its requirements regularly, Defence will keep the charter current and challenging, so as to ensure that the quality of service provided is of the highest standard possible.

PERFORMANCE STANDARDS

The key performance standards in the Defence Service Charter are that:

- dealings with customers will be handled in a professional manner with courtesy and cooperation;
- 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;
- officers will identify themselves to customers on the telephone by name or section;
- officers will listen to what customers have to say and strive to use language which is clear to customers;
- if Defence cannot answer a query immediately, officers will take customer contact details and ensure that a response is provided within two working days;
- 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; and

- 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 complaints and compliments. 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 (two-star) and 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 from a variety of sources (surveys, conferences, orally to regional offices or bases, contact with customers or the general public) and is collected by individual Groups.

A review of the Defence Service Charter commenced in 2002 with a view to revalidating performance standards, reinvigorating staff awareness and assessing the effectiveness of monitoring systems. Recommendations arising from the review will be implemented during 2002-03.

PERFORMANCE IN 2000-01

AWARENESS OF CHARTER

The Defence Service Charter is available electronically on the internal and external Defence websites, and a booklet outlining the provisions of the charter is distributed as part of induction training of new staff.

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 Defence contacts listed in the charter, the particular area concerned, the supervisor of the area, or through the Ministers or Parliamentary Secretary, or their local Member of Parliament or Senator. In addition, customers can contact the Commonwealth Defence Force Ombudsman.

Table 1.5: Complaints Made to Defence 1998-99 – 2001-02

	1998-99	1999-2000	2000-01	2001-02
Number of complaints	375	307	745	691

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 the most common complaints related to recruitment, honours and awards, and aircraft noise in a number of locations.

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 prompt handling of requests for information, and customer service within Careers Reference Centres.

The most common compliments and complaints were very similar to those reported in 2000-01. The satisfaction rate for 2001-02, which is a measure of Defence's complaint handling procedures, was approximately 93 per cent. This is measured primarily by there being no repeat complaints.

RESPONSIVENESS TO MINISTERS AND PARLIAMENTARY SECRETARY

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

The Defence Committee receives a monthly performance summary that includes data on timeliness and quality of ministerial correspondence, and members are held to account for the performance of their Groups.

The swearing-in of two new Ministers and a Parliamentary Secretary following the 2001 federal election also provided challenges for Defence's performance in responding to their requirements. The previous response time of fifteen working days was reduced, in some instances, to ten working days, and the data provided in the table below reflect performance against the new deadlines. While there was a reduction from last year in the number of representations that met the deadlines, Defence was able to achieve a 92 per cent success rate in responding to representations within a further week of those deadlines.

Defence continued to provide education and training to staff through:

- dedicated 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, externally-contracted, ministerial correspondence writing courses, primarily for staff who regularly deal with ministerial or parliamentary matters; and
- ad hoc sessions to small groups across Defence that cover similar areas to the information sessions and writing courses.

These learning opportunities are complemented by internal bulletins and guidelines.

Table 1.6: Percentage of Departmental Response Times Against Standard Requirement of 15 Days

	1997-98	1998-99	1999-2000	2000-01	2001-02
Number of letters received	8,867	8,428	9,421	9,657	9,580
Average per cent of responses that met 15 working day standard requirement ⁽¹⁾	54	50	75	86	76

1. For 2001-02, ten working days in some instances.

PAYMENT OF ACCOUNTS

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

A full review of simple procurement and accounts processing, mentioned in last year's report, was completed in December 2001. Implementation of the recommendations of this review has been progressing, with a focus on documentation, reporting, training (including the reintroduction of Resource and Output Management and Accounting Network regional support officers) and system improvements such as enhanced online help. These initiatives will further assist in the overall improvement of creditor management within Defence.

The improvement program commenced in April 2002, and, while there was some material improvement in the annual result in 2001-02, there is expected to be significant improvement in 2002-03.

Table 1.7: 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
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

Defence Outcome: *The defence of Australia and its national interests.*

The overall price of the six Defence outputs delivered to the Government was \$210m more than the revised estimates, as shown in the table below. More detailed explanations of output variations are provided under individual outputs in this chapter.

Many of the variations within each output related to technical accounting adjustments, including assets now recognised, write-down of assets and the capital use charge. A significant asset substantiation exercise was undertaken during the course of 2001-02 resulting in a number of asset-related adjustments. The most significant of these was the \$905m in write-downs of major project activities – 187 of the 193 active projects were reviewed in detail. The details of assets now recognised and the write-down of assets are explained in Notes 8 and 14 of the financial statements.

In addition to these technical accounting adjustments, other large variations related to changes in the output attribution rules. In 2001-02 as foreshadowed in the *Portfolio Additional Estimate Statements 2001-02* (p17-18) Defence implemented a new cost attrition model to assist with the new statutory disclosure requirement to provide audited output costs from the end of 2001-02. As a consequence of using the new and more robust methodology, some variations have arisen between the revised estimates and the actual outcome for individual outputs.

Table 2.1: Overall Output Price to Government

Output	2001-02			
	Budget Estimate	Revised Estimate	Result	Variation
	\$m	\$m	\$m	\$m
1. Defence Operations	947	1,156	807	-349
2. Navy Capabilities	5,652	5,684	5,796	112
3. Army Capabilities	5,029	5,070	5,392	322
4. Air Force Capabilities	5,331	5,361	5,526	165
5. Strategic Policy	171	191	209	18
6. Intelligence	385	397	339	-58
Total	17,515	17,859	18,069	210

OUTPUT ONE: DEFENCE OPERATIONS

Headquarters Australian Theatre in Sydney, headed by a two-star commander, has the capability to plan, command and control operations through established headquarters, and is responsible for the conduct of ongoing operations and national support tasks. Commander Australian Theatre exercises Theatre command for the planning and conduct of Defence operations, activities and campaigns, and for the execution of the program of major service activities. Headquarters Australian Theatre delivers effective command of operations, conducts military operations including joint and combined exercises, and undertakes emergency and non-emergency activities to support the nation. With the maritime, land, air, and special operations component headquarters, Headquarters Australian Theatre is capable of commanding the majority of the ADF's operational forces to defend Australia and its interests.

PERFORMANCE SUMMARY

The performance targets identified for Output One in 2001-02 were achieved, with the ADF being involved in operations across a wide geographic area. The Government's highest priority requirements were met, although concurrent commitments placed pressure on the availability of Defence personnel and assets. The demands of high operational tempo and competing priorities mean that this pressure is unlikely to be relieved in the near future, and some lower priority operations will remain dormant.

The increased rate of effort was particularly focused upon the additional demands of ADF commitment to Operations Relex (protecting Australia's northern borders) and Slipper (war against terrorism) and the transition from Operation Tanager to Operation Citadel (East Timor). This increased rate of effort, coupled with equipment upgrades and maintenance, and together with ongoing training and exercise requirements, resulted in reduced availability of assets for some surveillance operations and major international exercises.

Training in some core warfighting areas has been constrained by operational commitments and will require remediation to assure Defence capability and longer-term sustainability. Areas that came under significant pressure included:

- **Strategic airlift:** Heavy operational commitment of aircraft and crews has impacted on specific war-fighting skills. Ongoing training is required to restore and maintain these skills. To assist in alleviating the impact of operational tempo on aircraft, commercial airlift will be used to support operations and exercises where it is a viable alternative.
- **Amphibious sealift:** Amphibious ships committed to operations were unavailable to conduct some scheduled training activities, resulting in some skills being degraded. Exercises programmed over 2002-03 will rectify this.
- **Maritime patrol aircraft:** The combination of the extensive use of P-3Cs in surveillance operations, the upgrade of the P-3C to the AP-3C configuration and the necessity to recover skills in areas other than surveillance, resulted in reduced availability of maritime patrol aircraft assets.

- **Frigates:** Concurrent operations and a high rate of activity have placed additional demands on ships and crews.
- **Hydrographic ships:** The use of hydrographic ships to support operations and relieve the commitment of frigates and patrol boats diverted them from their specialist role of military geographic information collection.
- **Patrol boats:** Combined output in support of Operation Relex and the civil surveillance program resulted in 2,103 patrol boat days being delivered in surveillance operations, some 15 per cent above the 1,800-day target.
- **Health practitioners:** The deployment of surgical teams providing health support to long standing operations has placed a burden on our specialist practitioners (surgeons/anaesthetists), most of whom are Reservists. This has had the effect of limiting specialist availability. Consequently, the ADF has had difficulty maintaining specialist surgical health to long standing operations and a limited ability to concurrently deploy surgical capabilities.
- **ADF personnel and families:** The increased rate of operational activity has placed additional demands on ADF personnel and their families during, and in support of, deployments. The National Welfare Coordination Centre ensures that families have access to reliable information regarding deployed personnel. The Defence Community Organisation provided a range of support services to ADF personnel and their families including pre, during and post deployment briefings, as well as a range of counselling and other support services.

Other operations and activities the ADF was involved in over the year were as follows:

- Emergency assistance was provided by the ADF to civil firefighting for the New South Wales bushfires over December 2001 and January 2002.
- Operation Guardian II provided ADF support to the Commonwealth Heads of Government meeting held in Queensland during March 2002, including the provision of security, logistic and ceremonial support.
- Operation Sutton provided support to the Australian Fisheries Management Authority to enforce Australian sovereign rights and fisheries law in the Heard Island - McDonald Island Exclusive Economic Zone in January 2002 and resulted in the apprehension of two foreign fishing vessels.

Capability for logistic planning in support of operations has been enhanced. A joint operational logistics 'tool suite' database has been developed in order to provide broad logistics deployment and sustainment data. Joint Logistics Command has developed an operations support manual that provides doctrine and concepts for joint logistic planning.

CAPABILITY PERFORMANCE INFORMATION

PERFORMANCE TARGETS

Command of Operations

This involves the development and maintenance of an ADF capability to provide effective command of military campaigns, operations and other activities within the following parameters:

Performance Targets	Performance
<p>Quality: Shortfalls against Australian Theatre Operational Preparedness Directive are within acceptable bounds</p> <p>Shortfalls against exercise preparedness objectives are within acceptable bounds</p> <p>Operations commanded meet strategic objectives</p> <p>Shortfalls/issues identified in post-operation reports</p>	<p>Achieved. A new Defence-wide preparedness reporting system that provides more effective monitoring of preparedness was implemented in July 2002. Work continues on further development of the system.</p> <p>Substantially Achieved. Some shortfalls in specialised areas occurred. Deficiencies in warfighting skills, particularly amphibious warfare, undersea warfare and surface warfare, were identified due to the limited availability of assets to exercise those skills.</p> <p>Achieved.</p> <p>Achieved.</p>
<p>Quantity: Extent to which available resources satisfy operational and exercise activity</p> <p>Number of completed operations and exercises</p> <p>Number of current operations and exercises</p> <p>Number of dormant operations and cancelled exercises</p>	<p>Substantially Achieved – Operations. Concurrent activity at a high operational tempo meant that assets were not available for lower priority operations. See ADF Operations tables for details.</p> <p>Partially Achieved – Exercises. The priority for assignment of assets to operations resulted in a reduced availability to fully resource the exercise program. See the ADF Exercise Program table for details.</p> <p>Completed operations – 11. Completed exercises – 40 (3 in progress).</p> <p>Current operations – 16. Planned operations – 1. Exercises scheduled over 2002-03 (including the 3 exercises overlapping from 2001-02 to 2002-03) – 75.</p> <p>Dormant operations – 5. Cancelled exercises – 32.</p>

ADF MILITARY OPERATIONS

The nature of military operations is such that it is not possible to anticipate or predict the likelihood or full scope of the ADF's involvement in military contingencies. The outcome of a military operation is measured against the attainment of the Government endorsed end-state.

Performance Targets	Performance
<p>Quality: ADF forces assigned to Headquarters Australian Theatre for contingency operations are effectively deployed, sustained, and redeployed</p> <p>Agreed military objectives are satisfied</p>	<p>Achieved.</p> <p>Achieved.</p>
<p>Quantity: Number of operations conducted as required by Government</p>	<p>Achieved. Operations were conducted in accordance with Government priorities.</p>

NATIONAL SUPPORT TASKS

National support tasks entail the provision of ADF emergency and non-emergency assistance to the Government and the Australian community in non-combat-related roles. The nature of national support tasks, generally, is such that it is not possible to anticipate, or predict, the likelihood or scope of the ADF's involvement in national support tasking. Two exceptions to this are the ADF contribution to civil surveillance and the Army's contribution to the Aboriginal and Torres Strait Islander Commission/ Army Community Assistance Program. The ADF contribution to civil surveillance is tasked routinely in accordance with Government direction. In other cases, ADF involvement is as a result of calls for assistance from the applicable civil authority. This assistance is coordinated by Headquarters Australian Theatre and/or through Emergency Management Australia. Emergency Management Australia transferred from Defence to the Attorney-General's Department in November 2001. The community assistance program is governed by a memorandum of understanding between the Aboriginal and Torres Strait Islander Commission/Army and the Department of Health and Ageing, in which the Army, supported by the Navy and the Air Force, delivers health infrastructure projects to remote indigenous communities.

Performance Targets	Performance
<p>Quality: Maintain forces identified in the Australian Theatre Operational Preparedness Directive at the levels of preparedness specified for Defence Assistance to Civil Authorities Progress achieved by the Army against the Army/Aboriginal and Torres Strait Islander Commission Community Assistance Program Maintain forces at the levels of preparedness specified for civil search and rescue Defence provides timely and appropriate support to search and rescue tasks Maintain forces at the levels of preparedness specified for Defence support to civil surveillance</p>	<p>Achieved.</p> <p>Achieved. The projects undertaken have met their objectives successfully.</p> <p>Achieved.</p> <p>Achieved. Plans and procedures are in place to respond to search and rescue requests.</p> <p>Achieved.</p>
<p>Quantity: Number of: Emergency management tasks undertaken</p> <p>Defence Assistance to Civil Authorities tasks successfully completed</p> <p>Defence Assistance to the Civil Community tasks accepted and completed by the ADF in accordance with agreed terms and standards</p> <p>Search and rescue tasks undertaken involving ADF assistance</p> <p>Specified Army/Aboriginal and Torres Strait Islander Commission Community Assistance Program milestones were met</p>	<p>Defence Assistance to the Civil Community (DACC) emergency assistance tasks were completed under the following categories⁽¹⁾ :</p> <p>Category 1: 37 Category 2: 9</p> <p>No Defence Assistance to Civil Authorities tasks were requested.</p> <p>DACC tasks were undertaken under the following categories:</p> <p>Category 3: 1 Category 4: 115 Category 5: 393 Category 6: 10</p> <p>4 search and rescue tasks were undertaken involving ADF assistance.</p> <p>Achieved. The projects included Yarralin (completed), Mialuni (completed), Dampier Peninsula and Pandanus Park (works are continuing in these communities until the end of 2002).</p>

Performance Targets	Performance
250 hours of aerial surveillance provided by P-3C aircraft in support of the Civil Surveillance Program	Partially Achieved. 100.3 hours were provided in support of the Civil Surveillance Program. Priority for these assets was directed to support of Operation Relex. The P-3Cs flew 3,513.1 hours in support of Operation Relex.
1,800 Fremantle Class Patrol Boat days provided in support of the Civil Surveillance Program	Achieved. 2,103 Fremantle class patrol boat days were delivered. This includes output in support of Operation Relex.
240 Regional Force Surveillance Unit patrol days provided in support of the Civil Surveillance Program	Achieved. 286 patrol days were provided by Regional Force Surveillance Unit patrols.

Note

- 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

	2001-02 Budget Estimate \$m	2001-02 Revised Estimate \$m	2001-02 Result \$m	Variation \$m
Operating Expenses				
Employee Expenses – Military	263	337	333	-4
Employee Expenses – Civilian	73	69	78	9
Supplier Expenses – Non-Inventory	203	339	285	-54
Supplier Expenses – Inventory Consumption	121	109	85	-24
Depreciation and Amortisation	108	114	24	-90
Write down of assets	2	6	21	15
Other Expenses	4	5	2	-3
Total Operating Expenses	774	979	828	-151
Capital Use Charge	191	191	115	-76
Total Cost of Output	965	1,170	943	-227
<i>Less:</i> Own-source Revenue	18	14	87	73
<i>Less:</i> Assets Now Recognised	0	0	49	49
Price to Government	947	1,156	807	-349

EXPLANATION OF SIGNIFICANT VARIATIONS

The overall price of Output One was \$349m under the revised estimate. The reduction is not a reflection of decreased operational activities. In fact, there has been a significant increase in ADF operational tempo, particularly as a result of the war against terrorism and coastal surveillance operations.

Major variations relate to technical accounting adjustments and changes to the cost attribution methodology. The lower than expected outcome in supplier expenses for Output One resulted from the majority of the funding for operations originally being attributed to Output One in the budget and revised estimates but, as a result of the more robust attribution rules introduced later in the year, the actual result was redistributed to relevant outputs.

AUSTRALIAN DEFENCE FORCE OPERATIONS

ADF MAJOR OPERATIONS

The commitment to major operations has continued, with increased activity associated with the war against international terrorism, ongoing contribution to the United Nations mission in East Timor, a reduced but continued commitment to peacekeeping in Bougainville and completion of the ADF contribution in the Solomon Islands.

Table 2.3: ADF Major Operations

Operation	Objective and Status
Slipper October 2001 – continuing <u>Forces</u> ADF	Objective: To contribute to the United States-led operation against international terrorism. Status: Current. Contribution: The significant ADF contribution included naval task groups comprising two frigates and an amphibious ship (rotated), a Special Forces task group and B707, F/A-18 and C-130 aircraft, with a national headquarters and other support and liaison staff (totalling up to approximately 1,100 personnel).
Damask 1991 – periodic and continuing <u>Forces</u> ADF	Objective. To contribute to the Multinational Maritime Interception Force in the Persian Gulf in support of United Nations sanctions against Iraq. Status: Currently, Operation Slipper and Operation Damask are combined and forces are reported under Operation Slipper.
Bel Isi II April 1998 – continuing <u>Forces</u> ADF	Objective: To support the Peace Monitoring Group in Bougainville by contributing specialist medical, logistic, communications and transport capabilities. Status: Current. Contribution: A contribution of up to 40 ADF personnel and 1 heavy landing craft continues to assist the progress of the peace process and weapons disposal.
Tanager February 2000 – May 2002 <u>Forces</u> ADF	Objective: To contribute to the United Nations Transitional Administration in East Timor Security Force in order to assist the achievement of United Nations Security Council resolution 1272/99, by providing equipment and approximately 1,600 ADF personnel. Status: Ceased 20 May 2002. Contribution: The ADF contribution to the United Nations Transitional Administration in East Timor was larger than the ongoing commitment under Operation Citadel, as it included a military hospital and the Logistic Support Force.
Citadel May 2002 – continuing <u>Forces</u> ADF	Objective: The ADF contribution to the post-independence United Nations Mission of Support in East Timor. Status: Current. Contribution: Support to the United Nations Mission of Support in East Timor continues, with a maximum contribution of 1,250 ADF personnel including an infantry battalion group, national headquarters and support staff.
Trek November 2000–March 2002 <u>Forces</u> ADF	Objective: To promote stability in the Solomon Islands by supporting the International Peace Monitoring Team deployed to the Solomon Islands in support of the Cease-Fire Agreement. Status: Ceased 15 March 2002. Contribution: The ADF contribution included a maximum of one frigate/major amphibious ship (withdrawn in September 2001) and four personnel assisting the International Peace Monitoring Team and maintaining ADF situational awareness.

NATIONAL SUPPORT OPERATIONS

Headquarters Australian Theatre retained the capacity to coordinate ADF activities in response to requests for assistance in emergency situations, or situations where ADF resources could appropriately be used as part of a whole-of-government response to support the Australian community in non-combat roles. The specific requirements to support and participate in the Centenary of Federation celebrations and to support the Commonwealth Heads of Government Meeting were met. In addition, the ADF contribution to civil surveillance in association with Coastwatch and activities in support of the Army/Aboriginal and Torres Strait Islander Commission Community Assistance Program were successfully completed.

Table 2.4: ADF National Support Operations

Operation	Objective and Status
Centenary January 2000–December 2001 <u>Forces</u> ADF	Objective: To provide support to and participate in the Centenary of Federation celebrations. Status: Ceased 31 December 2001. Contribution: A range of national and international activities were undertaken to celebrate the Centenary of Federation. The ADF participated in 21 events over the course of the year, with a range of ADF assets and personnel involved.
Guardian August–October 2001 <u>Forces</u> ADF	Objective: To provide support to the Commonwealth Heads of Government Meeting that was to be held in Brisbane in October 2001. Status: Ceased on 11 October 2001 due to the postponement of the meeting.
Guardian II January–March 2002 <u>Forces</u> ADF	Objective: To provide support to the Commonwealth Heads of Government meeting in Queensland, 2–5 March 2002. Status: Ceased 14 March 2002. Contribution: A successful operation was conducted, during which the ADF contributed security (counter and non-counter terrorism), logistic and ceremonial support to the Commonwealth Heads of Government meeting. Support included a tactical assault group, the Federation Guard, air defence assets and other general support staff.

NON-REGIONAL OPERATIONS

The ADF commitment to United Nations operations continued as planned, including the completion of the ADF contribution to training of de-mining staff in Mozambique under Operation Coracle. Other contributions to United Nations operations are expected to continue, while the safety and security of deployed troops continues to be closely monitored. Operation Pollard has also been completed following the withdrawal of the ADF liaison officer due to a change in the United States stance in regard to trade sanctions against Iraq.

Table 2.5: ADF Non-Regional Operations

Operation	Objective and Status
Paladin 1956 – continuing <u>Forces</u> Army	Objective: To contribute to the United Nations Truce Supervisory Organisation in the Middle East. This force of unarmed military observers supervise, observe and report on the various cease-fire arrangements, truces and peace treaties that have been negotiated between Israel and neighbouring Arab nations since 1948. Status: Current. Contribution: A contribution of 12 military observers with the United Nations Truce Supervisory Organisation and one military liaison officer to the United Nations Special Coordinator continues.

Operation	Objective and Status
Coracle 1994 – March 2002 <u>Forces</u> Army	Objective: To support the United Nations Accelerated De-mining Program in Mozambique by contributing two Army engineering personnel who provide training to de-mining staff. Status: Ceased on 31 March 2002 following the transfer of the United Nations program to a national non-government organisation-sponsored project. Contribution: Two ADF personnel were deployed.
Osier March 1997 – continuing <u>Forces</u> Army	Objective: Army personnel are deployed as part of the Stabilisation Force in Bosnia-Herzegovina and Croatia, and Kosovo Force in Kosovo. In both cases, personnel serve as individuals attached to United Kingdom forces. Status: Current. Contribution: During the year, the ADF contributed eight personnel as headquarters staff.
Pollard 1998 – October 2001 <u>Forces</u> ADF	Objective: To contribute to United States-led operations against Iraq. Status: Ceased 1 October 2001. Contribution: One ADF member had been deployed as a liaison officer.
Pomelo January 2001 – continuing <u>Forces</u> Army	Objective: To contribute effectively to United Nations peacekeeping efforts in Africa as part of the United Nations Mission in Ethiopia/Eritrea. Status: Current. Contribution: The ADF contributes 2 personnel employed on United Nations Headquarters staff.
Husky January 2001 – continuing <u>Forces</u> Army	Objective: To contribute effectively to the nation-building efforts in Sierra Leone via the International Military Advisory and Training Team. Status: Current. Contribution: The ADF contributes two personnel to train and advise the Sierra Leone Armed Forces.

ADF SURVEILLANCE AND REGIONAL OPERATIONS

The ADF commitment to border security operations reduced assets available for other surveillance operations and subsumed some aspects of the surveillance requirement. Following prioritisation of resources, some surveillance operations are now dormant.

Table 2.6: ADF Surveillance and Regional Operations

Operation	Objective and Status
Relax I and Relax II September 2001 – continuing <u>Forces</u> ADF	Objective: To conduct air and surface patrols across Australia's northern approaches to deter unauthorised boat arrivals. Status: Current. Operation Relax I ceased on 14 March 2002 to enable information concerning the operation to be declassified for the Senate Select Committee on a Certain Maritime Incident. Contribution: The ADF commitment has included two frigates, one amphibious ship, one survey ship configured for patrol operations, up to six RAN patrol boats, two P-3C maritime patrol aircraft and a Sea King helicopter detachment.
Gaberdine August 2001 – continuing <u>Forces</u> ADF	Objective: To provide support to the Department of Immigration and Multicultural and Indigenous Affairs (DIMIA) to manage any increase in unauthorised boat arrivals. Status: Current. Contribution: Defence assisted DIMIA with contingency planning and provided emergency facilities, security and medical personnel and transport support. A number of Defence sites were developed to provide emergency facilities. Preparation of these sites included upgrading existing facilities and providing accommodation stores. DIMIA did not request or utilise these Defence sites.

Operation	Objective and Status
Beachcomber Continuing Forces Navy and Army	Objective: To collect beach information in Australia for operational planning. Status: Dormant. Contribution: Operation Beachcomber was not conducted during 2001-02 due to other operational commitments.
Mencari Ceased – November 2001 Forces Navy	Objective: To patrol the Timor Gap Zone of Cooperation. Status: Ceased on 12 November 2001. Contribution: No activity has occurred since the annulment of the treaty by the Indonesian Government in May 2000.
Estes 1980 – continuing Forces Navy	Objective: To conduct surface patrols in Bass Strait. Status: Dormant. Contribution: Due to other operational commitments, Operation Estes patrols were not conducted in 2001-02.
Gateway 1981 – continuing Forces Navy and Air Force	Objective: To conduct aerial surveillance of the northern Indian Ocean and South China Sea approaches to Australia. Status: Current. Contribution: Nine Operation Gateway deployments took place over the year and a total of 376.5 P-3C flying hours were expended. Operation Gateway patrols were conducted at a reduced rate over 2001-02 due to other operational commitments.
Mistral 1998 – continuing Forces Navy and Air Force	Objective: To support Australian sovereign rights and fisheries law enforcement in the Southern Ocean by contributing to the Southern Ocean fisheries patrols. Status: Current. Contribution: Operation Mistral is the overarching plan to support Australian sovereign rights and fisheries law enforcement. Operations are ongoing and cyclical.
Celesta ⁽¹⁾ 2001 – planned	Objective: Planned conduct of surface fisheries patrols in the Heard Island – McDonald Island Exclusive Economic Zone. Status: Planned. Contribution: This operation is yet to commence.
Sutton January–February 2002 Forces Navy	Objective: To enforce Australian sovereign rights and fisheries law in the Heard Island – McDonald Island Exclusive Economic Zone. Status: Ceased on 19 February 2002. Contribution: One frigate and one auxiliary tanker were provided to conduct a patrol in support of enforcement of Australian sovereignty in the Heard Island – McDonald Island Exclusive Economic Zone.
Solania 1988 – continuing Forces Navy and Air Force	Objective: To contribute to South West Pacific regional engagement via aerial fisheries patrols. Status: Current. Contribution: Due to other operational commitments and the maritime patrol aircraft upgrade program, Operation Solania patrols were reduced over 2001-02. One patrol was flown in August 2001.
Burbage 1995 – continuing Forces Navy and Air Force	Objective: To contribute to Indian Ocean patrols. Status: Dormant. Contribution: Due to other operational commitments, Operation Burbage patrols were not conducted in 2001-02.
Osteal 1995 – continuing Forces Navy and Air Force	Objective: To contribute to Coral Sea patrols. Status: Dormant. Contribution: Due to other operational commitments, Operation Osteal patrols were not conducted in 2001-02.

Note

1. Operation Celesta was erroneously reported as commenced in the *Portfolio Budget Statements 2002-03*.

Operation	Objective and Status
Mellin 1995 – continuing Forces Navy and Air Force	Objective: To contribute to Torres Strait and Timor Gap patrols. Status: Dormant. Contribution: Due to other operational commitments, Operation Mellin patrols were not conducted in 2001-02.
Prowler 1996 – continuing Forces Navy and Army	Objective: The collection of military geographic information in northern Australia. Status: Current. Contribution: ADF military geographic information collection continues.
Cranberry 1997 – continuing Forces ADF	Objective: To conduct military surveillance and response in northern Australia and coordinate ADF support to the civil surveillance program within the area of operation Status: Current. Contribution: The ADF continues to conduct military surveillance in northern Australia and to contribute to the civil surveillance program.
Concord 1999 – November 2001 Forces ADF	Objective: To provide effective logistic support for Australian operations in East Timor. Status: Ceased 16 November 2001. Contribution: Residual support tasks were subsumed into ongoing tasking for Operation Tanager and, subsequently, Operation Citadel.

AUSTRALIAN DEFENCE FORCE EXERCISES

Table 2.7: ADF Joint Exercises

Exercise	Forces	Objective and Performance
Platypus Moon July 2001 Conducted	Navy, Army	Objective: To develop submarine insertion, extraction and rendezvous techniques with Special Forces using rubber boats and multi-swimmer release techniques. Performance: Partially Achieved. The exercise was conducted with fewer resources than originally planned.
Northern Shield 2001 September 2001 Conducted	Army, Headquarters Northern Command	Objective: To exercise Headquarters Northern Command and the Operational Coordination Committee in the joint planning and conduct of operations within the Northern Command area of operations. Performance: Achieved. The exercise successfully tested the ability to plan and conduct joint operations in the Northern Command area.
Dusk Series 01 (Includes Pegasus Dusk, Oprex Dusk, Flash Dusk) November – December 2001 Conducted	Army, Air Force	Objective: To build up the counter-terrorist squadron rotating into the counter terrorist role. The series includes helicopter training and a national response operation exercise. Performance: Achieved. The counter-terrorist squadron confirmed counter-terrorist skills and successfully completed training.
Tendi Walk 02 February 2002 Conducted	Navy, Army, Air Force	Objective: Command post exercise to practise Headquarters Australian Theatre and component staffs in planning for joint operations in the Australian theatre. Performance: Achieved. The exercise was successfully completed, providing a good opportunity to test and practise component staffs in planning for joint operations.

Exercise	Forces	Objective and Performance
Vital Launch – Vital Prospect 02 March–April 2002 <i>Conducted</i>	Navy, Army, Air Force	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. The exercises were the key training activities for Deployable Joint Force Headquarters. The exercises practised combined peace and evacuation operations and successfully facilitated the integration of Deployable Joint Forces Headquarters with maritime and air components and land elements to form an effective Combined Task Force Headquarters.
Squadex 02-1 March 2002 <i>Cancelled</i>	Navy, Army	Objective: To work up core amphibious maritime and land command elements of the amphibious force element. Performance: Not Achieved. The exercise was cancelled due to the unavailability of amphibious assets.
Sea Eagle 02 March – April 2002 <i>Cancelled</i>	Navy, Army	Objective: To plan and conduct a basic amphibious assault in a non-hostile environment. Performance: Not Achieved. The exercise was cancelled due to the unavailability of amphibious assets.
Northern Trilogy 02 April – May 2002 <i>Conducted</i>	Army, Headquarters Northern Command	Objective: To practise Headquarters Northern Command in the planning and conduct of operations in northern Australia in a command post exercise. Performance: Achieved. The exercise provided the opportunity to practice operational planning and to test operating procedures. Commonwealth, state, territory and local authorities were involved and inter-agency arrangements were confirmed.
Sea Predator May 2002 <i>Cancelled</i>	Navy, Army	Objective: To train forces in amphibious operational planning, embarkation drills, logistics and basic amphibious procedures. Performance: Not Achieved. The exercise was cancelled due to the unavailability of amphibious assets.
Natex 02 June 2002 <i>Conducted</i>	Army, Air Force	Objective: To test ADF involvement in the activation of Commonwealth/state/territory counter terrorism crisis management procedures. Performance: Achieved. ADF participation in crisis management procedures was tested successfully.

Table 2.8: Combined ADF/United States Exercises

Exercise	Forces	Objective and Performance
Gold Eagle 01, 02 June–July 2001 <i>Conducted</i> June–July 2002 <i>In progress</i>	<u>Australia</u> Army	Objective: To further develop interoperability between the Australian Army and the United States Marine Corps in combined operations. Performance: Achieved. The exercise was conducted successfully and met training objectives. Familiarisation training in capabilities, equipment and facilities not available in Australia was particularly valuable, as was the working knowledge gained of US operational, logistic and administrative procedures. The training opportunities and the capacity to test and refine interoperability issues made Exercise Gold Eagle 01 highly beneficial.
Pacific Reserve 01 July 2001 <i>Conducted</i>	<u>Australia</u> Army	Objective: To further develop interoperability between the Australian Army Reserve and the United States Army Reserve by undertaking a field training exercise. Performance: Achieved. The exercise was an excellent opportunity for Australian personnel to experience working with an equivalent US organisation.

Exercise	Forces	Objective and Performance
Extendex⁽¹⁾ Series 01-4 July – September 2001 <i>Conducted</i> 02-1 October – December 2001 <i>Cancelled</i> 02-2 January – March 2002 <i>Conducted</i> 02-3 April – June 2002 <i>Conducted</i>	<u>Australia</u> Air Force	Objective: Maritime patrol aircraft undersea warfare training. Performance: Achieved. Valuable training with a US Navy submarine was gained. The exercise also provided good interoperability training with a US Navy aircraft carrier for the 01-4 July – September 2001, 02-2 January – March 2002 and 02-3 April-June 2002 exercises. Not Achieved. 02-1 October – December 2001 exercise was cancelled due to the unavailability of the US Navy.
Comptuex Series August 2001 – February 2002 <i>Cancelled</i>	<u>Australia</u> Air Force	Objective: Combined maritime warfare exercise with United States Commander-in-Chief Pacific Fleet forces, with an undersea warfare focus. RAAF maritime patrol aircraft participate to maintain operational preparedness directive training objectives. Performance: Not Achieved. Both participants cancelled the Comptuex Series due to operational commitments.
Lungfish 01⁽²⁾ August 2001 <i>Conducted</i>	<u>Australia</u> Navy, Air Force	Objective: To practise undersea warfare, with joint and independent maritime patrol aircraft cooperation, and to practise and develop combined RAN/United States Navy submarine operations. Performance: Achieved. A successful exercise with a US nuclear submarine provided extremely beneficial undersea warfare training.
Pacific Bond 01 September 2001 <i>Conducted</i>	<u>Australia</u> Army	Objective: To further enhance interoperability between the Australian Army and the United States Army by conducting a field training exercise. Performance: Achieved. The exercise was conducted successfully and met objectives. Interoperability between the participating United States and Australian forces was confirmed.
Day Cougar 01, 02 September 2001 <i>Conducted</i> May–June 2002 <i>Cancelled</i>	<u>Australia</u> Army	Objective: To develop and maintain interoperability between Australian and United States Special Forces conducting combined special recovery operations. Performance: Achieved. Exercise Day Cougar 01 was conducted successfully, improving interoperability between Australian and US Special Forces in special recovery operations. Not Achieved. Exercise Day Cougar 02 was cancelled by the US due to Operation Enduring Freedom operational priorities.
Dugong 01 October – November 2001 <i>Cancelled</i>	Australia Navy	Objective: To conduct combined mine countermeasures operations. Performance: Not Achieved. The exercise was cancelled due to operational commitments.

Exercise	Forces	Objective and Performance
Aces North ⁽³⁾ November 2001 Conducted	<u>Australia</u> Air Force	Objective: To provide combat training in a combined air exercise, the culmination of the F/A-18 fighter combat instructors course. Performance: Achieved. The exercise provided realistic operational training. The skills gained allowed crews to progress to combined operations. The exercise also validated the F-111's weapon platform and provided a challenging scenario for participants.
Emu Moon (East) 02 February 2002 Cancelled	<u>Australia</u> Army, Air Force	Objective: To fulfil operational level of capability requirements for commando parachuting and airborne insertion and extraction techniques, and to conduct initial and continuation training for RAAF C-130 aircrews. Performance: Not Achieved. The exercise was cancelled due to the unavailability of supporting air assets. Training requirements were met as air assets became available outside the scope of this exercise.
Emu Moon (West) 02 March 2002 Cancelled	<u>Australia</u> Army, Air Force	Objective: To fulfil operational level of capability requirements for the Special Air Services Regiment parachuting and airborne insertion and extraction techniques, and to conduct initial and continuation training for RAAF C-130 aircrews. Performance: Not Achieved. The exercise was cancelled due to operational commitments of both US and Australian forces.

Note

1. Exercises Extendex 01 & 02 were erroneously reported in the *Portfolio Additional Estimates Statements 2001-02* as being cancelled in its entirety.
2. Exercise Lungfish 01 was erroneously reported in the *Portfolio Additional Estimates Statements 2001-02* as cancelled.
3. Exercise Aces North was erroneously reported in the *Portfolio Additional Estimates Statements 2001-02* as cancelled.

Table 2.9: Combined ADF and Five Power Defence Arrangements Countries

Exercise	Forces	Objective and Performance
Stardex 01 September 2001 Conducted	<u>Australia</u> Navy, Army, Air Force <u>Other Countries</u> Malaysia, Singapore, New Zealand, United Kingdom	Objective: To practise combined operations requiring interoperability at a tactical level in a Five Power Defence Arrangements Integrated Air Defence System environment. Performance: Partially Achieved. Three RAN ships and two RAAF P-3C aircraft were unavailable for Exercise Stardex 01, significantly affecting the exercise. As a result, the conduct of combined and joint operations in a multi-threat scenario was partially achieved. Practice of procedures for Five Power Defence Arrangements logistic interoperability was not achieved.
Suman Warrior 01 October 2001 Conducted	<u>Australia</u> Army <u>Other Countries</u> Malaysia, United Kingdom, New Zealand, Singapore	Objective: To exercise the armies of the Five Power Defence Arrangements in combined operations by conducting a brigade to unit-level command post exercise. Performance: Achieved. The exercise developed interoperability, extended individual and collective knowledge, practised command and staff procedures within a multi-national brigade setting, and fostered better understanding and closer relationships.
IADS ADEX 02 April–May 2002 Conducted	<u>Australia</u> Navy, Air Force <u>Other Countries</u> Malaysia, Singapore, New Zealand, United Kingdom	Objective: To practise and develop operational procedures and tactics with Five Power Defence Arrangements units in a joint/combined maritime and air defence exercise. Performance: Achieved. The exercise was conducted successfully, although RAN ship participation did not occur. Tropical, mountainous terrain, maritime and land strike operations were conducted and further development of interoperability between Five Power Defence Arrangements forces was achieved.

Table 2.10: Combined Exercises Involving the ADF and New Zealand

Exercise	Forces	Objective and Performance
ASWEX 01 November 2001 <i>Cancelled</i>	<u>Australia</u> Navy, Air Force	Objective: To practise collective ADF undersea warfare concepts, tactics and procedures. Performance: Not Achieved. The exercise was cancelled due to the unavailability of assets and other operational commitments.
Ocean Protector 02-1 February 2002 <i>Cancelled</i>	<u>Australia</u> Navy, Air Force	Objective: To return the surface combatant, major amphibious and afloat support, submarine and mine counter measures force element groups to the minimum level of capability following a reduced activity period. Performance: Not Achieved. This exercise was cancelled. The exercise was not required as participants had not reverted to a reduced activity period.
Tasman Reserve 02 February 2002 <i>Cancelled</i>	<u>Australia</u> Army	Objective: To practise combined operations at the tactical level between part-time elements of the Australian and New Zealand armies. Performance: Not Achieved. The New Zealand Defence Force unit was not available to participate in the exercise.
Anzac Series 02 March–May 2002 <i>Conducted</i>	<u>Australia</u> Army	Objective: To broaden the military experience and knowledge of selected personnel and promote cooperation between the two countries. Performance: Achieved. The 2002 Anzac Series of exchanges between Australian and New Zealand personnel was conducted successfully and met all objectives.
Night Kiwi 02 April 2002 <i>Cancelled</i>	<u>Australia</u> Army	Objective: To practise deployment and develop interoperability at a tactical level with elements of the New Zealand Special Forces. Performance: Not Achieved. The exercise was cancelled as Australia participated in a New Zealand exercise in its place.

Table 2.11: Combined Exercises Involving the ADF and Other Countries

Exercise	Forces	Objective and Performance
Maple Flag 01 May–July 2001 <i>Conducted</i>	<u>Australia</u> Air Force <u>Other Countries</u> Canada, United States	Objective: To conduct a long-range deployment of aircraft to participate in a multi-national large force employment training exercise. Performance: Achieved. The exercise provided an excellent opportunity for RAAF aircrews to partake in, and gain exposure to, large force coalition operations. RAAF aircrews performed well in the multi-national exercise against a credible threat.
Wyvern Sun 01 June – July 2001 <i>Conducted</i>	<u>Australia</u> Army <u>Other Countries</u> Thailand	Objective: To exercise relevant ADF and other Australian government agencies in special recovery operations in an offshore setting. Performance: Achieved. The exercise was successfully conducted as a special recovery exercise in Thailand.
Long Look 01, 02 June – September 2001 <i>Conducted</i> June–September 2002 <i>In progress</i>	<u>Australia</u> Army <u>Other Countries</u> United Kingdom	Objective: To broaden the military experience and knowledge of selected personnel and to promote cooperation between the two countries. Performance: Achieved. Participants were exposed to a variety of exercises that were different in scale, nature and environment to those often available in Australia. This access to training, equipment and systems not available in Australia was a particular benefit.

Exercise	Forces	Objective and Performance
Focused Logistics Wargame 01 June – October 2001 Conducted	<u>Australia</u> Navy, Army, Air Force <u>Other Countries</u> United States, United Kingdom, Canada	Objective: To facilitate Australian input into United States multilateral logistics objectives identified in Joint Vision 2010. Performance: Achieved. The exercise provided an excellent opportunity for rigorous analysis of the ability of current and future ADF support concepts to meet operational demands. Australia's participation has initiated a number of actions likely to offer benefits to ADF operational techniques, processes and doctrine, and the opportunity to utilise military response options in realistic scenarios that enable analysis of ADF logistic systems and processes.
Minor War Vessel Fleet Concentration Period July 2001 Conducted June 2002 Cancelled	<u>Australia</u> Navy <u>Other Countries</u> France	Objective: To increase mariner and warfighting skills of the Patrol Boat Force Element Group, while contributing to international relations. Performance: Achieved. A high level of participation was achieved for the July 2001 Concentration Period. The multi-ship work-up, weapons training and subsequent war exercise were successful. Patrol Boat, Hydrographic and Amphibious Force Element Groups' warfighting skills were increased and a minimum level of capability was maintained. International relations were also enhanced. Not Achieved. The Concentration Period for June 2002 was cancelled due to operational commitments for the Patrol Boat Force.
Vigilant Shield July 2001 Conducted	<u>Australia</u> Navy, Army, Air Force <u>Other Countries</u> United States, United Kingdom, Canada	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. Performance: Achieved. The exercise was successfully conducted, validating the capability to conduct intelligence operations in a combined or coalition force.
Haringaroo 01-1 July 2001 Conducted	<u>Australia</u> Army <u>Other Countries</u> Malaysia	Objective: To practise combined operations requiring interoperability at a tactical level with elements of the Malaysian Army. Performance: Partially Achieved. Australian participation was withdrawn early due to pollution from forest fires in Malaysia.
Kakadu V/01 July–August 2001 Conducted	<u>Australia</u> Navy, Air Force <u>Other Countries</u> New Zealand, Papua New Guinea, Malaysia, Thailand, Philippines, Singapore, Brunei. <u>Observers</u> Japan and Republic of Korea	Objective: To conduct a series of graduated training activities with regional naval and air forces in all areas of maritime warfare, in order to improve preparedness, interoperability and mutual understanding. Performance: Partially Achieved. The non-availability of a submarine affected the conduct of undersea warfare capabilities. A very high standard was quickly achieved in air warfare. The complementary capabilities of the RAN, Royal New Zealand Navy, Royal Malaysian Navy and Republic of Singapore Navy ships in air warfare were well exploited.
Rifle Company Butterworth July 2001–June 2002 Conducted	<u>Australia</u> Army <u>Other Countries</u> Malaysia	Objective: To provide an opportunity for training and exercising in Malaysia and to train with elements of the Malaysian Armed Forces. Performance: Achieved. This is an ongoing program of activity providing exposure to an environment not available in Australia. Participants rotate on a three-monthly basis to conduct training and participate in exercises with the Malaysian Armed Forces.

Exercise	Forces	Objective and Performance
Tamex Series July – September 2001, October – December 2001, January – March 2002, April – June 2002 Cancelled	<u>Australia</u> Navy, Air Force <u>Other Countries</u> United States, New Zealand	Objective: To maintain proficiency in undersea warfare operations in a combined basic air, undersea warfare exercise with the Royal New Zealand Air Force or the United States Navy. Performance: Not Achieved. The exercise was cancelled as planned opportunities could not be utilised due to the non-availability of submarine and aircraft assets.
Highland Pursuit 01, 02 August 2001, April – May 2002 Cancelled	<u>Australia</u> Army <u>Other countries</u> Papua New Guinea	Objective: To deploy and operate helicopters in the high altitude and hot weather conditions of Papua New Guinea and for pilots to gain high-altitude operating proficiency. Performance: Not Achieved. The exercises were cancelled due to security concerns in Papua New Guinea and preparations for the Papua New Guinea election.
Churinga 01-2 September 2001 Conducted	<u>Australia</u> Air Force <u>Other Countries</u> Malaysia, Singapore	Objective: To deploy RAAF assets to fulfil Integrated Air Defence System commitments to the defence of the Malay peninsula and Singapore. Performance: Achieved. RAAF assets deployed and Integrated Air Defence System commitments were fulfilled. This bilateral training was conducted concurrently with Exercise Stardex 01.
Marcot 01 September – October 2001 Cancelled	<u>Australia</u> Air Force <u>Other Countries</u> United States, Canada	Objective: To practise the conduct of air and sea control operations within littoral waters during periods of tension and undeclared hostilities. Performance: Not Achieved. The exercise was cancelled due to operational commitments.
Temple Jade 01 August–September 2001 Conducted	<u>Australia</u> Army <u>Other Countries</u> Thailand	Objective: To enhance interoperability between Australian Army and Royal Thai Army sub-units at the tactical level. Performance: Achieved. The exercise was a valuable experience for the Australian Army company that participated, prior to deployment on Operation Tanager. The exercise confirmed that an Australian company could successfully integrate with a Royal Thai Army battalion. Interoperability was enhanced.
Longreach 01 October 2001 Conducted	<u>Australia</u> Army, Deployable Joint Force Headquarters <u>Other Countries</u> Papua New Guinea	Objective: To practise the Deployable Joint Force Headquarters in contingency, operational and combined planning procedures in conducting potential humanitarian assistance missions. 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 Papua New Guinea. The success of this exercise will benefit future combined operations planning with the Papua New Guinea Defence Force.
Bullseye October 2001 Cancelled	<u>Australia</u> Air Force <u>Other Countries</u> Canada, New Zealand, United Kingdom	Objective: To enhance tactical transport interoperability. Performance: Not Achieved. Participation in the exercise was cancelled due to operational commitments.
Multinational Fleet Concentration Period October 2001 Cancelled	<u>Australia</u> Navy, Air Force <u>Other Countries</u> United States, United Kingdom	Objective: To develop strong multinational professional ties with visiting navies following the Centenary of Federation Fleet Review (4-6 October 2001). Performance: Not Achieved. Following the cancellation of the Centenary of Federation Fleet Review, the Concentration Period was cancelled.

Exercise	Forces	Objective and Performance
Fleetex 02-1 October 2001 Cancelled	<u>Australia</u> Air Force <u>Other Countries</u> United States, Canada	Objective: To practise undersea and surface warfare as part of a combined taskforce. Performance: Not Achieved. Participation in the exercise was cancelled due to operational commitments.
Southern Tiger 01 October 2001 Cancelled	<u>Australia</u> Army <u>Other Countries</u> Malaysia	Objective: To enhance interoperability between the Australian and Malaysian armies at the tactical level. Performance: Not Achieved. The exercise was cancelled. This activity may be rescheduled when funding issues are resolved.
Star Leopard 01 October 2001 Cancelled	<u>Australia</u> Army <u>Other Countries</u> Brunei	Objective: To undertake bilateral special forces training with Royal Brunei Armed Forces. Performance: Not Achieved. Brunei cancelled the exercise due to operational commitments.
Paradise 01 ⁽¹⁾ August 2001 Conducted	<u>Australia</u> Navy <u>Other Countries</u> Papua New Guinea	Objective: To improve interoperability by conducting an annual maritime surveillance exercise between the Papua New Guinea Defence Force and RAN patrol boat elements. Performance: Achieved. Papua New Guinea Defence Force gained considerable benefit from Navy staff participation in this exercise.
JTFEX 02-1 November 2001 Cancelled	<u>Australia</u> Air Force <u>Other Countries</u> United States, United Kingdom, Canada	Objective: To exercise undersea and surface warfare as part of a combined taskforce. Performance: Not Achieved. Participation in the exercise was cancelled due to operational commitments.
Night Falcon 01 November 2001 Conducted	<u>Australia</u> Army <u>Other Countries</u> Papua New Guinea	Objective: To practise regional deployment of a Special Air Services Regiment force element and to conduct war-roles training in a challenging regional location. Performance: Partially Achieved. The exercise was limited to a staff visit in 2001 due to operational commitments.
Taa Nok In Sii December 2001 – April 2002 Conducted	<u>Australia</u> Air Force <u>Other Countries</u> Thailand	Objective: To progressively develop Royal Thai Navy maritime air surveillance capability and, at the same time, combined Royal Thai Navy-RAAF surveillance procedures. Performance: Achieved. The Royal Thai Navy gained considerable value from the maintenance training delivered. The exercise continues to build interoperability between the RAAF and the Royal Thai Navy for maritime patrol aircraft operations.
Croix du Sud October – November 2001 Cancelled	<u>Australia</u> Navy, Air Force <u>Other Countries</u> France, New Zealand	Objective: To improve interoperability with France and New Zealand in a combined maritime training exercise. Performance: Not Achieved. The exercise was cancelled due to scheduling difficulties.
Tasmanex 2002 March 2002 Cancelled	<u>Australia</u> Navy, Air Force <u>Other Countries</u> France, New Zealand	Objective: To develop interoperability between naval units. Performance: Not Achieved. The exercise was cancelled due to operational commitments.

Note

1. Exercise Paradise 01 was erroneously reported in the *Portfolio Additional Estimates Statements 2001-02* as cancelled.

Exercise	Forces	Objective and Performance
Cassowary 02-1 April 2002 <i>Cancelled</i>	<u>Australia</u> Navy <u>Other Countries</u> Indonesia	Objective: To exercise RAN/Indonesian patrol boats in combined operations, with the primary focus being coordinated maritime surveillance. Performance: Not Achieved. The exercise series is in abeyance due to Australian Government direction.
Haringaroo 02-1 April 2002 <i>Cancelled</i>	<u>Australia</u> Army <u>Other Countries</u> Malaysia	Objective: To practise combined operations requiring interoperability at a tactical level with elements of the Malaysian Army. Performance: Not Achieved. The exercise was cancelled due to withdrawal of Malaysian participation.
Pacific Kukri April – May 2002 <i>Conducted</i>	<u>Australia</u> Army <u>Other Countries</u> United Kingdom	Objective: To enhance regional relations by hosting United Kingdom Gurkha unilateral training at High Range Training Area, Townsville. Performance: Achieved. The exercise was conducted successfully and provided valuable training for offensive operations in an unfamiliar theatre.
Mallee Bull 02 April – May 2002 <i>Conducted</i>	<u>Australia</u> Army <u>Other Countries</u> Brunei	Objective: To further develop interoperability between the Australian Army and the Royal Brunei Armed Forces. Performance: Achieved. The exercise was a unique experience providing training in an arduous and unfamiliar environment. A working knowledge of Royal Brunei Armed Forces operational, logistic and administrative procedures was attained.
Joint Warrior Interoperability Demonstrator 02 April – May 2002 <i>Conducted</i>	<u>Australia</u> Navy, Army, Air Force <u>Other Countries</u> NATO, Canada, New Zealand, United Kingdom, United States	Objective: To provide a forum for Defence and industry to explore new and evolving concepts and demonstrate emerging technologies in a simulated operational environment. Performance: Achieved. The exercise was conducted successfully, providing an excellent opportunity to interact with other defence forces and explore emerging technologies.
Dawn Caracha 02 May – June 2002 <i>Conducted</i>	<u>Australia</u> Army <u>Other Countries</u> Philippines	Objective: To conduct counter-hijack training with Philippines Special Forces to enhance regional counter-hijack interoperability. Performance: Achieved. The exercise was conducted successfully with the Philippines Special Forces.
Dawn Panther 02 June 2002 <i>Conducted</i>	<u>Australia</u> Army <u>Other Countries</u> Thailand	Objective: To conduct counter-hijack training with Thai Special Forces to enhance regional counter-hijack interoperability. Performance: Achieved. The exercise was conducted successfully with the Thai Special Forces.
Night Panther 02 June 2002 <i>Cancelled</i>	<u>Australia</u> Army <u>Other Countries</u> Thailand	Objective: To practise deployment and develop interoperability at a tactical level with elements of the Thai Special Forces. Performance: Not Achieved. The exercise was cancelled due to operational commitments.
Rimpac 02 June – July 2002 <i>In progress</i>	<u>Australia</u> Navy, Air Force <u>Other Countries</u> United States, Canada, South Korea, Chile, Japan, United Kingdom	Objective: To enhance the interoperability and proficiency of maritime and air forces to operate in coalition arrangements centred on realistic short-warning littoral operations. Performance: Currently in progress. Commitment to the exercise has been considerably reduced due to the demands of other operational commitments.

OUTPUT TWO: NAVY CAPABILITIES

The Navy provides 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 year has seen the Navy achieve routine and operational goals, including its commitment to a range of demanding operations, including:

- Operation Slipper – ADF support to the war on terrorism;
- Operation Cranberry – ADF support to Coastwatch civil surveillance of the Australian fishing zone;
- Operation Trek – support to the international peacekeeping team to promote stability in the Solomon Islands;
- Operation Mistral – support to Australian sovereign rights and fisheries law enforcement in the Southern Ocean;
- Operation Sutton – enforcement of Australian sovereign rights and fisheries law in the Heard Island – McDonald island Exclusive economic Zone;
- Operation Bel Isi II – ADF support to the regional peace monitoring group monitoring the cease-fire on Bougainville; and
- Operations Relex I and II – ADF support to the whole-of-government approach to deter unauthorised boat arrivals.

The provision of major fleet units to help enforce United Nations sanctions against Iraq has increased levels of interoperability between the Navy and allied forces.

Navy submarine and mine warfare forces are achieving superior capability to their counterparts in regional navies. Planned enhancements will maintain an advantage over the next five years. Diving and navigation systems, currently under procurement for the clearance diving teams, will improve the Navy's ability to detect mines and obstacles and maintain the mine warfare and clearance diving group's position as the most capable regional mine warfare force.

NAVAL TASKS

The types of tasks which the Navy is able to contribute to include:

Performance Targets	Performance
Controlling sea approaches to Australia and associated littoral areas	Achieved. Operations Relex I and II have been 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, has limited the ability 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 has maintained the ability to conduct lower-level operations.
Protecting land forces committed to lower level operations	Achieved. The Navy has 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 of the ships' weapons.
Contributing to coalitions in higher intensity operations against well-armed adversaries	Achieved. Navy units have maintained a high degree of interoperability with allied forces through participation in Operation Slipper and in 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 were provided, whenever requested, 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 42 per cent from planned levels. Public access to oceanographic information managed by the Navy was modified to meet national requirements for fundamental data sets as identified in the Commonwealth spatial data policy of September 2001.

MITIGATION OF KEY RISKS

PERSONNEL

Navy strategies to improve recruitment and retention resulted in continued improvement in these areas during the year. The Navy's full-time workforce grew by 2.4 per cent, which compared favourably to net losses of 5.6 per cent in 1999-2000 and 1.4 per cent in 2000-01. Full-time recruiting achievement increased to 85 per cent in 2001-02, from 53 per cent in 1999-2000 and 74 per cent in 2000-01. The Navy's training force is currently the largest it has been since 1995. Over the past year, the Navy's separation rate has reduced from 12.7 per cent to 11.2 per cent.

While the overall Navy workforce situation continues to improve, there remains a shortfall of approximately 1,200 personnel. This includes some critical shortages in particular professions and trades. At the current levels of recruiting and retention, it will take at least four years to overcome these shortages.

The Navy's strategy is to retain the focus on recruiting and retention initiatives that have resulted in the improving situation. Additional efforts are being applied to address the shortfalls in recruiting and retention of critical professions and trades.

LOGISTICS

Logistics shortfalls in some areas continue to challenge the Navy's ability to support current force structure and preparedness. The level of risk is continually monitored and reprioritisation of logistic resources is undertaken where necessary.

OPERATIONS

The Navy's commitments to current operations are placing a high demand on available resources for which reconstitution will be necessary. Reconstitution is the process to restore capability and preparedness allowing for leave, maintenance, reconfiguration, training and work-up. During the reconstitution phase, capability is placed at a lower state of readiness. Planning for reconstitution is in progress.

FORCE STRUCTURE

MAJOR SURFACE COMBATANT FORCE

Entails a capability for major surface combatant operations, consisting of six Adelaide-class guided missile frigates and three Anzac-class frigates, rising to eight.

Achieved. The six guided missile frigates will be progressively upgraded from mid-2003. HMAS *Stuart*, the fourth Anzac-class frigate, was commissioned on 19 August 2002. The last of the eight Anzac-class frigates is expected to be commissioned in 2006.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. Levels were met in accordance with current preparedness directives.</p> <p>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.</p>
<p>Quantity: 6 guided missile frigates – 1,329 FMC days¹ 1 destroyer – 77 FMC days 3 frigates – 546 FMC days</p>	<p>6 guided missile frigates - 1,285 FMC days. Current operations required the installation of additional equipment at home bases, which reduced available FMC days. 1 destroyer - 72 FMC days. Five days were lost due to a system defect. HMAS <i>Brisbane</i> was decommissioned on 19 October 2001. 3 frigates – 557 FMC days.</p>

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.

NAVY AVIATION FORCE

Entails 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. Ongoing support of operational commitments has required both the Seahawks and the Sea Kings to perform well in excess of routine requirements. In regard to the Super Seasprites, Commonwealth interim acceptance of the training capability for the helicopters is scheduled for mid 2003, subject to satisfactory progress by contractors.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. Levels were met in accordance with current preparedness directives.</p> <p>Achieved. Levels were met in accordance with current preparedness directives.</p>
<p>Quantity: 12 Squirrels - 4,000 hours 7 Sea Kings - 2,000 hours 16 Seahawks – 4,600 hours 11 Super Seasprites – 0 Hours 15 Kalkaras – 39 launches</p>	<p>12 Squirrels² – 3,788 hours. The shortfall was due to constrained logistics support and poor weather.</p> <p>7 Sea Kings³ – 2,154 hours. The overfly was due to ongoing operational commitments.</p> <p>16 Seahawks⁴ – 3,931 hours. The ships' flights and squadron staffing were constrained due to ongoing pilot and observer shortages. In addition, flying hours for training were constrained by aircraft availability ashore. During periods of 2001-02, up to eight aircraft were in, or awaiting, deep maintenance.</p> <p>0 Super Seasprites – 0 hours. A possibility of interim acceptance for the airframe during 2001-02 did not eventuate. Commonwealth interim acceptance of training capability helicopters is now expected in mid 2003. The acceptance of full capability helicopters is scheduled for December 2004.</p> <p>14 Kalkaras – 20 launches. Kalkara is an unmanned aerial target system used for fleet support. The anticipated attrition rate for Kalkara is two, from all causes, per contract year. Kalkara began 2001-02 with 17 aircraft. Three aircraft were lost during the year, two during operations, and one through a planned direct missile engagement, during new missile type acceptance testing. Kalkara flights were restricted due to the suspension of operations following the loss of two aircraft and reduced Air Force and Navy requirements.</p>

2. Two additional Squirrels have been received from ex-Army aircraft that were awaiting disposal. The first replaces an aircraft lost in an accident in May 2001, while the second aircraft is held for attrition. The second aircraft is not part of the training force.

3. Due to the current operational tempo, the Sea Kings are operating with little, or no flexibility, in fleet availability.

4. The last of the four attrition/reserve aircraft was brought into service in March 2002.

PATROL BOAT FORCE

Entails a capability for patrol boat operations consisting of Fremantle-class patrol boats. Transition from the Fremantle-class patrol boats to the replacement patrol boat will take place between 2004-07.

Achieved. Fremantle-class patrol boats provided 2,103 patrol boat days in support of Operations Relex I and II and Cranberry, which was in excess of the 1,800 days required in support of the civil surveillance program. The Minister for Defence announced in June 2002 that three companies had been short-listed to tender for the supply of the replacement patrol boat.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. Levels were met in accordance with current preparedness directives.</p> <p>Achieved. Operational units within the patrol boat force achieved a level of training that maintained core skills and professional standards.</p>
<p>Quantity: 15 patrol boats – 2,773 FMC days</p> <p>Provide 1,800 patrol boat days in support of the Civil Surveillance Program</p>	<p>15 patrol boats – 2,655 FMC days. The under-achievement was due to shortages of key personnel in the first quarter, hull defects impacting on the maintenance periods for HMA Ships <i>Fremantle</i> and <i>Wollongong</i>, and minor defects.</p> <p>2,103 patrol boat days were achieved in support of Operations Relex I and II and Cranberry.</p>

SUBMARINE FORCE

Entails a capability for submarine operations consisting of five Collins-class submarines, rising to six.

Partially Achieved. Four submarines were available in 2001-02. HMAS *Collins* commenced the first full-cycle docking (refit) for the class in February 2001. Submarine 06 *Rankin* is expected to be provisionally accepted by the Navy in the first half of 2003.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially Achieved. Due to training, equipment and reliability deficiencies and the current limited capability of the class, CDF preparedness levels were only partially achieved.</p> <p>Substantially Achieved. With the exception of training in maritime support operations, all warfare core skills and professional standards were maintained.</p>
<p>Quantity: 5 Collins – 780 FMC days</p>	<p>5 Collins – 370 FMC days. The full 780 FMC days were not achieved due to the non-availability of HMAS <i>Collins</i> for the reporting period. HMAS <i>Waller</i> was unable to achieve weapons certification in 2001-02 due to other competing programming priorities and a battery compartment corrosion defect. HMAS <i>Sheean</i> completed a reduced operational availability to allow a combat system upgrade.</p>

AFLOAT SUPPORT FORCE

Entails a capability for afloat support consisting of 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
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. Levels were met in accordance with current preparedness directives. Achieved. Levels were met in accordance with current preparedness directives.</p>
<p>Quantity: 1 replenishment ship – 140 FMC days 1 oil tanker – 308 FMC days</p>	<p>1 replenishment ship – 42 FMC days. The loss of FMC days was due to the extension of HMAS <i>Success</i>' refit period. 1 oil tanker – 308 FMC days.</p>

MINE WARFARE FORCE

Entails a capability for mine warfare consisting of four Huon-class coastal mine hunters and three auxiliary mine sweepers. A total of six coastal mine hunters will be available in the near future.

Achieved. Five Huon-class coastal mine hunters provided the mine warfare capability with the three auxiliary mine sweepers providing essential support and training capability. HMAS *Diamantina*, the fifth Huon-class mine hunter, was commissioned on 4 May 2002, while the sixth mine hunter is to be commissioned during 2002-03.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Substantially Achieved. Reduced underwater explosive ordnance disposal capability, relating to equipment issues, affected the clearance diving teams' preparedness level. Achieved. Operational units, within the mine warfare force, achieved a level of training that maintains core skills and professional standards.</p>
<p>Quantity: 4 coastal mine hunters – 387 FMC days 2 clearance diving teams – 646 FMC days 3 auxiliary mine sweepers - 378 FMC days 2 inshore mine hunters – 0 FMC days</p>	<p>4 coastal mine hunters – 392 FMC days. 2 clearance diving teams – 646 FMC days. 3 auxiliary mine sweepers – 0 FMC days. The operational state for the three auxiliary mine sweepers in their mine sweeping role is limited, with essential equipment required for the role not fitted. <i>Bandicoot</i> and <i>Wallaroo</i> were tasked to provide support for Operation Bel Isi II, while <i>Brolga</i> was utilised in a limited training role. 2 inshore mine hunters – 0 FMC days - Both vessels decommissioned on 14 August 2001.</p>

AMPHIBIOUS LIFT FORCE

Entails a capability for amphibious lift, consisting of two amphibious landing ships, a heavy landing ship, and six heavy landing craft.

Achieved. All amphibious ships have been heavily committed to Operations Slipper and Relex I and II, resulting in a reduction in joint training opportunities.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. Levels were met in accordance with current preparedness directives.</p> <p>Partially Achieved. The increased rate of effort has led to a reduction in opportunities for joint training, which may threaten maintenance of current standards.</p>
<p>Quantity: 1 heavy landing ship – 259 FMC days 2 amphibious landing ships – 504 FMC days 6 heavy landing craft – 1,379 FMC days</p>	<p>1 heavy landing ship – 126 FMC days. The partial achievement of FMC quantity by HMAS <i>Tobruk</i> was due to delays, caused by essential unplanned maintenance periods and the subsequent delay in the ship's operational evaluation. Additionally, <i>Tobruk</i> provided 185 days in support of Operation Relex II.⁵</p> <p>2 amphibious landing ships – 485 FMC days. The days lost were due to an extension of the maintenance period for HMAS <i>Manoora</i>.</p> <p>6 heavy landing craft – 1,019 FMC days. FMC achievement was restricted, due to delays in completing the life-of-type extension program.</p>

HYDROGRAPHIC FORCE

Entails a capability for hydrographic and oceanographic operations consisting of two hydrographic ships, four survey motor launches and one laser airborne depth sounding aircraft.

Partially Achieved. The two hydrographic ships and their embarked survey motor boats have yet to achieve formal acceptance. This was delayed by sea-keeping and systems deficiencies and an inability to progress trials, due to operational duties. 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 will be addressed under project upgrades for the survey motor launches and survey motor boats. The laser airborne depth sounder remained operational throughout the year, though a defect in the inertial navigation system restricted operations to daylight only and in close proximity to land.

Performance Target	Performance
<p>Quality: Achieve levels of preparedness directed by CDF 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. The Hydrographic Office Detached Survey Unit's availability was restricted from April 2002, due to personnel shortages. Real-time meteorological and oceanographic support was provided through Fleet and Naval Air Station Nowra Weather and Oceanographic Centres. Deployed support provided Command with access to specialist meteorological advice.</p>

5. *Tobruk* was unable to complete the formal operational assessment to qualify the ship for FMC due to programming delays. However, the ship was assessed as capable in mariner skills, which allowed its participation in Operation Relex II.

Performance Target	Performance
<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>Achieve endorsed data collection and production targets</p>	<p>Partially Achieved. Core skills were maintained in all units except hydrographic crews. Skills were degraded in these crews due to ongoing Operations Relex I and II tasking and lack of opportunity to conduct any significant survey tasks. Core skills were maintained for meteorological personnel.</p> <p>Partially Achieved. Hydrographic data collection was reduced by 42 per cent from planned due to involvement of hydrographic ships in Operation Relex from October 2001. Chart production targets were met. Meteorological data collection and production targets were substantially achieved.</p>
<p>Quantity:</p> <p>2 hydrographic ships – 600 FMC days</p> <p>4 survey motor launches –1,140 FMC days</p> <p>1 Hydrographic Office Detached Survey Unit – availability 300 days, planned deployments 90 days</p> <p>1 laser airborne depth sounder flight – 1,050 flying hours for survey activity spread across 226 FMC days⁶</p> <p>The Australian Hydrographic Office - maintain the extant Australian chart series, military geospatial information products and compile 30 charts including electronic navigational chart equivalents</p>	<p>2 hydrographic ships – 627 FMC days were achieved. These days were divided between 176 days in the hydrographic role and 451 days in support of Operation Relex II.</p> <p>4 survey motor launches – 1,012 FMC days. Two ships incurred two weeks additional maintenance. In addition, one ship was affected by delays in the delivery of engines from refurbishment, but planned sea days were not affected. The remainder of the under-achievement was due to short-term defects and personnel shortages.</p> <p>1 Hydrographic Office Detached Survey Unit – availability 270 days and 84 deployment days. Thirty days of availability were lost due to personnel shortages. The Antarctic deployment was shortened by one week, due to the rescheduling of the Antarctic supply ship.</p> <p>1 laser airborne depth sounder flight – 788 flying hours for survey activity spread across 219 FMC days. Sixty-seven hours were lost due to defects and 65 hours were lost due to poor weather.</p> <p>Forty-three new charts/new editions were produced and published. Fifty-seven new charts/new editions were produced and published in 2000-01.</p>

6. The 1,050 hours refers to the contracted maximum number of flying hours that are required to be provided.

PRICE TO GOVERNMENT

Table 2.12: Price of Output Two – Navy Capabilities

	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Result	Variation
	\$m	\$m	\$m	\$m
Operating Expenses				
Employee Expenses - Military	1,092	1,156	1,063	-93
Employee Expenses - Civilian	290	277	269	-8
Supplier Expenses - Non-Inventory	1,217	1,189	1,133	-56
Supplier Expenses - Inventory Consumption	261	211	150	-61
Depreciation and Amortisation	932	956	914	-42
Write down of assets	115	132	574	442
Other Expenses	4	9	6	-3
Total Operating Expenses	3,911	3,930	4,109	179
Capital Use Charge	1,846	1,846	1,912	66
Total Cost of Output	5,757	5,776	6,021	245
<i>Less:</i> Own-source Revenue	105	92	76	-16
<i>Less:</i> Assets Now Recognised	0	0	149	149
Price to Government	5,652	5,684	5,796	112

EXPLANATION OF SIGNIFICANT VARIATIONS

The actual price for Output Two was \$112m more than the revised estimate. A significant proportion of the variation related to technical accounting adjustments including a write-down of assets (\$442m), increased revenue from assets now recognised (\$149m) and a variation in the capital use charge (\$66m). The increases in the write-down of assets and revenue from assets now recognised are explained in Notes 14 and 8 of the financial statements.

The variation of -\$93m in military employees and -\$56m in suppliers – non-inventory largely reflects improvements in the methodology for the attribution of costs to the six Defence outputs.

The lower than expected result in inventory consumption was due to an initial over-allocation that was subsequently corrected post-revised estimates.

In respect of the variation for depreciation and amortisation, HMA Ships *Stuart* and *Diamantina* were budgeted to be provisionally accepted into service in August and November 2001. These vessels were provisionally accepted in April and June 2002 respectively, making the associated in-service costs lower than planned.

Another issue affecting the Output Two result is related to the current tempo of operations. Budgets for operations were held by Output One, whereas the actual result relating to the Navy is shown against Output Two.

OUTPUT THREE: ARMY CAPABILITIES

The Army contributed to the achievement of the Government's Defence outcome through the provision of capabilities for land operations. Army capabilities comprise special forces operations, mechanised operations, light infantry operations, army aviation operations, ground-based air defence, combat support operations, regional surveillance, logistic support operations, motorised operations and protective operations.

The Army provided land forces that contributed to the maintenance of the priority for the ADF's capability, within a primarily maritime strategy, to defend Australian territory from any credible attack, contribute to the security of our immediate neighbourhood and contribute effectively to international coalitions of forces to meet crises beyond Australia's immediate neighbourhood where Australian interests are engaged. The Army also provided forces for peacetime national tasks, including counter terrorist and chemical, biological, radiological and explosive incident response operations.

PERFORMANCE SUMMARY

2001-02 saw a continuation of high levels of operational activity involving the Australian Army. The land forces were deployed on operations in Afghanistan (Operation Slipper), East Timor (Operation Tanager/Citadel), Papua New Guinea (Operation Bel Isi II), Solomon Islands (Operation Trek), Middle East (Operations Paladin and Mazurka), Africa (Operations Pomelo, Coracle and Husky), Europe (Operation Osier) and in Australia monitoring unauthorised boat arrivals (Operations Relex I, Relex II and Cranberry).

The land forces demonstrated their ability to contribute substantially to supporting the security of Australia's immediate neighbourhood, to be capable of supporting the maritime strategy, and to contribute to coalition operations further afield, through their involvement in operations such as those in East Timor and Afghanistan. These operations continue to demonstrate the high standards of training, skills and capability inherent in the Army.

In addition, the Army deployed in support of activities such as the Commonwealth Heads of Government Meeting and Aboriginal and Torres Strait Islander Commission/Army Community Assistance Program. The Army completed a number of exercises which demonstrated the land forces ability to operate as part of a joint and combined coalition force.

The Special Forces Group has doubled its domestic counter terrorist capability with the raising of a Tactical Assault Group on the east coast of Australia. The Special Air Service Regiment has proven its special reconnaissance, offensive operations and support operations capabilities to be extremely effective in the war against terrorism in Afghanistan.

The Army is also in the process of increasing its chemical, biological, radiological, nuclear and explosives counter terrorist response capability through the raising of the Incident Response Regiment, based in Sydney.

The Army's ability to achieve the full range of directed preparedness requirements was constrained by concurrent activities, continued personnel shortages in some key trades, and shortages in equipment and specific types of ammunition. Pressure on Navy

amphibious lift assets to conduct additional operational tasks in Operations Slipper and Relex constrained the ability of the land force to conduct certain amphibious training. Reserve specialist medical and logistic trade individuals provided backup for some of the critical trade deficiencies.

Supply and equipment issues are being addressed through initiatives such as the Army Ammunition Study, the ADF Explosive Ordnance Stockholding Study and the movement of general service equipment from low-readiness units to high-readiness units. The equipment shortfall generated by this action is being partially addressed through the acquisition of commercial-off-the-shelf items.

Army Aviation's ability to achieve the full range of directed preparedness requirements was constrained by structural cracking in Black Hawk helicopters, which has resulted in reduced aircraft availability. A lower than normal serviceability rate has also affected Twin Otter availability. Additionally, the ability to generate capability was constrained by shortfalls in trainee pilots, caused by lower than required levels of recruitment and a higher than average failure rate at the Basic Flying Training School, Tamworth NSW. Initiatives have been put in place by Defence to resolve each of these issues.

The Army was granted Quality Endorsed Training Organisation registration status by the Australian Capital Territory Accreditation and Registration Council on 13 December 2001. Achieving this status means that the Army is authorised to issue nationally-recognised qualifications from Certificate I through to Diploma. These qualifications have the same status and recognition as those provided by civilian vocational training and tertiary institutions.

The regional training centres successfully piloted a 'Subject One for Corporal Course' utilising technology-based training and distance education and training. This facilitates the delivery of the same training to full-time and part-time members, while maintaining the same quality of training outcomes. The flexible delivery approach will now be rolled out progressively to other appropriate training courses managed by Training Command-Army.

As part of the Defence move towards a greater focus on management of capability and output based allocation of resources, Training Command - Army is in the process of implementing a performance management framework. The framework is being implemented using a 'bottom-up' approach, identifying, in consultation with the training establishments, performance measures that will provide accurate, relevant and timely information in order to enhance decision making at all levels. This has been embraced throughout Training Command - Army as a simpler yet more effective manner of identifying key issues than was previously the case.

MITIGATION OF KEY RISKS

In the 2001-02 *Portfolio Budget Statements*, the Army identified three key risks to fully meeting its responsibilities in 2001-02 (logistics, personnel and combat weight and deployability). The 2001-02 *Portfolio Additional Estimates Statements* included resources as an additional key risk.

Logistics. The Logistics Support Force has been enhanced by the addition of 642 Regular positions. Some of these have contributed to the establishment of new sub-units, and

others have been used to increase the readiness of individual units by replacing existing Reserve positions. The career management agencies have filled some of the new positions, and the impact of the enhancements can be expected to continue as the staffing process continues. The Army Logistic Training Centre has been enhanced to provide greater capacity for the training of logistics personnel. The Logistic Support Force continues to employ specialist Reserve personnel on a full-time basis in order to enhance particular capabilities. The capacity of the Logistic Support Force has been enhanced by investment in a range of specialist road transport vehicles and material-handling equipment.

Personnel. There are a range of remediation initiatives in place to address continued shortages in a number of key trades. These initiatives have been in place for less than 12 months. There are positive indications that the key trade deficiencies are being addressed although it will take some time before the full effects become evident. The Army will continue to pursue targeted initiatives in addressing critical personnel issues, thus enabling a transparent and measured approach to meeting personnel capability shortfalls.

Combat weight and deployability. The proposed acquisition of a number of vehicles and upgrade programs by the Defence Materiel Organisation will help to address the combat weight and deployability risk.

- The vehicle acquisition program will include the Australian Light Armoured Vehicle (ASLAV). This program has partially achieved all forecasts for 2001-2002. Defence is contracted with General Motors Defence for the acquisition of additional ASLAVs. Vehicle deliveries will commence in mid-2003.
- Project Bushranger provides infantry mobility vehicles. The outcomes of this project were not achieved. The project was hampered by the ability of the contractor to meet the original production schedule due to prototype vehicle deficiencies. A renegotiated contract was signed in July 2002.
- The major upgrade program for the M113 armoured personnel carriers is progressing to plan. Government approval has been given and a contract has been signed to commence the production stage, with introduction into service of an initial capability of one squadron scheduled for 2006.
- Lightweight, high performance night-fighting equipment, that enables the ADF to acquire and engage targets at night at close range has minor procurement action remaining to complete the equipment suite.

Resources. The redirection of resources for the Army reflected a successful adaptation to the changes associated with the impact of the war against terrorism as well as the need to enhance domestic security.

CAPABILITY PERFORMANCE INFORMATION

PERFORMANCE TARGETS

Special Forces

A capability for special operations consisting of a special air service regiment, a high-readiness commando battalion and a Reserve commando battalion.

The Army's special forces continued to maintain their operational roles of:

- special recovery (including domestic and overseas counter terrorism);
- special reconnaissance;
- offensive operations; and
- support operations in land and maritime environments.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially Achieved. The special operations capability was unable to support all allocated preparedness requirements directed by CDF for military response options, as the unit was involved in a variety of operations. This included the deployment of elements of the Special Air Service Regiment to Afghanistan and maintaining a response capability for two domestic hostage recovery tasks (two Tactical Assault Groups from the Special Air Service Regiment). The lack of C-130 aircraft for parachuting and special operations qualified crews has affected this capability, as has the lack of RAN amphibious and submarine sub-surface insertion capabilities. The 4th Commando Battalion is in the process of transitioning to a full-time commando battalion and has assumed responsibility for the Tactical Assault Group (East). It has also been required to provide a parachute capability during deployment of 3 RAR to East Timor.</p> <p>Partially 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.</p>
<p>Quantity: Special Operations Group, comprising:</p> <ul style="list-style-type: none"> • Headquarters Special Operations; • Special Air Service Regiment; • Battalion Royal Australian Regiment (Cdo); • 1 Commando Regiment; and • 126 Commando Signals Squadron. 	<p>Achieved. The special operations capability was reviewed by the Army to ensure that the personnel and equipment holdings were appropriate to complete the likely tasks required of the capability. Personnel numbers and equipment holdings were amended as a result of the review.</p>

Mechanised Operations

A capability for mechanised operations, based on 1 Brigade, consisting mainly of a reconnaissance regiment equipped with Australian light armoured vehicles, a tank regiment, a mechanised infantry battalion, a medium artillery regiment and engineer and logistic support.

The mechanised force is designed to:

- exploit mobility, protection, inherent command, control, communications, computing, intelligence, surveillance and reconnaissance, and firepower; and
- achieve surprise, offensive action, concentration of force and rapidity of execution, all of which arise from the employment of the combined arms team.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF 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 CDF for military response options. Equipment shortfalls, personnel deficiencies in key trades and sustainability issues, particularly in relation to ammunition, affected the achievement of preparedness levels for some directed military response options. A reduced, yet credible, level of capability was available for all of the military response options. Ammunition requirements will be confirmed by the Army Ammunition Study and the ADF Explosive Ordnance Reserve Stockholding Study. The lack of equipment and personnel in key trades is being addressed.</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 ammunition, affected the achievement of some core skills across some warfare areas.</p>
<p>Quantity: 1 Brigade, comprising:</p> <ul style="list-style-type: none"> • a headquarters; • a mechanised infantry battalion; • a reconnaissance regiment; • an armoured regiment; and • combat and logistic support units. 	<p>Partially Achieved. A reduced yet credible level of preparedness was achieved even though personnel availability for units in the mechanised operations capability were at sub-optimal levels.</p>

Light Infantry Operations

A capability for light infantry operations based on 3 Brigade, consisting mainly of three infantry battalions, a field artillery regiment, an armoured personnel carrier squadron and engineer and logistics support.

The light infantry force is designed to:

- exploit strategic, operational and tactical mobility;
- exploit flexibility, adaptability and utility across the full spectrum of conflict; and
- achieve surprise, rapidity of execution and the capacity to seize and hold ground.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p>	<p>Partially Achieved. The light infantry capability met levels of preparedness directed by CDF for military response options. Some preparedness tasks were assigned to other sub-outputs due to the limitations imposed by the commitments to operations in East Timor. The lack of C-130 aircraft for parachuting and RAN amphibious capabilities has affected the light infantry capability.</p>
<p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Substantially Achieved. Most training requirements have been met. Some airmobility training activities have been curtailed due to a lack of Black Hawk helicopter support.</p>
<p>Quantity: 3 Brigade, comprising:</p> <ul style="list-style-type: none"> • a headquarters; • 2 infantry battalions; • armoured mobility for 2 infantry companies; and • combat and logistic support units 	<p>Achieved. Personnel and equipment availability for units in this sub-output were sufficient to meet preparedness levels.</p>

Performance Targets	Performance
The Parachute Battalion Group, comprising: <ul style="list-style-type: none"> • a parachute infantry battalion; and • combat support units 	

Army Aviation Operations

A capability for army aviation operations, 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 majority of Kiowa helicopters will be replaced progressively by two squadrons of armed reconnaissance helicopters. Iroquois helicopters are planned to be replaced with additional troop-lift helicopters in 2007.

Army Aviation operations provide the organic aviation capabilities required to conduct:

- surveillance and armed reconnaissance;
- tactical airlift;
- command and control support; and
- combat service support.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. The 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, a high operational tempo and consequent impact upon this capability, some directed military response options required sustainability issues to be addressed.</p> <p>Substantially Achieved. Concurrent activities such as those in East Timor affected the achievement of all training requirements. Training activities for light infantry operations were not fully supported.</p>
<p>Quantity:</p> <p>36 Black Hawk - 8,540 flying hours</p> <p>42 Kiowa - 11,355 flying hours</p> <p>6 Chinook - 1,180 flying hours</p> <p>25 Iroquois - 4,790 flying hours</p>	<p>Substantially Achieved. Shortages in key personnel have reduced the aviation capability's ability to conduct all training and preparedness tasks.</p> <p>36 Black Hawk - 7,789 hours achieved.</p> <p>The shortfall was due to airframe cracking which has had a higher than predicted impact on aircraft availability. There is a rigorous maintenance regime in place to address the problem.</p> <p>42 Kiowa - 11,004 hours achieved.</p> <p>Flight training hours required to qualify pilots are scheduled against anticipated input of trainees. The result reflected reduced trainee numbers from insufficient personnel recruited for, as well as higher than average failure rates at, the ADF Basic Flying Training School. There was also a follow-on effect of a reduced number of Kiowa pilots graduating into 1 Aviation Regiment. Initiatives to increase trainee numbers have been implemented.</p> <p>6 Chinook - 1,117 hours achieved.</p> <p>The rate of effort was slightly less than forecast due to some minor maintenance issues.</p> <p>25 Iroquois - 4,657 hours achieved.</p> <p>The result reflected the follow-on effect of reduced trainee numbers. Almost all the shortfalls occurred in Training Command. The initiatives applying to the Kiowa are also relevant to the Iroquois.</p>

Performance Targets	Performance
3 King Air - 2,480 flying hours	3 King Air - 2,301 hours achieved. The normal performance target for King Air is 2000 hours. Approval was given for this target to be increased to 2,480 due to an under-fly in the last financial year, with those resources being transferred to this financial year to meet short notice tasking.
2 Twin Otter - 1,295 flying hours	2 Twin Otter - 1,121 hours achieved. The result was slightly less than forecast due to some serviceability issues.

Ground-Based Air Defence

A capability for ground-based air defence consisting of RBS70 shoulder-launched missile systems and Rapier missile systems. The Rapier missile system is scheduled to be replaced in the near to mid-term.

Ground-based air defence is characterised by flexible, versatile and rapid establishment of defended airspace in conjunction with other land and joint elements.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially achieved. The ground-based air defence capability met some levels of preparedness as directed by CDF for military response options. Equipment, personnel and ammunition deficiencies and deployment on operations affected levels of preparedness for all military response options. Ammunition requirements are being identified in the Army Ammunition Study and the ADF Explosive Ordnance Reserve Stockholding Study. Personnel shortages are being rectified through recruiting programs.</p> <p>Substantially Achieved. Most training activities were achieved.</p>
<p>Quantity: 16 Air Defence Regiment</p>	<p>Partially Achieved. Personnel availability and sustainability issues for this unit were insufficient to fully achieve all capability requirements.</p>

Combat Support Operations

Combat support operations are designed to enhance the conduct of operations through effective signals, surveillance and specialist support, particularly construction engineering, topographical, electronic warfare, incident response and intelligence support. Small elements of the capability are held at high readiness to support the Ready Deployment Force.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Substantially Achieved. The combat support operations capability met most preparedness tasks as directed by CDF for military response options. Limitations due to equipment issues and personnel deficiencies in key trades affected some preparedness tasks. The shortage of key personnel is being addressed by ADF recruiting and retention programs.</p> <p>Substantially Achieved. Concurrent operations and personnel deficiencies, such as critical trade deficiencies, affected the achievement of some training requirements.</p>

Performance Targets	Performance
Quantity: <ul style="list-style-type: none"> • Construction Regiment; • 2 construction squadrons; • Construction Engineer Works Section; • Incident Response Regiment; • Topographical Survey Squadron; • Combat Training Centre (Live); • Surveillance Target Acquisition Battery; • Intelligence Battalion; • Signals Squadron (Electronic Warfare); and • Military Police Battalion. 	Partially Achieved. Personnel availability was sufficient to provide a reduced, yet credible, level of preparedness.

Regional Surveillance

A capability for regional surveillance consisting of three regional force surveillance units. Regional surveillance is focused on Australia’s remote northern areas.

Performance Targets	Performance
Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months Achieve a level of training that maintains core skills and professional standards across all warfare areas	Achieved. All levels of preparedness directed by CDF for military response options were achieved. Achieved. All training activities were achieved.
Quantity: Three regional force surveillance units	Achieved. Personnel and equipment for the regional surveillance operations capability were adequate.

Operational Logistic Support

A capability for operational logistic support operations consisting of a brigade-sized logistical support force, comprising mainly Reserve transport, signals, medical and electrical/mechanical engineer units, able to sustain a brigade deployed on operations for extended periods and, at the same time, maintain at least a battalion group available for deployment elsewhere.

Operational logistic support is designed to provide supply, transport, repair, health and other functions to military support and combat operations.

Performance Targets	Performance
Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months. Achieve a level of training that maintains core skills and professional standards across all warfare areas.	Substantially Achieved. This component was capable of achieving all directed military response options. Substantially Achieved. Concurrent operations and personnel deficiencies in a number of key trades affected the achievement of all training requirements.

Performance Targets	Performance
Quantity: Logistic Support Force and its integral logistic support units including: <ul style="list-style-type: none"> • a Headquarters and Headquarters Force Support Group; • a construction regiment; • 3 force support battalions; • 3 health support battalions; • 3 ships army detachments; • a recovery company; • a petroleum company; • 2 signals squadrons; • a Psychology Unit; and • a deployed forces support unit. 	Partially Achieved. Personnel availability for units in this sub-output were sufficient to provide a reduced, yet credible, level of preparedness.

Motorised Operations

A capability for motorised operations, based on 7 Brigade, equipped with the interim Bushranger infantry mobility vehicle, consisting of a motorised infantry battalion group, a field artillery regiment and engineering and logistic support.

Motorised infantry operations are designed to:

- exploit mobility, protection, tactical sustainability, endurance, reconnaissance and surveillance;
- exploit flexibility, adaptability and utility using inherent command, control, communications, computing, intelligence, surveillance and reconnaissance systems; and
- achieve surprise, rapidity of concentration and execution.

Performance Targets	Performance
Quality: Achieve levels of preparedness directed by CDF 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 directed military response options due to equipment shortfalls, personnel deficiencies in key trades and sustainability issues. A reduced, yet credible, level of capability was available. Ammunition requirements are being addressed in the Army Ammunition Study and the ADF Explosive Ordnance Reserve Stockholding Study. Personnel 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 training activities were reduced in scope due to deficiencies in equipment, personnel and ammunition.
Quantity: 7 Brigade, comprising: <ul style="list-style-type: none"> • a headquarters; • 3 motorised battalions; • 1 reconnaissance battalion; and • combat and logistic support units 	Substantially Achieved. Regular units achieved the required staffing levels, providing a credible level of preparedness. Partially Achieved. The Reserve units achieved lower than expected recruiting targets which affected staffing levels for this capability.

Protective Operations

The capability for protective operations with a re-roled and re-tasked Reserve force designed to sustain, reinforce and, to a lesser degree, rotate personnel and equipment.

Protective operations are provided predominantly by the Reserve component of the Army. Operations are focused on providing surge and sustainment forces to the Ready Deployment Force. Protective operations also assist the Australian community during civil emergencies.

Protective operation forces are designed to possess the capacity for subtlety, initiative and discrimination at the lower end of the spectrum of conflict.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. While the Army Reserve had no assigned preparedness notice in 2001-02, individuals and sub-units were available for reinforcement and rotation. Those Army Reserve units which had preparedness requirements of less than 360 days, such as medical support units and commando units, have been attributed directly to other Army capabilities.</p> <p>Partially Achieved. Factors such as personnel numbers within the Army Reserve and the priority of effort towards operations affected the achievement of training within this capability.</p>
<p>Quantity: 4, 5, 8, 9, 11 and 13 Brigades, each comprising of:</p> <ul style="list-style-type: none"> • a headquarters; • two or three infantry battalions; • an armoured reconnaissance unit; and • combat and logistic support units 	<p>Partially Achieved. Personnel availability for units in the sub-output were at sub-optimal level. Personnel from this capability provided a reinforcement and rotation base within the Combat Force component of the Army.</p>

PRICE TO GOVERNMENT

Table 2.13: Price of Output Three – Army Capabilities

	2001-02 Budget Estimate \$m	2001-02 Revised Estimate \$m	2001-02 Result \$m	Variation \$m
Operating Expenses				
Employee Expenses - Military	1,962	2,067	2,122	55
Employee Expenses - Civilian	259	231	330	99
Supplier Expenses - Non-Inventory	1,070	1,018	1,110	92
Supplier Expenses - Inventory Consumption	394	305	340	35
Depreciation and Amortisation	499	545	571	26
Write down of assets	30	61	392	331
Other Expenses	14	23	18	-5
Total Operating Expenses	4,228	4,250	4,883	633
Capital Use Charge	894	894	929	35
Total Cost of Output	5,122	5,144	5,812	668
<i>Less:</i> Own-source Revenue	93	74	173	99
<i>Less:</i> Assets Now Recognised	0	0	247	247
Price to Government	5,029	5,070	5,392	322

EXPLANATION OF SIGNIFICANT VARIATIONS

The actual price for Output Three was \$322m more than the revised estimate that was developed under the earlier costing methodology. A significant proportion of the variation related to technical accounting adjustments, including an increase in the write-down of assets (\$331m), increased revenue from assets now recognised (\$247m) and increases in the capital use charge (\$35m). The increase in the write-down of assets and revenue from assets now recognised are explained in Notes 14 and 8 of the financial statements.

In addition to these technical explanations, there was also a \$55m increase in military employees expenses. The variation was associated largely with higher accrual provisions for superannuation and increases in actuarial assessments of workers compensation requirements.

The increase in civilian employees expenses (\$99m) reflects a Defence-wide increase in civilian expenses which was due to improvements in the methodology for attributing workforce costs.

Increases in suppliers expenses-non-inventory (\$92m) and inventory (\$35m) are attributable primarily to the current tempo of operations and refinements in assessing consumption levels. Budgets for operations were held by Output One, whereas the actual result relating to the Army is shown against Output Three.

OUTPUT FOUR: AIR FORCE CAPABILITIES

The Air Force provided combat forces that contributed to the ADF's capacity to prevent or defeat any armed attack on Australia, defend regional and global interests, shape the strategic environment and protect national interests. Air Force capabilities provided 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 supported significant peacetime national tasks which included maritime surveillance of Australian and regional exclusive economic zones, search and survivor assistance, aeromedical evacuations and VIP transport.

PERFORMANCE SUMMARY

The Air Force has continued to be involved in an unprecedented period of sustained operational activity exacerbated by the events of 11 September 2001 and the follow-on war against terrorism. Other surveillance and ground support tasks have been conducted in order to detect, protect and reposition illegal immigrants in support of the Government's border protection initiatives. As a result of the increased operational tempo, experience and preparedness levels for contingencies have been eroded and will take some time and effort to remediate. Air Force participation in joint and combined exercises has also been affected by the operational tempo, to the detriment of some international engagement functions.

MITIGATION OF KEY RISKS

In the *Portfolio Budget Statements 2001-02*, the Air Force identified four key risks to meet fully its responsibilities in 2001-02 (personnel, ageing equipment, sustainment and maintaining a regional capability edge). The Air Force continued to face a number of significant challenges to maintaining combat capability. The war against terrorism, border protection activities and continuing support for other operations and exercises on top of significant logistic shortfalls and structural issues continue to challenge the organisation. Nonetheless, Air Force personnel demonstrated high standards, worked through the issues and achieved excellent results.

A key risk mitigation strategy being pursued by the Air Force, to overcome capability deficiencies, is the continued introduction of a comprehensive capability management system, providing the means to direct, monitor and assess Air Force capability in terms of both force structure and preparedness. The management system comprises the tools, work practices and procedures required to support holistic assessments of Air Force capabilities by sub-output, force element and function.

Personnel. Previously reported high personnel separation rates have diminished as a consequence of recruitment and retention initiatives. Nonetheless, some key personnel groups remain understaffed, and focused recruitment and retention measures will continue to be a priority.

Ageing equipment. With the exception of the Hawk and the C-130J, all Air Force aircraft have exhibited ageing factors that has resulted in increased inspections, repair, and fatigue and corrosion management. Accordingly, support costs have risen and will continue to increase year by year.

Sustainment. The impact of shortfalls in logistics funding continued to mount in 2001-02, with substantial backlogs for repairable items and deeper maintenance apparent across most weapon systems. While impacts on capability were avoided, the magnitude of backlogs is expected to affect capability levels in 2002-03. Logistics funding shortfalls have been driven largely by ageing aircraft issues, although logistic support for newly acquired aircraft such as the Hawk and the C-130J is costing more than was originally anticipated.

Maintaining a regional capability edge. The maintenance of a regional capability edge will be a challenge over the next decade, particularly in areas of electronic warfare self-protection, surveillance and battlespace management, and stand-off and precision weapons. Selective interoperability with coalition forces will also be an imperative. The White Paper details plans aimed at ensuring the ADF retains an overall capability edge in key roles, taking account of expected regional capability trends over the next ten years and beyond.

Safety Enhancement

Over the last year, the Air Force worked with the rest of the ADF to implement recommendations from the Board of Inquiry into the F-111 fuel tank deseal/reseal program. A new Air Force Ground Safety Agency was formed and collocated with the Defence Safety Management Agency. The new agency coordinated an initial safety audit of all Air Force units against Australian standards. The audit benchmarked the status of Air Force safety for the measurement of future improvements. In addition, a 'RAAFSAFE' Board has been formed. The focus of the board will be on the development of an Air Force safety system which improves safety through changes to organisational structure and resourcing, training, policy, monitoring and reporting. The mature Defence flying safety system remains well developed with continuing initiatives including aviation risk management and crew resource training. The strong flying safety culture in the Air Force is being developed across other aviation areas, and the concomitant safety record showed a continuing positive trend.

CAPABILITY PERFORMANCE INFORMATION

PERFORMANCE TARGETS

Capability for Air Strike/Reconnaissance

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

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially Achieved. Commitments to ongoing operations have been maintained where possible. Two major incidents involving wing cracking and a fuel tank over-pressurisation have caused availability restrictions for significant portions of the year. The commercialisation of support functions, fuel tank deseal/reseal issues, ageing aircraft problems, and enhancement and modification projects have exacerbated availability limitations. Continuing aircrew, engineer and technical personnel shortfalls have further added to these pressures.</p> <p>Partially Achieved. Reduced aircraft availability has affected the ability to maintain core skills across all operational roles and has limited the initial aircrew-training program.</p>
<p>Quantity: 17 F-111C 4 RF-111C 14 F-111G</p> <p>3,600 flying hours for all types</p> <p>Introduce new or upgraded equipment into service, including Project Air 5391 Interim Electronic Warfare Self Protection capability</p>	<p>17 F-111C. 4 RF-111C. 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 developed when the F-111G aircraft were acquired. 2,559 hours achieved. The rate of effort was affected by aircraft availability and personnel shortfalls. Air 5391 has continued to improve F-111 self-protection capabilities. Radar warning and chaff and flare dispensing have been incorporated, however, incorporation of the radar jamming capability is experiencing a delay.</p>

Capability for Tactical Fighter

Involves the provision of 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 the land and maritime environments and provide air reconnaissance capabilities.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Achieved. Commitments to ongoing operations have been maintained and preparedness targets met in line with the CDF preparedness directive. However, fast-jet pilot shortages and equipment shortages driven by logistics shortfalls have limited the ability to sustain and conduct concurrent operations beyond the set targets.</p> <p>Partially Achieved. Training levels to maintain core skills and professional standards were achieved. Ongoing delays by the contractor in the delivery and initial support of the lead-in-fighter limited fast-jet aircrew training throughput and support to the Navy and the Army.</p>
<p>Quantity: 71 F/A-18 - 13,000 flying hours</p> <p>33 Hawk – 9,000 flying hours</p> <p>4 PC-9 (forward air control role only) - 1,780 flying hours (includes some flying hours for Air Research and Development Unit trials aircraft)</p>	<p>71 F/A-18 - 11,287 hours achieved. The rate of effort was reduced due to operational deployments where flying rate of effort was reduced markedly, aircraft availability and fast-jet pilot shortages. 33 Hawk - 5,075 hours achieved. The rate of effort was reduced due to project delays and difficulties experienced by the support contractor in achieving the contracted aircraft availability. 4 PC-9 (forward air control role only) - 1,190 hours achieved. The rate of effort was reduced due to rationalisation of forward air control tasks and cancellation of some exercises as a consequence of commitments to operations.</p>



Performance Targets	Performance
Introduce new or upgraded equipment into service, including completing delivery of 33 Hawk aircraft, Hornet Upgrade Phase 2.1, Advanced Short Range Air-to-Air Missile (ASRAAM) and Advanced Medium Range Air-to-Air Missile (AMRAAM)	Hornet Upgrade Phase 2.1 progressed satisfactorily. All 33 Hawk aircraft were delivered. Aircraft availability remained limited but is improving. Testing of ASRAAM and AMRAAM continued towards operational introduction.

Capability for Strategic Surveillance

Involves the provision of sensors and battle 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 CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially Achieved. Commitments to ongoing operations have been maintained, although some of the more demanding preparedness targets were not met. Shortfalls occurred due to delays in the upgrade of deployable command and control facilities and technical staff shortages.</p> <p>Partially Achieved. Due to the lack of suitable training opportunities and the limited simulation capability in both the air traffic control and air defence ground environments, not all targets were reached. Shortfalls are being addressed through developing simulation functionality within the new Australian Defence Air Traffic System environment and progression of the virtual air environment for the air defence ground environment.</p>
<p>Quantity: 10 air traffic control radars</p> <p>2 tactical air defence radars Jindalee Radar Facility (NT) including one over the horizon radar, known as Jindalee Facility Alice Springs, to conduct service operations for approximately 35 per cent of available radar hours (16 hours x 7 days x 47 weeks/year), in addition to research and development and other activities</p> <p>3 tactical operations centres</p> <p>Introduce new or upgraded equipment into service, including JORN over-the-horizon radar at Laverton (WA) and Longreach (Qld), completing delivery of tactical radars and interim command and control systems</p>	<p>8 air traffic control radars, including 7 fixed radars and one mobile radar. An additional 2 fixed radars are yet to be commissioned.</p> <p>2 tactical air defence radars achieved. The Jindalee Facility Alice Springs maintained more than 55 per cent of available radar hours, while maintaining support for scheduled research and development through cooperative tasking.</p> <p>2 fixed and 1 mobile tactical operations centres. One fixed centre maintained operational status, while the second fixed centre transitioned from Darwin to Tindal (Northern Territory) and is not yet operational. The mobile centre had limited capability due to equipment upgrades that are under way.</p> <p>JORN development progressed well, but was delayed by several months. Introduction into service of the radars is currently scheduled for 2003-04. Interim command and control was partially introduced during the year and should be completed in 2002-03.</p>

Capability for Maritime Patrol

Involves the provision of P-3C 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 supply activities.

Performance Targets	Performance
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially Achieved. The Maritime Patrol Group had difficulty in achieving very short notice preparedness due to increased operational tasking (particularly in support of Operation Relex II) and concurrent transition activities related to the upgraded AP-3C aircraft.</p> <p>Substantially Achieved. Training levels to maintain core skills and professional standards were substantially achieved, however exercise flying hours normally used to maintain some higher order wargfighting skills were diverted to higher priority operations. The transition to the AP-3C and commitment to border protection activities resulted in a lowering of experience levels in some roles for a short period.</p>
<p>Quantity: 8,660 flying hours</p> <p>17 P-3C Orion 3 TAP-3 Orion 2 AP-3C</p> <p>Interim enhanced electro-optical capability for the P-3C</p>	<p>9,624 flying hours achieved. The rate of effort was increased as a result of increased border protection activities and the requirement to maintain core skills.</p> <p>15 P-3C Orion 3 TAP-3 Orion. 4 AP-3C as a consequence of the project delivering two more aircraft earlier than the revised schedule.</p> <p>The interim electro-optical capability was delivered.</p>

Capability for Air Lift

Entails the provision of 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
<p>Quality: Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially 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.</p> <p>Partially Achieved. The only limitation was the restriction of the C-130J in performing some tactical roles such as airborne operations which are still under development.</p>
<p>Quantity: 14 Caribou - 5,080 flying hours</p> <p>24 C-130 - 14,000 flying hours</p> <p>6 HS748 - 2,700 flying hours</p> <p>4 B200 5 Falcon - 3,975 flying hours</p>	<p>14 Caribou - 4,298 hours achieved. The rate of effort was less than forecast because of continued low availability due to ageing aircraft issues and delays in contracted scheduled maintenance. Aircraft availability has been steadily improved throughout the year as contractor maintenance practices improved.</p> <p>24 C-130 - 13,102 hours achieved. The reduction in the rate of effort was due to ongoing modifications and serviceability issues with the C-130H and crew shortages for the C-130J. Serviceability and crew numbers showed a steady improvement throughout the year.</p> <p>6 HS748 - 2,499 hours achieved. The rate of effort was less than forecast because of reduced aircraft availability due to ageing aircraft issues.</p> <p>4 B200 (leased and used on an 'as required' basis). 5 Falcon - 2,747 hours achieved (one aircraft was withdrawn from service in April 2002).</p> <p>The rate of effort was driven primarily by non-Defence-related VIP commitments.</p>



Performance Targets	Performance
<p>4 B707 - 2,150 flying hours</p> <p>Continue the planned withdrawal of the B707 fleet, with anticipated completion by December 2002</p> <p>Progress towards implementation of an interim AAR capability (to replace the B707), for introduction in approximately December 2002</p> <p>Introduce a contracted software upgrade for the C-130J to allow for an expansion of roles</p> <p>Introduce the first of the new Special Purpose fleet into service</p>	<p>4 B707 - 1,476 hours achieved. The rate of effort was less than forecast because of reduced aircraft availability due to depot maintenance delays, ageing aircraft issues, and a prolonged period of reduced tasking due to the requirement to maintain standby commitments for operational deployment.</p> <p>No further steps have been taken to reduce fleet size as the B707 is now expected to remain in service until at least 2006-07 fulfilling the role of interim air-to-air refuelling (AAR).</p> <p>The B707 is proposed to remain in service to provide an interim capability until introduction of the replacement aircraft.</p> <p>Software was updated to improve its functionality in the tactical role and to reduce false failure indications.</p> <p>The Commonwealth accepted the first of 2 Boeing 737 BBJ and the first of 3 Bombardier Challenger aircraft in June 2002.</p>

Capability for Combat Support of Air Operations

Involves the provision of combat support for air operations at the level of capability required to support main operating bases and forward operating bases within Australia or overseas in support of contingency operations.

Performance Targets	Performance
<p>Quality:</p> <p>Achieve levels of preparedness directed by CDF for military response options with a warning time of less than 12 months</p> <p>Achieve a level of training that maintains core skills and professional standards across all warfare areas</p>	<p>Partially Achieved. Support for ongoing operations has been maintained, although some of the more demanding preparedness targets could not be met. Personnel and equipment shortages limited the ability to meet both concurrent and sustained operations.</p> <p>Partially Achieved. Operational activities have provided opportunities for maintaining core skills. However, operational demands have also prevented achievement of some training targets. Some further development of doctrine and procedures is required.</p>
<p>Quantity:</p> <p>2 Combat Support Wings</p> <p>1 Expeditionary Combat Support Wing</p> <p>1 Combat Reserve Wing</p> <p>1 Airfield Defence Wing</p> <p>1 Health Service Wing</p> <p>Increase personnel and introduce new or upgraded equipment into service, including new equipment provided under East Timor remediation</p>	<p>Partially Achieved. Personnel shortfalls in some specialist areas persisted. The formation of the Health Services Wing provided improved development and control of health assets primarily in support of Air Force operational deployments.</p> <p>Partially Achieved. Most significant equipment deficiencies have been addressed, but Air Force restructuring imperatives have placed temporary restrictions on staffing levels in some units. Full implementation of personnel remediation measures may be delayed until 2005-06.</p>

PRICE TO GOVERNMENT

Table 2.14: Price of Output Four – Air Force Capabilities

	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Result	Variation
	\$m	\$m	\$m	\$m
Operating Expenses				
Employee Expenses - Military	1,040	1,101	1,052	-49
Employee Expenses - Civilian	257	244	260	16
Supplier Expenses - Non-Inventory	1,026	999	1,145	146
Supplier Expenses - Inventory Consumption	307	259	226	-33
Depreciation and Amortisation	958	981	949	-32
Write down of assets	22	39	577	538
Other Expenses	13	17	6	-11
Total Operating Expenses	3,623	3,640	4,215	575
Capital Use Charge	1,807	1,807	1,651	-156
Total Cost of Output	5,430	5,447	5,866	419
<i>Less:</i> Own-source Revenue	99	86	98	12
<i>Less:</i> Assets Now Recognised	0	0	242	242
Price to Government	5,331	5,361	5,526	165

EXPLANATION OF SIGNIFICANT VARIATION

The actual price for Output Four was \$165m more than the revised estimate. A significant proportion of the variation related to technical accounting adjustments, including an increase in the write-down of assets (\$538m), increased revenue for assets now recognised (\$242m) and an lower than expected result in the capital use charge (\$156m).

In addition, variations occurred in military employees expenses, reflecting a higher than expected strength (133) offset by an overestimate of the per capita rate. The higher than expected result in suppliers expenses - non-inventory (\$146m) reflected the increased tempo of operations and the associated logistics support.

OUTPUT FIVE: STRATEGIC POLICY

Output Five provided strategic policy advice to the Government on Australia's strategic circumstances and specific security issues. This advice contributed to the achievement of Australia's strategic objectives of supporting global security and supporting 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

Defence provided advice that contributed to the Government's objective of supporting global security. This was most evident during the development of Australia's response and the subsequent execution of Australia's military commitment to the war against terrorism. It also supported the whole-of-Government response to illegal immigration by developing plans and executing strategies for the interception of suspected illegal entry vessels. Advice was also provided on Australia's response to the recommendations of the 'Brahimi Report' on reform to the United Nations Department of Peace Keeping Operations.

Defence also provided policy advice that contributed to the Government's objective of supporting regional stability. Defence administered the Government's \$20 million contribution to the Papua New Guinea defence reform program. It helped to facilitate the general elections in the Solomon Islands, in December 2001, and advised on the structure of the ADF commitment in East Timor following independence. Continued progress in the Bougainville peace process enabled further reductions to be made to the ADF-supported and ADF-led Peace Monitoring Group. Defence engagement with Indonesia was stepped up, including the implementation of a Memorandum of Understanding on Combating International Terrorism. Defence re-engaged with Fiji after the lifting of Australian Government sanctions, and participated in multilateral maritime exercises with several South Pacific island nations that assisted in the development of their defence self-reliance. Advice was provided on current issues with the Five Power Defence Arrangements and bilateral defence relationships with Singapore and Malaysia. The strong defence relationship with New Zealand was demonstrated by the support shown by the New Zealand Defence Force for Australian-led operations in the region.

In accordance with Government policy, Defence has instigated the first Annual Strategic Review. The task of the review is to:

- consider developments within our strategic environment, particularly since 11 September 2001;
- assess the validity of our key planning principles;
- determine the priorities and challenges that face our international defence relationships;
- measure how well our defence capabilities match the major tasks set by the Government; and

- recommend any changes to priorities in the long-term defence capability plan.

Defence is consulting closely with other Commonwealth departments in the drafting of the review, which will be submitted to the Government in late 2002.

The past year also saw the finalisation and endorsement by the Defence Committee of two cornerstones of a new approach to the management of Defence's international relationships, including the Defence Cooperation Program. These two documents are the Defence International Engagement Strategic Plan and the Defence International Engagement Plan. These documents reflect and expand upon the Government's policy directions announced in the Defence White Paper to establish a hierarchy of objectives, performance measures and initiatives for Defence international engagement. The strategic guidance contained in the documents will improve Defence's ability to make sound decisions on international relationships' management.

There was also substantial progress in implementing recommendations made in ANAO Audit Report No. 32 of April 2001 - *Defence Cooperation Program*. Through documents such as the Defence International Engagement Strategic Plan, the Defence International Engagement Plan and the Defence International Engagement Manual, Defence continues to improve guidance on the management of international engagement activities, including the development of objectives and associated performance measures and the management of Defence Cooperation resources.

MITIGATION OF KEY RISKS

The Defence *Portfolio Budget Statements 2001-02* identified three risks that could affect the performance of the Strategic Policy output. The first of these was the prospect of deterioration in Australia's strategic circumstances, both generally and with respect to specific potential crises. Defence actively responded to changes in the international strategic environment, particularly in the wake of the events of 11 September 2001. This included advising the Government on the strategic implications of Australian involvement in the US-led coalition against terrorism and contributing to the implementation of the Memorandum of Understanding on Combating International Terrorism with Indonesia. In the context of regional engagement, Defence undertook the careful selection, training and continued support of in-country advisers, and conducted strategic dialogue with countries across the region that accounted for their differing priorities.

The second risk identified was the need to ensure that Strategic Command Division retained, or had access to, sufficient staff to provide the capacity for continuous 24-hour command and control. Careful management of personnel allowed Strategic Command watch-keeping staff to be augmented during the last six months of the financial year. ADF personnel levels in Strategic Command will continue to be monitored to minimise this risk.

The final risk identified was the risk management of infrastructure development projects in regional countries funded under the Defence Cooperation Program. Defence ensured that in-country advisers were well qualified and given the appropriate delegation and support, that communication with officials from other countries was clear and in the best interests of Australia and the region, and that appropriate guidance and supervision was provided in the management of projects. This risk was also alleviated by ensuring that adequate controls were in place in support of Defence Cooperation projects, ensuring that the planning program, where possible, was compatible with Australia's overall long-term

objectives, and that ANAO audit report recommendations were implemented and reviewed.

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>Quality: Provide timely and responsive strategic policy advice to 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>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>Effectively manage the Defence Cooperation Program to achieve the aims of the program</p>	<p>Achieved. Defence provided policy advice to the Government that contributed to the achievement of Australia's strategic objectives. This included policy advice in support of a range of Ministerial visits to foreign countries. Advice was provided on issues associated with the war against terrorism and the implications of US defence policy. Advice was also provided on defence relations with the wider Asian region, tensions in the Middle East, and the development of defence cooperation with other nations. Defence also provided advice on defence cooperation and bilateral relationships with South East Asian and South Pacific nations. This included the development of a national security framework in East Timor, developing Memorandums of Understanding on Combating International Terrorism with regional countries, Defence re-engagement with Fiji and the Solomon Islands and the management of the Bougainville peace process. Defence continued to assist the Papua New Guinea Government to implement its defence reform program.</p> <p>Achieved. The Strategic Policy Group provided policy advice to other areas of Defence on international engagement. This included advice on international defence relations associated with the war against terrorism, and policy support for strategic-level dialogue between senior Australian and foreign defence officials. The Defence International Engagement Strategic Plan and Defence International Engagement Plan were introduced. These documents improved internal knowledge of Defence's international engagement program. The Strategic Policy Group also advised other areas of Defence on the conduct of training, and training-related projects and exercises conducted under the Defence Cooperation Program. Advice was provided in relation to strategic crisis management arrangements and the development of ADF contingency planning for potential operations in the region.</p> <p>Achieved. Defence responded to the ANAO Audit Report No. 32/2001 into the Defence Cooperation Program with a range of initiatives to improve the corporate management of the program. These included; the development of country business plans that capture activities; costs and milestones for a given year; developing an improved financial management system; updating the Defence International Engagement Manual; and developing activity specification statements which align activities with the Defence International Engagement Plan and with outcomes, costs and policy.</p>

Military Strategy and Command

Involves assisting the CDF 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>Quality: Provide timely and responsive strategic policy advice to 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>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. Defence provided regular advice on developments in our strategic environment that might have implications for the employment of the ADF. Preliminary advice was presented on the Annual Strategic Review that will be completed in late 2002. The two key military operations in support of Government policy were planned and successfully executed in the required timeframe. The development of the military component of the Government's responses to terrorism and to illegal immigration was successfully achieved in consultation with relevant government departments. Other military operations that supported Australia's global foreign policy objectives and national sovereignty interests were sustained during this period of high activity.</p> <p>Achieved. The Strategic Policy Group provided advice to other areas of Defence on the strategic context for decisions on capability development, including explosive ordnance reserve stocks. It also generated a range of policy guidance documents to inform decision making. These included an updated version of <i>Australia's Military Strategy</i>, and an updated <i>Chief of the Defence Force's Preparedness Directive</i>, the new <i>Australian Illustrative Planning Scenarios</i>, and the new doctrinal publications, <i>The Australian Approach to Warfare</i> and <i>Force 2020</i>. In addition, Defence provided a range of ad hoc advice on issues that arose in the period, including the 11 September 2001 terrorist attacks and the resulting war against terrorism.</p>

PRICE TO GOVERNMENT

Table 2.15: Price of Output Five – Strategic Policy

	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Result	Variation
	\$m	\$m	\$m	\$m
Operating Expenses				
Employee Expenses - Military	55	58	51	-7
Employee Expenses - Civilian	18	18	36	18
Supplier Expenses - Non-Inventory	95	91	97	6
Supplier Expenses - Inventory Consumption	0	0	4	4
Depreciation and Amortisation	2	3	5	2
Write down of assets	1	1	2	1
Other Expenses	0	20	21	1
Total Operating Expenses	171	191	216	25
Capital Use Charge	3	3	2	-1
Total Cost of Output	174	194	218	24
<i>Less:</i> Own-source Revenue	3	3	8	5
<i>Less:</i> Assets Now Recognised	0	0	1	1
Price to Government	171	191	209	18

EXPLANATION OF SIGNIFICANT VARIATIONS

The overall price of Output Five was \$18m higher than the revised estimate. This variation is explained primarily by the revised cost attribution methodology used for outputs.

The increase in civilian employees expenses reflects a Defence-wide increase in civilian expenses and the associated attribution of those workforce costs.

DEFENCE COOPERATION

Expenditure for the Defence Cooperation Program in 2001-02 was \$79.568m. This expenditure included an Australian Government provision of \$20m to Papua New Guinea for the commencement of a Papua New Guinea defence reform program.

Funding for activities in East Timor, Indonesia, Fiji and multilateral general assistance increased, while expenditure on cooperation activities with the Solomon Islands, the Philippines, Malaysia and Thailand was reduced. These results are reported in the tables detailing country expenditure for Defence Cooperation regions.

The table below summaries the achievement of the Defence Cooperation Program by region.

Table 2.16: Defence Cooperation Summary

	1999-2000 Actual	2000-01 Actual	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual	2002-03 Budget Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Papua New Guinea	7,986	15,368	10,000	29,731	27,710	9,731
South Pacific Region	21,109	16,823	17,867	18,136	17,480	18,136
South East Asia	23,739	24,711	29,963	29,963	29,668	29,963
Other regional activities	2,252	3,730	4,522	4,522	4,708	4,622
Facilities for training in Australia	15	12	100	100	1	0
Total	55,101	60,644	62,452	82,452	79,568	62,452

PAPUA NEW GUINEA

Performance Summary

In late 2001, the Defence Cooperation Program with Papua New Guinea was refocused in an effort to assist the Papua New Guinea Government implement its defence reform program. Priority was placed on projects which enhanced the resource and personnel management of the force, and which provided opportunities to strengthen basic military and management skills.

Following a statement by the Papua New Guinean Prime Minister Morauta to the Parliament of Papua New Guinea on 18 October 2000 on the state of the Papua New Guinea Defence Force, Australia provided \$20m to support reform initiatives in 2001-02. This included funding for an extensive redundancy program within a strict accountability framework. The aim of the program was to achieve stability in the force by making it smaller, more affordable and better managed.

In addition to the Defence Cooperation Program, Defence provided advisory support to assist the Papua New Guinean Government implement the reform process and successfully participate in Exercises Paradise and Kakadu. New armouries costing \$1.2m were constructed at three Port Moresby bases to strengthen armoury security prior to the Papua New Guinean elections.

SOUTH PACIFIC REGION

Performance Summary

The Defence Cooperation Program in the South Pacific region was funded at lower levels than in previous years due to Australian Government sanctions imposed after the attempted coups in the Solomon Islands and Fiji. Increased ADF operational commitments have had a limited impact on Australia's bilateral relationships other than the suspension of Air Force surveillance flights over the Pacific.

The Australian Government, including the ADF, provided substantial assistance to the Solomon Islands peace process. In late 2001, Defence contributed \$200,000 to support the December 2001 elections, with a focus on provincial police communications, small boats and uniforms. The effective use of this assistance in facilitating policing operations made this a blueprint for future engagement. Re-engagement with the Solomon Islands was undertaken in conjunction with the Australian Federal Police and AusAID, and focused on improving the capacity of the police to respond to the law and order situation and to improving the police force's management and responsiveness to Government direction.

Australia and Fiji made considerable progress in rebuilding the defence relationship since the lifting of Australian Government sanctions in October 2001. The relationship focused on enhancing the professional ethos of the Republic of Fiji Military Forces and encouraging the development of healthy civil-military relations. Although the four ADF adviser positions withdrawn following the attempted coup in 2000 have not yet been filled, all other aspects of the defence relationship with Fiji were re-established.

Australia continued to direct significant support towards the development of the Tonga Defence Service, particularly for the construction of transit barracks at the Talia'i Military Camp. As well as support to the Pacific patrol boat program, the ADF continued to provide specialist support in communications, engineering and maritime surveillance to the security forces in both Tonga and Vanuatu.

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 them in developing sustainable national maritime surveillance capabilities. Defence facilitated the signing of the Micronesian Subsidiary Agreement to the Niue Treaty. This enabled the Republic of Palau, the Republic of the Marshall Islands, and the Federated States of Micronesia to conduct maritime surveillance in each other's exclusive economic zones.

Table 2.17: South Pacific Region Summary⁽¹⁾

	1999-2000 Actual	2000-01 Actual	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual	2002-03 Budget Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Vanuatu	1,617	1,787	1,624	1,623	1,785	1,623
Solomon Islands	2,476	760	1,202	1,214	685	1,214
Tonga	2,286	1,402	1,570	1,619	1,470	1,619
Samoa	373	535	558	641	519	493
Cook Islands	319	226	404	404	307	407
Fiji	2,609	1,118	1,050	1,050	1,291	1,195
Marshall Islands	732	554	644	760	639	760
Federated States of Micronesia	850	804	793	793	847	793
Tuvalu	333	759	858	782	542	782
Kiribati	506	748	785	878	653	836
Palau	746	656	705	699	450	740
Multilateral General Assistance	8,262	7,472	7,674	7,674	8,291	7,674
Total	21,109	16,823	17,867	18,136	17,480	18,136

Note

1. Note figures may not add due to rounding.

Vanuatu

Defence Cooperation with Vanuatu assisted in the continued support to the Pacific patrol boat program and advisory assistance on training and communications to the Vanuatu Police and Mobile Forces. The increase in funding was due to an upgrade of Defence Cooperation housing for ADF advisers, in order to meet the appropriate standard.

Solomon Islands

The reduced expenditure for Defence Cooperation in the Solomon Islands was due to the downgraded relationship following the attempted coup in 2000. Following positive developments in the peace process, funding was provided for the refurbishment of police headquarters and communications support. Funding was also provided for uniforms for the paramilitary Police Field Force.

Tonga

Defence Cooperation with Tonga focused on 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 Taliai Military Camp and Vilai Barracks continued.

Samoa

Defence Cooperation with Samoa focused on support to the Pacific patrol boat program. Funding was provided for the design for a new berthing facility to be constructed in future years.

Cook Islands

Defence Cooperation with the Cook Islands was focused on support to the Pacific patrol boat program. Funding was attributed to the upgrade to the wharf in Avatiu Harbour.

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. Expenditure exceeded the estimated budget allocation due to defence re-engagement following the lifting of sanctions.

Republic of the Marshall Islands

Defence Cooperation with the Republic of the Marshall Islands focused on support to the Pacific patrol boat program and the provision of Navy training to the Republic of the Marshall Islands National Police.

Federated States of Micronesia

Defence Cooperation with the Federated States of Micronesia focused on maritime surveillance and the provision of ongoing maintenance and support for the Pacific patrol boat program. The increase in funding resulted from an increase in support to in-country ADF advisers.

Tuvalu

Defence Cooperation with Tuvalu focussed on the continued advisory, maintenance and fuel support to the Pacific patrol boat program and training of personnel from the Tuvalu Police Force maritime wing.

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.

Palau

Defence Cooperation with Palau focused on support to the Pacific patrol boat program and the provision of Navy training to the Marine Law Enforcement Division.

Multilateral General Assistance

Key activities included half-life refits for Pacific Patrol Boats *Kula* and *Kiro* from Fiji, and *Te Mataili* from Tuvalu. Additional funds were 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.

PACIFIC PATROL BOAT PROJECT

Table 2.18: 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 Association of South East Asian Nations region grew in 2001-02 by nearly \$5m. This was due primarily to the expansion of relatively new relationships with East Timor and Vietnam, and the gradual redevelopment of the defence relationship with Indonesia.

Australia continued to direct substantial support to the development of the East Timor Defence Force. An Australian-developed, purpose-built training facility at Metinaro was completed in December 2001 and handed over to the East Timor Defence Force to manage. The ADF continued to provide specialist support, professional advice and English-language training in country. In addition, a small training support team was stationed at Los Palos to assist the 1st Battalion of the East Timor Defence Force, raised in early 2002.

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.

Defence Cooperation with Vietnam, which commenced in 1999, continued to grow through Vietnamese 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 undertaken.

Longstanding and strong defence relationships with Singapore, the Philippines, Thailand and Malaysia were characterised by broad-based programs of dialogue and training, combined exercises and joint projects in the fields of logistics, science and materiel. Increased operational commitments had a limited impact on the ongoing exercise program, and the strong relationships comfortably withstood the changes. 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 and Republic of

Singapore Air Force attachments to RAAF Pearce (WA), RAAF Williamtown (NSW), and Oakey (Qld). Our relationships with Thailand, the Philippines and Singapore benefited from the contribution these countries made to the security of East Timor through UNTAET and UNMISSET.

The relatively new defence relationships with Cambodia, Brunei and Laos developed to a modest level. A reduced defence relationship with Cambodia was recommenced in 1999, after a two-year suspension in the wake of the 1997 coup, focusing on training and infrastructure assistance. Since 1999, our relationship with Brunei has been focused on achieving shared strategic outcomes. Brunei received training, on a fee-for-service basis, and participated in a small exercise program with Australia. Defence cooperation with Laos was limited to English-language training and staff training in Australia. Work to promote strategic policy development was undertaken with each of the three countries.

Defence participation at regular multilateral Asean Regional Forum meetings, and active involvement in confidence-building activities, complemented defence bilateral cooperation in the region.

Table 2.19: South East Asia Summary⁽¹⁾

	1999-00 Actual	2000-01 Actual	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual	2002-03 Budget Estimate
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Singapore	246	296	585	530	441	530
Philippines	4,795	3,551	3,824	3,944	3,175	3,944
Thailand	5,463	4,875	5,729	5,582	4,528	5,300
Malaysia	6,200	6,003	5,267	5,317	4,380	5,287
Indonesia	5,234	3,355	4,584	4,745	5,131	4,745
East Timor	0	4,570	6,590	6,590	8,715	6,590
Vietnam	678	1,458	2,093	2,227	2,233	2,447
Cambodia and Laos	1,121	603	1,201	938	970	1,000
Brunei	0	0	90	90	95	120
Total	23,739	24,711	29,963	29,963	29,668	29,963

Note

- Note figures may not add due to rounding

Singapore

During the past year, the strong and longstanding defence relationship with Singapore was further enhanced by reciprocal ministerial visits in July 2001, for the Singapore Australia Joint Ministerial Committee, and in February 2002 for Asian Aerospace 2002. Our shared concern for regional security was further developed at the International Institute of Strategic Studies 'Shangri-La Dialogue' held in Singapore in May-June 2002. A multi-agency delegation visited Australia, in June 2002, to discuss Australia's approach to homeland defence as part of our shared commitment to regional security. Singapore continued to conduct regular unilateral training during October to December 2001 at the Shoalwater Bay Training Area, and had permanent Republic of Singapore Air Force training detachments at RAAF Pearce (WA), RAAF Williamtown (NSW), and Oakey (Qld).

Philippines

A broad program of dialogue and training was enhanced by the holding of the third Philippines-Australia Strategic Forum and the formation of a Philippines-Australia Defence Alumni in time for the 30th anniversary of Defence Cooperation in 2002. The expenditure shortfall for 2001-02 was due primarily to the reduced take-up rate of individual military training and the postponement of some dialogue opportunities.

Thailand

The biennial Joint Australia-Thailand Defence Policy Forum was held in Bangkok in February 2002. This high-level body agreed to form a materiel cooperation forum to examine the potential for defence industry cooperation. A Thailand-Australia Defence Alumni was formed in time for the 30th anniversary of Defence Cooperation in 2002. The expenditure shortfall for 2001-02 was due primarily to the reduced take-up rate of individual military training.

Malaysia

Strategic dialogue was further enhanced through a visit by the Australian Minister for Defence to his counterpart, in May 2002, and through a strategic refocusing of existing dialogue structures under the Malaysia-Australia Joint Defence Program. The ADF maintained a rifle company and a small Air Force detachment at RMAF Butterworth. In addition, there were 11 ADF officers on various integrated exchanges and attachments with the Malaysian Armed Forces. The current operational tempo affected the level of combined exercises with Malaysia, but the strong bilateral relationship was not affected. The expenditure shortfall for 2001-02 was due primarily to the reduced take-up rate of individual military training.

Indonesia

In conjunction with other government agencies, Defence enhanced cooperation with Indonesia under the terms of the Memorandum of Understanding between Australia and Indonesia on Combating International Terrorism, signed during the Prime Minister's February 2002 visit to Jakarta. High-level visits and bilateral dialogue remained a key component of our engagement program. The Minister for Defence visited Indonesia in March 2002 and Defence held a number of bilateral defence policy discussions at the senior-official level over the year.

In 2001-02, 100 positions were offered to Indonesia on non-combat-related training programs in Australia. Defence continued to provide funding for a three-man ADF Nomad maintenance team, based in Surabaya. The increase in initially budgeted expenditure for 2001-02 was due primarily to unforeseen costs related to this project and the need to fund additional non-combat-related training programs during the year.

East Timor

Australia's Defence Cooperation Program with East Timor, which commenced in February 2001, was expanded throughout 2001-02 to support the development of an affordable, sustainable and effective East Timor Defence Force.

A major works project, the construction of a Training Camp at Metinaro, was completed during the period. A communications project, to provide infrastructure, equipment and training in voice and data communications for the East Timor Defence Force, commenced in 2001-02. The first East Timor Defence Force officers to train in Australia completed a course at the Royal Military College, Duntroon. The number of Australian Defence personnel deployed to East Timor under the Defence Cooperation Program increased to around 30. This was due mainly 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 Battalion.

The significant increase in actual expenditure, compared to the revised estimate for the Defence Cooperation Program with East Timor in 2001-02, was due primarily to an increase in the scope of activities under the program in the second half of the year. This included the construction cost of the Metinaro Training Camp, meeting requests from the East Timor Defence Force for the provision of basic military equipment and stores, such as webbing and compasses, and increased in-country staffing costs, particularly the training advisers with the Force's 1st Battalion at Los Palos. There was also an unanticipated East Timor Defence Force communications project, that was essential, to ensure the centralised command and control of its isolated units outside Dili.

Vietnam

The relationship with Vietnam was expanded through staff college attendance, opportunities for dialogue and in-country projects dealing with English-language training, malaria research and disaster management. In July 2001, the ADF conducted a basic watermanship course in Vietnam. The increase in funding from 2000-01 was due primarily to expanded opportunities for dialogue and English-language and staff training.

Cambodia and Laos

Work undertaken to date in Cambodia, dealing with infrastructure, strategic policy and training capability, was expanded to include support to the Royal Cambodian Armed Forces health services. Support with English-language training remained the predominant Defence Cooperation activity with both Laos and Cambodia.

Brunei

The relationship with Brunei involved the signing of guidelines for defence materiel cooperation in October 2001, and the successful conduct of Exercise Mallee Bull in April 2002. A Memorandum of Understanding to assist the Royal Brunei Armed Forces with aircraft standardisation was signed in June 2002, with a report produced the same month. These activities built on the modest fee-for-service relationship that included training, strategic policy cooperation and exercises.

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 both been resumed, with India in mid-2000 and Pakistan in September 2001. The relationship with Bangladesh remained ongoing through this period.

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 visits to and from India. The development of strategic dialogue with India was a significant factor in enhancing broader engagement with a major regional state.

Pakistan

Defence Cooperation with Pakistan comprised staff college exchanges, which commenced in 2001-02. Other initiatives were deferred, owing to the tensions in South Asia and the threat environment in parts of Pakistan.

Bangladesh

Defence Cooperation with Bangladesh facilitated the visit by the National Defence College of Bangladesh to Australia in late 2001 and discussions were conducted on further training initiatives.

FACILITIES FOR TRAINING

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 will not be reported separately in future.

OUTPUT SIX: INTELLIGENCE

The Defence 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.

In accordance with investment priorities established in the Defence White Paper, the Group has worked with capability planners to develop a program of substantial and sustained investment in enhanced intelligence capabilities, including:

- the ability comprehensively to monitor and report on several crises concurrently and to provide effective operational support to deployed forces;
- enhanced signals intelligence and imagery collection capabilities;
- enhanced geospatial information systems;
- improved intelligence processing and dissemination systems; and
- deeper levels of cooperation with the United States in some key systems.

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. Following the 11 September 2001 terrorist attacks in the United States, all agencies within the Group devoted additional intelligence effort to support counter-terrorism activities and ADF operations in areas such as Afghanistan. Additional intelligence support was provided in relation to border security operations. The increased intelligence effort for the response to terrorism and the increased tempo of ADF operations placed additional demands on the Group's resources. Some agencies received budget supplementation to support these increased demands. International developments led to even closer cooperation with the United States and other key intelligence partners.

The Group maintained a high state of readiness. Intelligence operations and capabilities provided real-time and near real-time intelligence analysis and products on a continuous basis. Services and products were tailored to specific customer requirements. The Group was able to sustain intelligence support at the required higher level during 2001-02. However, that tempo cannot be sustained indefinitely without detriment to other priority activities. Efforts to improve sustainability will continue.

MITIGATION OF KEY RISKS

The Group faced the continuing challenge of retaining and recruiting appropriately qualified staff, due to market competition and shortages of Service personnel throughout Defence. Additional resources were provided to alleviate some of these pressures in the future. The relevance and timeliness of intelligence product were

maintained by robust quality control measures, improved customer focus and continued investment in new technology.

PERFORMANCE TARGETS

Provide quality intelligence products and services.

Achieved

A wide range of intelligence products and services were 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.

Through continuing close engagement with its customers, the Group received consistent positive feedback on the accuracy, timeliness and relevance of its products. Customer engagement staff ensured responsiveness to customer requirements and that any shortcomings were addressed.

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 capability was sufficient to meet customer requirements. Some current shortcomings will be remedied over the next few years by the commencement of new major capital equipment projects.

The Defence Imagery and Geospatial Organisation, established in November 2000, consolidated its role in providing imagery intelligence products and geospatial support. It now routinely produces integrated imagery and geospatial products for national and Defence customers, while it positions itself for future system enhancements and an updated role for its geospatial arm. The organisation also coordinates imagery and geospatial standards and specifications for the whole of Defence.

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. 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 work energetically 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.

Improve investment and capability planning, accountability and resource and security management.

Substantially Achieved

The Group took steps to improve investment and capability planning by the development of internal processes and by closer interaction with whole-of-Defence processes, especially the development of the Defence capability planning guidance and involvement with the Defence Capability and Investment Committee.

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.

Following the passage of the *Intelligence Services Act 2001* and the inquiry by the Inspector-General of Intelligence and Security into the activities of the Defence Signals Directorate during the MV Tampa episode, the Defence Signals Directorate progressed a number of initiatives to tighten internal procedures. These included preparation of a new, comprehensive instruction detailing internal procedures to ensure correct application of the Act's provisions protecting the privacy of Australians. This instruction forms the basis for a series of enhancements to the Directorate's training regime, including a new mandatory course for relevant staff based on the lessons learnt from the MV Tampa episode.

Further progress was made on the implementation of security measures recommended by the Inspector-General of Intelligence and Security in his report, *Inquiry into Security Issues*. Most of the recommendations in the report have now been implemented and remaining measures will continue to be addressed. Progress, to date, has been well received by the Inter-Agency Security Forum and the Inspector-General of Intelligence and Security.

Resource management was strengthened by more centralised financial and workforce planning in the group.

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 are in train, 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 conducted staff surveys and implemented a range of measures in response to the survey results, including renewed emphasis on management communications with staff and on supervisor training in the giving and receiving of feedback.

Other training and development activities included leadership-training courses, improvement of training facilities and a range of specialist training activities.

PRICE TO GOVERNMENT**Table 2.20: Price of Output Six – Intelligence**

	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Result	Variation
	\$m	\$m	\$m	\$m
Operating Expenses				
Employee Expenses - Military	57	60	44	-16
Employee Expenses - Civilian	108	108	108	0
Supplier Expenses - Non-Inventory	117	123	106	-17
Supplier Expenses - Inventory Consumption	0	0	2	2
Depreciation and Amortisation	78	79	64	-15
Write down of assets	1	1	7	6
Other Expenses	1	1	0	-1
Total Operating Expenses	362	372	331	-41
Capital Use Charge	30	30	24	-6
Total Cost of Output	392	402	355	-47
<i>Less:</i> Own-source Revenue	7	5	8	3
<i>Less:</i> Assets Now Recognised	0	0	8	8
Price to Government	385	397	339	-58

EXPLANATION OF SIGNIFICANT VARIATION

The overall price of Output Six was \$58m less than the revised estimate. This variation is explained primarily by the revised cost attribution methodology used for outputs.

Other variations were mainly the result of technical accounting adjustments relating to assets and a fall in activity levels in the latter half of 2001.

CHAPTER THREE

RESULTS FOR GOVERNMENT AS DEFENCE'S OWNER

2001-02 FINANCIAL STATEMENTS

CAPITAL BUDGET

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

**ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND
ENVIRONMENTAL PERFORMANCE**

PUBLIC AFFAIRS AND CORPORATE COMMUNICATION

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 2002. 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; and
- Notes to and forming part of the Financial Statements.

The Department's Acting 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's financial performance, its financial position 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 2002 reports inventory of \$3.62 billion and includes repairable items of \$2.77 billion which are reported in Specialist Military Equipment.

Owing to inadequacies in the Department's inventory systems, the effects of which are described in Note 20, I have been unable to form an opinion on the reported amount of inventory.



In addition, owing to inadequacies in the Department's repairable items system, I am unable to form an opinion on the amount of \$2.77 billion for these items included in the reported amount of Specialist Military Equipment.

For the reasons given, the effects of the inadequacies with respect to inventory on the financial statements and with respect to repairable items on the Statement of Financial Performance are not able to be measured reliably, thereby limiting the scope of the audit.

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 2002, and its financial performance and cash flows for the year then ended.

Australian National Audit Office



Michael J. Watson
Group Executive Director
Delegate of the Auditor-General

Canberra
25 October 2002



Department of Defence

STATEMENT BY THE CHIEF EXECUTIVE AND CHIEF FINANCE OFFICER

In our opinion, the attached financial statements give a true and fair view of the matters required by Schedule 1 to the Finance Minister's Orders made under section 63 of the *Financial Management and Accountability Act 1997*. There is, however, some uncertainty in relation to the pricing of aged inventory and the Standard Defence Supply System (SDSS) asset position accounts as in prior years, (Notes 19 and 20 refer).

Signed.....



M.J. Roche
Acting Secretary

24 October 2002

Signed.....



Lloyd Bennett
Chief Finance Officer

24 October 2002



2001-02 FINANCIAL STATEMENTS

Department of Defence
STATEMENT OF FINANCIAL PERFORMANCE
for the year ended 30 June 2002

	Notes	2001-02 \$'000	2000-01 \$'000
Revenues from ordinary activities			
Revenues from Government	3	17,845,534	17,131,922
Sales of goods and services	4	227,878	244,832
Interest	5	15,246	33,511
Net gains on sale of assets	6	17,930	-
Net foreign exchange gains	7	3,529	20,252
Assets now recognised	8	694,050	1,103,459
Assets recognised due to change in accounting policy		-	511,693
Other revenues	9	186,464	92,112
Total revenues from ordinary activities		18,990,629	19,137,781
Expenses from ordinary activities (excluding borrowing cost expense)			
Employees	10	5,744,930	5,386,872
Suppliers	11	4,682,910	3,937,529
Grants	12	22,587	35,710
Depreciation and amortisation	13	2,526,197	2,234,956
Write-down of assets	14	1,573,635	1,098,870
Net losses on sale of assets	6	-	10,286
Other expenses	15	1,770	1,594
Total expenses from ordinary activities (excluding borrowing cost expense)		14,552,029	12,705,817
Borrowing costs expense	16	28,581	33,345
Net operating surplus from ordinary activities	2.6	4,410,020	6,398,619
Net surplus		4,410,020	6,398,619
Equity Interests			
Net operating surplus attributable to the Commonwealth	28	4,410,020	6,398,619
Net credit to asset revaluation reserve	28	986,851	1,113,600
Total revenues, expenses and valuation adjustments attributable to the Commonwealth and recognised directly in equity		986,851	1,113,600
Total changes in equity other than those resulting from transactions with owners as owners		5,396,871	7,512,219

The above statement should be read in conjunction with the accompanying notes.

Department of Defence
STATEMENT OF FINANCIAL POSITION
as at 30 June 2002

	Notes	2001-02 \$'000	2000-01 \$'000
Assets			
Financial assets			
Cash	17	835,153	58,303
Receivables	18	520,293	544,596
Total financial assets		1,355,445	602,900
Non-financial assets			
Land and buildings	19	8,725,100	8,163,863
Specialist military equipment	19	30,656,890	30,995,173
Other infrastructure, plant and equipment	19	4,866,110	4,488,205
Intangibles	19	164,360	161,457
Inventory	20	3,620,788	3,238,786
Other non-financial assets	21	564,424	574,963
Total non-financial assets		48,597,671	47,622,446
Total assets		49,953,117	48,225,346
Liabilities			
Interest bearing liabilities			
Finance leases	22	360,271	391,685
Other interest bearing liabilities	23	-	213
Total interest bearing liabilities		360,271	391,898
Provisions			
Capital Use Charge	24	-	-
Employees	25	2,954,603	2,732,908
Total provisions		2,954,603	2,732,908
Payables			
Suppliers	26	1,033,744	758,326
Other payables	27	15,052	72,159
Total payables		1,048,796	830,485
Total liabilities		4,363,671	3,955,292
Net assets		45,589,447	44,270,054
Equity			
Parent entity interest			
Contributed equity		1,300,047	735,076
Reserves		6,217,243	5,230,392
Retained surpluses		38,072,156	38,304,586
Total parent entity equity		45,589,447	44,270,054
Total equity	28	45,589,447	44,270,054
Current assets		2,157,718	1,426,640
Non-current assets		47,795,398	46,798,706
Current liabilities		2,079,944	1,824,132
Non-current liabilities		2,283,727	2,131,160

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 2002

	Notes	2001-02 \$'000	2000-01 \$'000
OPERATING ACTIVITIES			
Cash received			
Sales of goods and services			
Government		10,062	15,031
Non Government		251,165	230,116
Appropriations		17,843,477	17,113,920
Interest		13,206	34,690
Net GST refunds	2.16	609,766	598,015
Other cash received		115,549	59,793
Total cash received		18,843,225	18,051,565
Cash used			
Employees		(5,535,080)	(5,112,084)
Suppliers		(5,561,899)	(4,657,532)
Grants		(22,587)	(35,710)
Borrowing costs		(28,581)	(33,345)
Other cash paid		(1,770)	(3,065)
Total cash used		(11,149,916)	(9,841,736)
Net cash from operating activities	30	7,693,309	8,209,828
INVESTING ACTIVITIES			
Cash received			
Proceeds from sales of land and buildings		160,117	46,991
Proceeds from sales of specialist military equipment		553	39,926
Proceeds from sales of other infrastructure, plant and equipment		57,306	225
Total cash received		217,977	87,142
Cash used			
Purchase of land and buildings		(274,732)	(341,388)
Purchase of specialist military equipment		(2,482,883)	(2,702,214)
Purchase of other infrastructure, plant and equipment		(234,929)	(369,569)
Total cash used		(2,992,544)	(3,413,171)
Net cash used by investing activities		(2,774,567)	(3,326,029)
FINANCING ACTIVITIES			
Cash received			
Appropriations – contributed equity		754,175	93,522
Total cash received		754,175	93,522
Cash used			
Repayment of debt		(31,414)	(10,167)
Capital Use Charge paid		(4,750,290)	(5,055,287)
Withdrawal of capital		(97,884)	-
Dividends paid		(8,594)	-
Total cash used		(4,888,182)	(5,065,454)
Net cash used by financing activities		(4,134,007)	(4,971,932)
Net increase/(decrease) in cash held		784,736	(88,132)
Cash at the beginning of the reporting period		58,303	137,913
Write-down of cash		-	(9)
Effect of exchange rate movements on cash at the beginning of the reporting period		(7,886)	8,532
Cash at the end of the reporting period	17&30	835,153	58,303

The above statement should be read in conjunction with the accompanying notes.

Department of Defence SCHEDULE OF COMMITMENTS

as at 30 June 2002

	Notes	2001-02 \$'000	2000-01 \$'000
BY TYPE			
Capital commitments			
Land and buildings		419,426	201,148
Specialist military equipment		6,891,532	6,886,777
Other capital commitments		563,830	-
Total capital commitments		7,874,788	7,087,925
Other commitments			
Operating leases		794,523	572,754
Other non capital commitments		3,666,865	1,036,524
Total other commitments		4,461,388	1,609,278
Total commitments⁽¹⁾	2.14	12,336,176	8,697,203
BY MATURITY			
All commitments			
One year or less		4,425,198	1,792,286
From one to five years		6,009,834	5,838,498
Over five years		1,901,144	1,066,420
Total commitments		12,336,176	8,697,203
Operating lease commitments			
One year or less		67,981	62,273
From one to five years		279,423	199,614
Over five years		447,119	310,866
Total operating leases		794,523	572,754

Note

1. Commitments are GST inclusive where relevant.

Future commitments are disclosed at Note 44.

The above schedule should be read in conjunction with the accompanying notes.

Department of Defence
SCHEDULE OF CONTINGENCIES
as at 30 June 2002

	Notes	2001-02 \$'000	2000-01 \$'000
QUANTIFIABLE CONTINGENCIES			
Contingent losses			
Claims for damages/costs		127,518	81,893
Redundancies		1,159	25,334
Military compensation		-	27,200
Other contingent losses		985	-
Total contingent losses		129,662	134,427
Contingent gains			
Claims for damages/costs		108,673	38,256
Total contingent gains		108,673	38,256
Net quantifiable contingencies		20,989	96,171

UNQUANTIFIABLE CONTINGENCIES

One hundred and ninety-nine 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 60, claims have been settled.

A number of claims for damages 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 how many further dependency claims may be made in the future. Those 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.

Defence is continuing its processing of common law claims from people who are seeking compensation as a result of injuries due to asbestos exposure in respect of Defence buildings. Defence has established a specialist legal cell to deal with these claims.

The RAAF Board of Inquiry, covering the desealing and resealing of the F-111 fuel tanks at Amberley, has identified health issues that may be the subject of future claims. To complement the inquiry, a comprehensive health study is currently being undertaken by the Department of Veterans' Affairs. One claim of \$1.2m has been made to date. Completion of this study in 2003 may result in further claims for compensation.

There is an emerging pattern of claims of compensation of property owners resulting from training activities by the RAAF, operational activities at ordnance depots as well as firing range activities.

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.

In April 2001, the Federal Court of Australia dismissed an action brought by Kockums to seek an injunction to prevent the Commonwealth of Australia (represented by the Department of Defence) delivering a submarine propeller to the United States for modification. In broad terms, Kockums argued that the proposed action by the Commonwealth of Australia (through the Department of Defence) would infringe the intellectual property rights (copyright and confidential information) in the design of the propellers. Kockums has appealed the decision to the full Federal Court of Australia and was successful. The matter was referred back to the original court. At reporting date, proceedings are yet to be recommenced and, accordingly, the outcome cannot yet be quantified. Comcover has been notified.

Remote contingencies are disclosed at Note 45.

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 2002

Notes

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Department of Defence
Notes To And Forming Part Of The Financial Statements
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Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2002

Objective of Defence and Summary of Significant Accounting Policies

Note 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 outputs 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.

For 2001-02, Defence redefined its classification of outputs. These are reported in Note 47.

Note 2 Summary of Significant Accounting Policies

2.1 Basis of Accounting

The financial statements are required by section 49 of the *Financial Management and Accountability Act 1997* and constitute a general purpose financial report.

The statements have been prepared in accordance with:

- *Finance Minister's Orders* (being the *Financial Management and Accountability (Financial Statements 2001-2002) Orders*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board;
- other authoritative pronouncements of the Board; and
- Consensus Views of the Urgent Issues Group.

The statements have also been prepared having regard to the Explanatory Notes to Schedule 1 of the *Financial Management and Accountability Act 1997*, and Finance Briefs issued by the Department of Finance and Administration.

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 operating 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 and liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are not, however, recognised unless required by an Accounting Standard. Liabilities and assets, which are unrecognised, are reported in the Schedule of Commitments (other than Future Commitments, which are reported at Note 44) and the Schedule of Contingencies (other than Remote Contingencies, which are reported at Note 45).

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2002

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 Defence in its present form, and with its present activities, is dependent on Government policy and on continuing appropriations by Parliament for the Department's outputs.

Administered revenues, expenses, assets and liabilities and cash flows reported in Notes 31 to 38 are accounted for on the same basis and using the same policies as for departmental items, except as otherwise stated in Note 2.20.

2.2 Changes in Accounting Policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2000-01, except in respect of:

- outputs appropriations (Note 2.3(a));
- revaluation of specialist military equipment (Note 2.10);
- recording of inventory (Note 2.12);
- equity injections (Note 2.13); and
- presentation and disclosure of administered items.

2.3 Revenue

The revenues described in this Note are revenues relating to the core operating activities of Defence.

(a) Revenues from Government

The full amount of the appropriation for departmental outputs for the year is recognised as revenue. This is a change in accounting policy caused by the introduction of a new requirement to this effect in the *Finance Minister's Orders*. In 2000-01, output appropriations were recognised as revenue to the extent the appropriations had been drawn down from the Official Public Account.

The change in policy had no financial effect on 2001-02. This is due to the fact that the full amount of the output appropriation for 2000-01 had been drawn down in that year.

(b) 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 specialist military equipment as per Note 2.10) unless transferred from another Commonwealth government agency as a consequence of a restructuring of administrative arrangements (refer to Note 2.19).

(c) 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 on 1 July 1999, Defence manages its own cash bank accounts and investments. Interest revenue is recognised as it is earned, on a proportional basis taking into account the interest rates applicable to financial assets.

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.

Department of Defence

Notes To And Forming Part Of The Financial Statements

for the year ended 30 June 2002

The scheduled delivery of goods and/or the rendering of a service is 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 disclosed 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 in relation to an asset class are recovered through the revaluation process. Any increments greater than previous decrements are reflected in the Asset Revaluation Reserve.

2.4 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.

2.5 Leases

Finance leases are those which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership. Operating leases are those where the risks and benefits are not substantially transferred to the lessee. 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 reduction of the principal and interest 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 2001-02 financial year, Defence entered into a number of finance leases in relation to married quarters for Australian Defence Force (ADF) personnel. These are reflected in Note 22.

2.6 Capital Use Charge

A Capital Use Charge of 11 per cent (2000-01: 12 per cent) has been imposed by the Commonwealth Government as a return on its equity invested in Defence (calculated by reference to the net assets in the Statement of Financial Position). Capital Use Charge is paid out of Defence's net surplus, as shown in Note 28 (Equity).

The charge is adjusted to take account of asset gifts and revaluation increments during the financial year.

2.7 Employee Entitlements

Defence comprises two employment components: Australian Public Service (APS, ie civilians) and ADF (ie military) personnel. Employee entitlements for each workforce component are based on the relevant employment agreements and legislation.

(a) Leave

The liability for leave entitlements 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 expected to be taken in future years by employees of Defence is estimated to be less than the annual entitlement for sick leave.

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The liability for annual leave for APS staff reflects the value of total annual leave entitlements of all such employees at 30 June 2002 and is recognised at the nominal amount.

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 2002. The liability is recognised as the best estimate of the nominal amount required to settle the obligation as at the reporting date.

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 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 2001-02 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 2002.

(b) Separations and Redundancies

The provisions for redundancies for both APS and ADF personnel arise from obligations flowing through 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. Contingent redundancies have been included in the Schedule of Contingencies and are generally dependent upon the results of market testing.

(c) Superannuation

APS employees of the Department contribute to the Commonwealth Superannuation Scheme or the Public Sector Superannuation Scheme. No liability is shown for APS superannuation in the Statement of Financial Position as the employer 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.

ADF employer superannuation contributions, pension payments, member contributions and the provision for unfunded superannuation are reflected in Administered items (refer to Note 2.20).

Superannuation on-costs have been added to the provisions for annual leave and long-service leave in respect of both ADF and APS employees.

The Statement of Financial Position does show accrued employer contributions for APS and ADF staff which is owing by Defence to the Commonwealth.

(d) Military Workers' Compensation

The provision for ADF workers' compensation reflects the actuarial assessment of the liability for outstanding claims for injuries incurred up to 30 June 2002.

The Australian Government Actuary provides annual updates of the provision. The Actuary has pointed out that, by its nature, there is significant volatility in the assessment. This arises from, for example, changing claims experience over time.

(e) 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 due to expire in November 2002. No pay rises remain to be applied up to and including November 2002. Details on the future agreement for ADF personnel and related financial statement impacts were not available at the date that these financial statements were signed.

A new agreement for non-executive APS personnel was registered with and certified by the Industrial Relations Commission in May 2002. The agreed pay rises are three per cent backdated to 3 January 2002, three per cent in September 2002, and three per cent in May 2003. In addition, a \$500 'top-up' amount is to be added to the top of salary ranges in November 2002.

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Remuneration for executives (being members of the Senior Executive Service or equivalent) is subject to individual agreements.

2.8 Cash

Cash means notes and coins held, as well as any deposits held at call with a bank or financial institution.

2.9 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.

2.10 Property, Plant and Equipment

Assets are recorded at cost of acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

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 (with the exception of specialist military equipment). 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 transferor agency's accounts immediately prior to the restructuring.

Defence is carrying some assets-in-use at a nil net book value.

(a) Asset Recognition Threshold

Purchases of property, plant and equipment are recognised initially at cost where they meet the capitalisation threshold. Assets costing less than the threshold of \$10,000 are to be expensed (applies for all classes of property, plant and equipment). However, items below the threshold are to be recognised as group assets if, as a group, they are valued over \$50,000. Some assets may not be recognised due to the lack of reliable measurement.

(b) Revaluations

In accordance with the requirements of the *Finance Minister's Orders*, Defence adopted the deprival basis for the measurement of non-current assets during 2001-02, with the exception of specialist military equipment.

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 deprival method of valuation over a three-year revaluation cycle, so that values are no greater than three years old. This policy also applies to assets under finance leases. The current progressive revaluation cycle began on 1 July 1999 and concluded on 30 June 2002, with the exception of specialist military equipment as noted later in these accounting policies.

The deprival method differentiates between assets for which the service potential would be replaced if lost and assets that are surplus to requirements or that would not be replaced. For those that would be replaced, land is valued at its current market buying price and other assets are valued at depreciated replacement cost. Surplus assets are measured at their net realisable value.

Any total net revaluation increment or decrement in relation to an asset class is reflected in the Asset Revaluation Reserve. Exceptions, where the change is reflected in the Statement of Financial Performance, occur when an increment reverses a previous decrement that was expensed or the Reserve has no amount relating to an asset class against which a decrement can be charged.

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.

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AUC are not revalued but are accounted for at cost and are separately identified as 'under construction' in Note 19 (Table E). Flowing from a comprehensive review of capitalised project expenditure, significant adjustments have occurred by way of write-down in 2001-02. In addition to reviewing expenditures from the point of rollout into service, AUC expenditures are now also considered on a life-to-date basis.

Defence has implemented its progressive revaluations as follows.

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 2001-02.

Specialist Military Equipment

Specialist military equipment is no longer required to be revalued. This is in accordance with *Finance Minister's Orders*.

Australian Accounting Standard AASB1041 Revaluation of Non Current Assets was reissued in July 2001. This standard applies to annual reporting periods ending on or after 30 September 2001 and supersedes *Australian Accounting Standard AAS 38 Revaluation of Non Current Assets*.

Those specialist military equipment assets on the Statement of Financial Position as at 1 July 2001 have been measured using the deemed cost method under the transitional arrangements of this standard. There is no requirement to determine the current or future impact of this change under the transitional arrangements. Specialist military equipment acquired or purchased from 1 July 2001 will be measured at the cost of acquisition.

Write-downs of specialist military equipment during 2001-02 were assessed on a more regular basis, compared to an annual basis in the prior year. More reliable information used in 2001-02 resulting from this change in asset accounting processes is reflected in Note 14.

(c) Recoverable Amount Test

The *Finance Minister's Orders* require the application of the recoverable amount test to departmental assets in accordance with *Australian Accounting Standard AAS 10 Recoverable Amount of Non Current Assets*. This would require Defence to write-down the carrying amount of assets to their recoverable amounts if anticipated net cash flows were insufficient to support holding and operating those assets. Since revenue received by Defence is largely from appropriations for the price of delivery of outputs, and these are not associated with individual assets or groups of assets, the test was applied to all departmental assets as one group. Other sources of revenue, and the assets associated with them, are insignificant. Expected net cash flows used in the test were not discounted to their present value.

Cash flows from the Government are based on the rolling estimates agreed with the Government and the Department of Finance and Administration. In the absence of indications to the contrary, levels of funding reflected in the current estimates were assumed, for the purpose of the test, to continue or not to fall faster than operating costs for the relevant expected capability period which may approach thirty years in relation to some Defence assets.

It is likely that future operating costs, taking account of achievable cost reductions, will be covered by future funding for outputs. That funding would include an amount based on depreciation expense for existing assets. Note 2.1 refers to the dependence of Defence on future support from the Government and the Parliament. Under these circumstances, it was not necessary for Defence to write-down the value of any of its assets because of application of the recoverable amount test.

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(d) Depreciation and Amortisation

Items of property, plant and equipment are written off 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:

Class	2001-02	2000-01
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
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 13.

(e) 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.

(f) 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.

2.11 Intangibles

Defence's intangible assets include software (purchased, enhanced and internally developed), patents, licences, computer models, copyright and other intellectual property.

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 reliably measured intangible assets at cost or at replacement value where original costs are unknown. Therefore some assets may not be recognised due to lack of reliable measurement. These assets include some major internally developed software and certain items of intellectual property of a Defence specific nature.

The carrying amount of each non-current intangible asset is reviewed to determine whether it is in excess of the asset's recoverable amount. If an excess exists as at the reporting date, the asset is written down to its recoverable amount immediately. In assessing recoverable amounts, the relevant cash flows, including the expected cash inflows from future appropriations by the Parliament, have not been discounted to their present value.

No write-down to recoverable amount has been made in 2001-02.

Intangible assets are amortised on a straight-line basis over their anticipated useful lives.

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2.12 Inventory

Inventory is not ordinarily held by Defence for sale. Sales recorded represent inventory surplus to requirements and minor fuel sales. Inventory is brought to account at weighted average cost. Costs are assigned to inventory issued into use on the same basis. Where inventory is no longer required, it is held at net realisable value.

Previously, as historic cost was not available in all instances, inventory was brought to account as average cost, replacement cost or at last purchase price. Accordingly, the financial impact of the change in policy applied for 2001-02 is not reliably quantifiable.

Inventory is considered obsolete or obsolescent based upon the nature of current inventory levels and expected usage of such assets in the achievement of Defence's outcome.

2.13 Transactions by the Government as Owner

From 1 July 2001, appropriations designated as 'Capital – equity injections' are recognised directly in Contributed Equity according to the following rules determined by the Finance Minister to the extent that:

- the appropriation is not dependant on future events as at 1 July; and
- it is dependent on specified future events requiring future performance on drawdown.

In 2000-01, all equity injections were recognised as contributed equity on drawdown.

The change in policy had no financial effect in 2001-02 because the full amounts of the equity injections in both 2000-01 and 2001-02 met the criteria now required by the Finance Minister.

Net assets received under a restructuring of administrative arrangements are designated by the Finance Minister as contributions by owners and adjusted directly against equity. Net assets relinquished are designated as distributions to owners. Net assets received are initially recognised at the amounts at which they were recognised by the transferring agency immediately prior to the transfer.

2.14 Commitments

In the Schedule of Commitments, Capital Commitments are obligations arising under agreements equally proportionately unperformed for capital expenditure contracted as at 30 June 2002. Defence also reports details on Future Commitments in Note 44. The period between approval for a capital project to proceed and the awarding of contracts is the period of future commitment.

2.15 Financial Instruments

Accounting policies for financial instruments are detailed in Note 39.

2.16 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 GST 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.

2.17 Insurance

Defence has insured for key insurable risks through the Government's insurable risk managed fund, called Comcover. Where Comcover is unable to provide, or does not provide, cover, Defence may self-insure or seek cover from an alternative provider. Workers compensation for civilians is insured through Comcare Australia. Defence meets the cost of benefits for military compensation on an emerging cost basis.

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2.18 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.

2.19 Transfer of Function

During the year, in complying with *Administrative Arrangement Orders*, Emergency Management Australia and its functions were transferred to the Attorney-General's portfolio. The financial implications of this transfer are set out in Note 29.

2.20 Reporting of Administered Activities

Administered revenues, expenses, assets, liabilities and cash flows are presented in the Notes to these financial statements. In 2000-01, summary information was presented in Schedules following the primary departmental statements. Either presentation is permitted by *Australian Accounting Standard AAS 29 Financial Reporting by Government Departments*.

These financial statements do not report the receipt of administered appropriations from the Official Public Account (OPA) as administered revenues, nor are transfers of administered receipts to the OPA reported as administered expenses. This change in 2001-02 acknowledges that the administered activities of agencies are performed on behalf of the Commonwealth Government and it is not appropriate to identify resources transferred between administered activities of different agencies as revenues and expenses of the administered entity. Generally, therefore, the notes to these financial statements do not report any transactions or balances that are internal to the administered entity. One exception is the disclosure of administered cash flows, since cash transferred between the OPA and Defence's administered bank account is necessary for the completeness of the cash flow disclosures.

Accounting policies that are relevant only to the administered activities of Defence are disclosed below.

(a) Revenue

All administered revenues are those amounts relating to the core operating activities performed by Defence on behalf of the Commonwealth.

(b) Grants

Grant liabilities are recognised to the extent that the services required to be performed by the grantee have been performed or the grant eligibility criteria have been satisfied. A commitment is recorded when the Government has a binding agreement to make the grants but services have not been performed or criteria satisfied. Where grants moneys are paid in advance of performance or eligibility, a prepayment is recognised.

(c) 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 from 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 33.

(d) Superannuation

The Defence Force Retirement and Death Benefits Scheme and the Military Superannuation and Benefits Scheme are defined benefit superannuation plans for ADF members. ADF employer superannuation contributions, pension payments, member contributions and the provision for unfunded superannuation are reflected in administered items. The military superannuation

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provision has been adjusted upward by \$900m for 30 June 2002 based upon advice received from the Australian Government Actuary.

(e) Financial Instruments

Accounting policies for financial instruments are detailed in Note 38.

(f) 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.

The Commonwealth has an agreement with the university to provide funding for costs incurred for delivery of military education and training services at the academy. In prior financial years, 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. The recognition of this liability has been reviewed in 2001-02. As a consequence of this review and new information that has come to light, this liability has been removed. The leave entitlements and unfunded superannuation component have been disclosed as an unquantifiable commitment.

2.21 Executive Remuneration

Remuneration for executives of Defence (being members of the Senior Executive Service or equivalent) is disclosed where the amount received or due and receivable for the financial year is \$100,000 or more.

Remuneration means any money, consideration or benefit (and includes wages and salaries, accrued leave, performance pay, accrued superannuation, the cost of motor vehicles, housing, allowances and fringe benefits tax included in remuneration agreements) but does not include:

- amounts paid to an executive employed by Defence where the person worked during the financial year wholly or mainly outside Australia during the time the person was so employed; or
- amounts in payment or reimbursement of out-of-pocket expenses incurred for the benefit of Defence.

2.22 Comparative Figures

The 2000-01 comparative figures have been adjusted, where required, to conform with presentational changes required for these financial statements. In relation to Note 47, disclosure of comparatives has been determined as impractical and has not been reported.

2.23 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, Waivers and Defective Administration Payments;
- Remuneration of Executives;
- Remuneration of Auditors;
- Appropriation note disclosures; and
- Special Public Money.

Totals are the sum of unrounded amounts.

2.24 Events Occurring after Balance Date

There have been no events occurring after balance date which have had a significant effect on the matters reported in these financial statements.

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Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2002
Departmental - Revenues and Expenses

		2001-02	2000-01
		\$'000	\$'000
Note 3	Revenues from Government		
	Appropriation for outputs	17,843,477	17,113,920
	Resources received free of charge	2,057	18,002
	Total revenues from Government	<u>17,845,534</u>	<u>17,131,922</u>
Note 4	Sales of Goods and Services		
	Goods		
	Sale of surplus inventory	1,570	836
	Fuel sales to foreign governments	44,129	48,000
	Total goods	<u>45,698</u>	<u>48,836</u>
	Services		
	Housing rentals	97,868	102,322
	Operational exercises, training and facilities	25,134	42,657
	Rations and quarters	37,676	32,923
	Rental of Defence property (non housing)	5,916	8,648
	Other services	15,585	9,446
	Total services	<u>182,180</u>	<u>195,996</u>
	Total sales of goods and services	<u>227,878</u>	<u>244,832</u>
	Goods and services were sold as follows:		
	Government	10,062	15,031
	Non Government	217,816	229,801
	Total	<u>227,878</u>	<u>244,832</u>
Note 5	Interest		
	Interest on deposits and bank accounts	15,246	33,511
	Total interest	<u>15,246</u>	<u>33,511</u>

Department of Defence
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	2001-02 \$'000	2000-01 \$'000
Note 6		
Net Gains/(Losses) from Sales of Assets		
<i>Land and buildings</i>		
Proceeds from sale	120,031	46,991
Net book value at sale	(107,472)	(47,758)
Net gains/(losses) from sales of land and buildings	12,559	(767)
<i>Specialist military equipment</i>		
Proceeds from sale	553	39,926
Net book value at sale	(92)	(40,134)
Net gains/(losses) from sales of specialist military equipment	461	(208)
<i>Other infrastructure, plant and equipment</i>		
Proceeds from sale	57,306	255
Net book value at sale	(52,399)	(9,566)
Net gains/(losses) from sales of other infrastructure, plant and equipment	4,909	(9,311)
Total Net Gains/(Losses) from Sales of Assets	17,930	(10,286)
Note 7		
Net Foreign Exchange Gains		
Foreign exchange gains		
Non speculative	25,191	42,102
Total foreign exchange gains	25,191	42,102
Foreign exchange losses		
Non speculative	(21,662)	(21,850)
Total foreign exchange losses	(21,662)	(21,850)
Total net foreign exchange gains	3,529	20,252
Note 8		
Assets Now Recognised		
Property, Plant and Equipment		
Specialist military equipment	567,829	(1)
Land and buildings	731	(1)
Other infrastructure, plant and equipment	6,462	(1)
Software and intangibles	8,078	(1)
Total property, plant and equipment	583,100	879,970
Inventory		
Inventory	110,950	223,489
Total inventory	110,950	223,489
Total assets now recognised⁽²⁾	694,050	1,103,459

Notes

1. A breakdown for comparatives was not available.
2. Refer to commentary provided at Note 14.

Department of Defence
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for the year ended 30 June 2002

	2001-02 \$'000	2000-01 \$'000
Note 9		
Other Revenues		
Revenue now earned ⁽¹⁾	58,668	-
Sales of materials and services	30,341	19,922
Foreign military sales refunds	15,163	11,731
Exercise refunds	12,461	-
Settlement of damages	9,631	-
Refund of Fringe Benefits overpayments	5,130	-
Miscellaneous revenues	55,070	60,460
Total other revenues	186,464	92,112

Note

- This amount 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.

Note 10		
Employee Expenses		
Australian Public Service (APS) employee expenses		
Salaries and wages (including leave)	907,570	775,318
Salaries and allowances paid overseas	15,330	12,615
Other allowances	6,770	12,261
Employer superannuation contributions	127,851	116,325
Redundancies	9,228	20,080
Health services	1,187	1,169
Workers compensation premiums	11,146	10,855
Fringe benefits tax	4,902	8,037
Other employee expenses	2,134	-
Total APS employee expenses	1,086,118	956,661
Australian Defence Force (ADF) employee expenses		
Salaries and wages (including leave)	2,512,236	2,439,979
Salaries and allowances paid overseas	240,244	181,123
Other allowances	254,422	196,082
Employer superannuation contributions	621,097	568,135
Housing	323,992	327,529
Workers compensation	268,108	278,410
Health services	110,098	84,839
Redundancies	2,413	15,774
Fringe benefits tax	240,196	250,394
Other employee expenses	86,005	87,946
Total ADF employee expenses	4,658,812	4,430,211
Total employee expenses	5,744,930	5,386,872

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	2001-02	2000-01
	\$'000	\$'000
Note 11		
Suppliers Expenses		
Supply of goods and services		
General goods and services	718,728	529,314
Communications and information technology	180,316	194,601
Consultants and professional services	280,276	182,070
Domestic travel	168,688	161,516
Training	142,864	119,404
Removal costs	117,963	116,704
Utilities	96,903	112,308
Overseas travel	75,562	61,680
Advertising	39,702	44,755
Freight and storage	42,007	40,641
Security services	18,519	16,418
Total supply of goods and services	1,881,527	1,579,412
Inventory consumption		
Inventory consumption	807,123	667,570
Total inventory consumption	807,123	667,570
Property, plant and equipment related items		
Repair and overhaul	1,050,960	809,264
Facilities operations (non utilities)	331,708	297,058
Asset purchases not capitalised under asset policy thresholds	302,210	265,832
Operating leases	222,035	175,881
Property disposal related costs	32,467	33,016
Total property, plant and equipment related items	1,939,380	1,581,051
Other suppliers expenses		
Research and development	51,372	90,350
Woomera operations	-	9,672
Assistance to states/territories (non grants)	3,508	9,475
Total other suppliers expenses	54,880	109,497
Total suppliers expenses	4,682,910	3,937,529
Note 12		
Grants expense		
Australian Industry Development Corporation for purchase of the Australian Submarine Corporation	-	34,062
Defence rebuilding program Papua New Guinea	20,000	-
Defence Family Support Program	1,337	1,013
Research and other grants	1,250	635
Total grants expense	22,587	35,710

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	2001-02	2000-01
	\$'000	\$'000
Note 13		
Depreciation and Amortisation		
Depreciation		
Specialist military equipment	1,877,243	1,627,896
Buildings	249,590	284,785
Other infrastructure, plant and equipment	339,167	277,163
Total depreciation	2,465,999	2,189,843
Amortisation		
Assets under finance lease	26,187	27,038
Software	11,885	15,004
Intangibles	22,125	3,071
Total amortisation	60,197	45,113
Total depreciation and amortisation	2,526,197	2,234,956
Note 14		
Write Down of Assets		
Financial assets		
Cash	-	9
Bad and doubtful debts	31,029	160
Total financial assets	31,029	169
Non-financial assets		
Specialist military equipment		
Fixed assets	426,384	603,750
Major project activities expensed	904,727	415,344
Total specialist military equipment	1,331,111	1,019,094
Other property, plant and equipment		
Land and buildings	14,506	35,564
Other infrastructure, plant and equipment	54,820	3,750
Software and Intangibles	8,182	1,695
Total other property, plant and equipment	77,508	41,009
Total property, plant and equipment	1,408,619	1,060,103
Inventory		
Write-down of inventory	101,260	110,052
Net inventory obsolescence write-down/(write back)	32,727	(71,453)
Total inventory	133,987	38,599
Total non-financial assets⁽¹⁾⁽²⁾	1,542,606	1,098,701
Total write-down of assets	1,573,635	1,098,870

Note

- A significant substantiation exercise has been undertaken resulting in a number of asset related adjustments which have led to the write-offs and assets now recognised, referred to above and in Note 8 respectively. Specifically, with respect to the \$905m write-downs of major project activities, 187 of the 193 active projects have been reviewed in detail. Some of these projects were initiated 15 years ago. These write-downs relate to a range of prior years.
- In addition to the write-down of major project activities described above, other specialist military equipment, property, plant and equipment and inventory are written down in the ordinary course of business operations.

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	2001-02 \$'000	2000-01 \$'000
Note 15		
Other Expenses		
Act of Grace and Defective Administration	343	407
Other minor expenses	1,426	1,188
Total other expenses	<u>1,770</u>	<u>1,594</u>
Note 16		
Borrowing Costs Expense		
Leases	28,191	33,345
Bank interest	390	-
Total borrowing costs expense	<u>28,581</u>	<u>33,345</u>

Departmental – Assets, Liabilities and Equity

Note 17		
Cash		
Cash on hand	1,565	1,171
Cash at bank at call	34,088	57,132
Term deposits	799,500	-
Total cash	<u>835,153</u>	<u>58,303</u>

All cash recognised is a current asset.

Note 18		
Receivables		
Gross receivables		
Goods and services	102,783	117,973
Sales of capital assets other than Defence properties	74,355	141,966
Sales of Defence properties	-	78,973
Capital Use Charge receivable	137,978	21,542
Advances and loans	71,933	79,129
Interest	2,122	83
Other receivables	61,017	24,728
Total gross receivables	<u>450,189</u>	<u>464,393</u>
Less Provision for doubtful debts	<u>(32,796)</u>	<u>(2,000)</u>
Total net receivables before net GST receivable	<u>417,393</u>	<u>462,393</u>
Plus Net GST receivable	<u>102,900</u>	<u>82,203</u>
Total net receivables	<u>520,293</u>	<u>544,596</u>
Receivables are represented by:		
Current	418,931	361,531
Non-current	101,361	183,064
Total	<u>520,293</u>	<u>544,596</u>
Gross receivables are aged as follows:		
Not overdue	390,693	433,686
Overdue by:		
Less than 30 days	26,194	14,352
30 to 60 days	3,558	1,267
60 to 90 days	1,075	538
More than 90 days	28,669	14,550
Total gross receivables	<u>450,189</u>	<u>464,393</u>

Note 19 Property, Plant, Equipment and Intangibles
Table A: Reconciliation of the opening and closing balances of property, other plant and equipment and intangibles⁽¹⁾

This table includes amounts disclosed in the other subsidiary tables within Note 19	Land	Buildings	Total Land and Buildings	Specialist Military Equipment (SME)	Other Infrastructure, Plant and Equipment (owned and leased)	Total SME, Infrastructure, Plant and Equipment	Computer Software	Other Intangibles	Total Computer Software and Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Gross value as at 1 July 2001	2,162,468	8,730,619	10,893,087	48,929,355	7,050,346	55,979,701	96,158	121,847	218,005	67,090,793
Additions: purchases of assets	6,175	264,511	270,686	2,597,854	221,134	2,818,987	20,782	1,390	22,172	3,111,845
Revaluations: write-ups/(write-downs)	170,922	173,411	344,334	(108,648)	263,676	155,028	-	-	-	499,361
Assets transferred in/(out) ⁽²⁾	212	50,084	50,296	666,473	14,028	680,501	4,318	18,043	22,361	753,159
Reclassifications	500	257	757	1,825,703	7,145	1,832,848	2,108	8,235	10,344	1,843,949
Write-offs	-	(26,936)	(26,936)	(4,172,450)	(67,351)	(4,239,801)	(9,884)	(5,336)	(15,220)	(4,281,957)
Disposals	(24,701)	(95,422)	(120,123)	(6,267)	(63,876)	(70,143)	-	-	-	(190,266)
Other movements	-	(21,085)	(21,085)	(145,948)	(106,940)	(252,888)	-	(8,235)	(8,235)	(282,208)
Gross value as at 30 June 2002	2,315,576	9,075,439	11,391,015	49,586,072	7,381,162	56,904,233	113,483	135,944	249,426	68,544,675
Accumulated depreciation/amortisation as at 1 July 2001	-	2,729,225	2,729,225	17,934,182	2,562,141	20,496,323	29,697	26,850	56,547	23,282,095
Disposals	-	(12,651)	(12,651)	(6,175)	(11,479)	(17,654)	-	-	-	(30,305)
Depreciation/Amortisation charge for the year	-	249,590	249,590	1,877,243	365,354	2,242,596	11,885	22,125	34,010	2,526,197
Revaluations: write-ups/(write-downs)	-	(259,280)	(259,280)	(29,278)	(198,931)	(228,209)	-	-	-	(487,489)
Assets transferred in/(out) ⁽²⁾	-	(3,567)	(3,567)	503,054	(759)	502,295	1,449	98	1,547	500,276
Reclassifications	-	26	26	1,257,874	683	1,258,557	466	1,800	2,266	1,260,849
Write-offs	-	(12,430)	(12,430)	(2,841,339)	(12,530)	(2,853,869)	(4,855)	(2,183)	(7,038)	(2,873,337)
Other movements	-	(24,997)	(24,997)	233,621	(252,428)	(18,807)	(466)	(1,800)	(2,266)	(46,070)
Accumulated depreciation/amortisation as at 30 June 2002	-	2,665,915	2,665,915	18,929,182	2,452,051	21,381,233	38,176	46,891	85,067	24,132,215
Net book value as at 30 June 2002⁽³⁾	2,315,576	6,409,524	8,725,100	30,656,890	4,866,110	35,523,000	75,307	89,053	164,360	44,412,460
Net book value at 1 July 2001	2,162,468	6,001,394	8,163,863	30,995,173	4,488,205	35,483,378	66,461	94,996	161,457	43,808,698

Notes

- All property, plant and equipment and intangibles are non-current.
- Included in assets transferred out are disposals due to restructuring of administrative arrangements – assets \$5.709m (2000-01: nil). Also refer to Note 29.
- Of the net book value of capital specialist military equipment \$30,657m, repairable items represent \$2,770m. Standard Defence Supply System asset position accounts represent 20 per cent of the repairable items balance.



Note 19 Property, Plant, Equipment and Intangibles (continued)

Table B: Property, plant, equipment and intangibles at cost⁽¹⁾⁽²⁾

Property, Plant, Equipment and Intangibles at Cost	Land	Buildings	Total Land and Buildings	Specialist Military Equipment (SME)	Other Infrastructure, Plant and Equipment (owned and leased)	Total SME, Infrastructure, Plant and Equipment	Computer Software	Other Intangibles	Total Computer Software and Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2002										
Gross value	7,202	337,905	345,107	41,229,485	1,343,437	42,572,922	104,269	130,158	234,427	43,152,456
Accumulated depreciation/amortisation	-	(12,168)	(12,168)	(18,929,182)	(650,611)	(19,579,793)	(38,175)	(46,891)	(85,066)	(19,677,027)
Net Book Value	7,202	325,737	332,939	22,300,303	692,826	22,993,129	66,094	83,267	149,361	23,475,429
As at 30 June 2001										
Gross value	7,953	124,833	132,786	33,385,866	1,185,659	34,571,525	89,241	13,605	102,846	34,807,157
Accumulated depreciation/amortisation	-	(7,651)	(7,651)	(14,621,633)	(542,789)	(15,164,422)	(23,423)	(2,009)	(25,432)	(15,197,505)
Net Book Value	7,953	117,182	125,135	18,764,233	642,870	19,407,103	65,818	11,596	77,414	19,609,652

Notes

- In accordance with the requirements of the *Finance Minister's Orders*, Defence adopted the deprival value basis for the measurement of non-current assets during 2001-02, with the exception of specialist military equipment. Those specialist military equipment assets on the Statement of Financial Position, as at 1 July 2001, have been measured using the deemed cost method under the transitional arrangements of AASB 1041 Revaluation of Non Current Assets. Specialist military equipment purchased from 1 July 2001 will be measured at the cost of acquisition.
- Due to the change, some specialist military equipment may be carried at a zero net book value, while still contributing to the provision of outputs.

Table C: Property, plant, equipment and intangibles at valuation⁽¹⁾⁽²⁾

Property, Plant, Equipment and Intangibles at Valuation	Land	Buildings	Total Land and Buildings	Specialist Military Equipment (SME)	Other Infrastructure, Plant and Equipment (owned and leased)	Total SME, Infrastructure, Plant and Equipment	Computer Software	Other Intangibles	Total Computer Software and Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2002										
Gross value	2,370,582	8,319,228	10,689,810	-	5,357,521	5,357,521	-	-	-	16,047,331
Accumulated depreciation/amortisation	-	(2,653,747)	(2,653,747)	-	(1,744,760)	(1,744,760)	-	-	-	(4,398,507)
Provision for land decontamination	(71,320)	-	(71,320)	-	-	-	-	-	-	(71,320)
Net Book Value	2,299,262	5,665,481	7,964,743	-	3,612,761	3,612,761	-	-	-	11,577,504
As at 30 June 2001										
Gross value	2,222,367	8,139,461	10,361,828	6,109,726	5,336,347	11,446,073	6,917	103,845	110,762	21,918,663
Accumulated depreciation/amortisation	-	(2,721,575)	(2,721,575)	(3,312,549)	(1,982,842)	(5,295,391)	(6,274)	(24,841)	(31,115)	(8,048,081)
Provision for land decontamination	(71,320)	-	(71,320)	-	-	-	-	-	-	(71,320)
Net Book Value	2,151,047	5,417,886	7,568,933	2,797,177	3,353,505	6,150,682	643	79,004	79,647	13,799,262

Notes

- In accordance with the requirements of the *Finance Minister's Orders*, Defence adopted the deprival value basis for the measurement of non-current assets during 2001-02, with the exception of specialist military equipment. Those specialist military equipment assets on the Statement of Financial Position as at 1 July 2001, have been measured using the deemed cost method under the transitional arrangements of AASB 1041 Revaluation of Non Current Assets. Specialist military equipment purchased from 1 July 2001 is measured at the cost of acquisition.

2. The revaluations of Land, Buildings and Infrastructure during the current cycle were carried out in accordance with the progressive revaluation policy stated in Note 2.10 and were all independently undertaken by the Australian Valuation Office.

Note 19 Property, Plant, Equipment and Intangibles (continued)

Table D: Property, plant, equipment and intangibles held under finance leases

Property, Plant, Equipment and Intangibles Held Under Finance Leases	Land	Buildings	Total Land and Buildings	Specialist Military Equipment (SME)	Other Infrastructure, Plant and Equipment	Total SME, Infrastructure, Plant and Equipment	Computer Software	Other Intangibles	Total Computer Software and Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2002										
Gross value	-	-	-	-	380,488	380,488	-	-	-	380,488
Accumulated depreciation/amortisation	-	-	-	-	(50,917)	(50,917)	-	-	-	(50,917)
Net book value	-	-	-	-	329,571	329,571	-	-	-	329,571
As at 30 June 2001										
Gross value	-	-	-	-	402,270	402,270	-	-	-	402,270
Accumulated depreciation/amortisation	-	-	-	-	(27,422)	(27,422)	-	-	-	(27,422)
Net book value	-	-	-	-	374,848	374,848	-	-	-	374,848

Table E: Property, plant, equipment and intangibles under construction

Property, Plant, Equipment and Intangibles Under Construction	Land	Buildings	Total Land and Buildings	Specialist Military Equipment (SME)	Other Infrastructure, Plant and Equipment	Total SME, Infrastructure, Plant and Equipment	Computer Software	Other Intangibles	Total Computer Software and Intangibles	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2002										
Gross value	9,112	418,307	427,419	8,356,587	230,952	8,587,539	9,214	5,786	15,000	9,029,958
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-	-
Net book value	9,112	418,307	427,419	8,356,587	230,952	8,587,539	9,214	5,786	15,000	9,029,958
As at 30 June 2001										
Gross value	3,468	466,326	469,794	9,433,763	116,982	9,550,745	-	4,396	4,396	10,024,935
Accumulated depreciation/amortisation	-	-	-	-	-	-	-	-	-	-
Net book value	3,468	466,326	469,794	9,433,763	116,982	9,550,745	-	4,396	4,396	10,024,935

Department of Defence
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	2001-02 \$'000	2000-01 \$'000
Note 20		
Inventory⁽¹⁾⁽²⁾		
Gross inventory		
Current	409,920	442,709
Non-current	3,718,137	3,286,673
Total gross inventory	<u>4,128,057</u>	<u>3,729,381</u>
Less Provision for obsolescence	(507,269)	(490,596)
Total net inventory	<u>3,620,788</u>	<u>3,238,786</u>
Note		
1.	Some uncertainty currently exists in relation to the pricing of aged inventory as in prior years. Defence has systematically reviewed a significant number of suspect prices, and has determined that it is neither cost effective nor practical to review all prices. The uncertainty will be reduced progressively as older inventory items are written off or consumed.	
2.	All inventory is not ordinarily held for sale.	
Note 21		
Other Non Financial Assets		
Capital prepayments	410,467	425,737
Non capital prepayments	153,957	149,226
Total other non-financial assets	<u>564,424</u>	<u>574,963</u>
Other non-financial assets are represented by:		
Current	526,510	566,162
Non-current	37,914	8,801
Total	<u>564,424</u>	<u>574,963</u>
Note 22		
Finance Lease Liabilities⁽¹⁾		
Finance leases		
Current	8,914	9,994
Non-current	351,357	381,690
Total finance leases	<u>360,271</u>	<u>391,685</u>
Finance lease obligations are due for payment as follows:		
Within one year	35,868	9,994
In one to five years	143,286	39,609
In more than five years	475,639	342,152
Total minimum lease payments	<u>654,793</u>	<u>391,755</u>
Less Future finance charges	(294,522)	(71)
Total finance leases	<u>360,271</u>	<u>391,685</u>
Note		
1.	Defence has a finance lease arrangement with the Defence Housing Authority for the supply of housing to ADF personnel.	
Note 23		
Other Interest Bearing Liabilities⁽¹⁾		
Lease incentive obligations	-	213
Total other interest bearing liabilities	<u>-</u>	<u>213</u>
Note		
1.	All lease incentive obligations are current liabilities.	
Note 24		
Capital Use Charge Provision⁽¹⁾⁽²⁾		
Opening Capital Use Charge (receivable)/provision	(21,542)	51,357
Plus Current year Capital Use Charge	4,633,854	4,982,388
Equals Sub total	<u>4,612,312</u>	<u>5,033,745</u>
Less Capital Use Charge paid	4,750,290	5,055,287
Equals Sub total	<u>(137,978)</u>	<u>(21,542)</u>
Less Capital Use Charge receivable (See Note 18)	(137,978)	(21,542)
Total Capital Use Charge provision	<u>-</u>	<u>-</u>

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Notes			
1. Amounts are payable into the Official Public Account.			
2. The Capital Use Charge provision is a current liability.			
		2001-02	2000-01
		\$'000	\$'000
Note 25	Employee Provisions		
	Australian Public Service (APS) employee provisions		
	Accrued salaries	27,414	19,901
	Annual leave	145,957	128,319
	Long service leave	207,599	177,854
	Accrued employer superannuation contributions	3,580	3,285
	Redundancies	609	3,956
	Employee taxation	1,356	3,225
	Total APS employee provisions	386,516	336,539
	Australian Defence Force (ADF) employee provisions		
	Accrued salaries	87,913	75,915
	Annual leave	452,429	394,715
	Long service leave	588,586	585,697
	Military compensation	1,342,400	1,196,000
	Accrued employer superannuation contributions	17,155	14,036
	Redundancies	2,082	3,046
	Employee taxation	51,921	88,873
	Other employee provisions	25,602	38,087
	Total ADF employee provisions	2,568,087	2,396,369
	Total employee provisions	2,954,603	2,732,908
	Employee provisions are represented by:		
	Current	1,025,044	1,015,292
	Non-current	1,929,559	1,717,616
	Total	2,954,603	2,732,908
Note 26	Supplier Payables		
	Non capital trade creditors	652,534	558,355
	Capital trade creditors	376,947	157,725
	Other suppliers	4,263	42,247
	Total supplier payables	1,033,744	758,326
	Supplier payables are represented by:		
	Current	1,033,744	726,473
	Non-current	-	31,854
	Total	1,033,744	758,326
Note 27	Other Payables		
	Federation fund money – revenue received in advance	-	59,953
	Other minor payables	15,052	12,206
	Total other payables	15,052	72,159
	Other payables are represented by:		
	Current	12,197	72,159
	Non-current	2,855	-
	Total	15,052	72,159

Note 28 Equity

Equity	Retained Surpluses		Asset Revaluation Reserve		Contributed Equity		Total Equity	
	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Opening balance as at 1 July 2001	38,304,585	36,895,452	5,230,392	4,116,792	735,076	687,170	44,270,054	41,699,414
Financial performance items for 2001-02								
Net surplus	4,410,020	6,398,619					4,410,020	6,398,619
Dividends provided for/(paid) ⁽¹⁾	(8,594)	(7,097)					(8,594)	(7,097)
Capital Use Charge ⁽²⁾	(4,633,854)	(4,982,388)					(4,633,854)	(4,982,388)
Total financial performance items for 2001-02	(232,428)	1,409,133					(232,428)	1,409,133
Asset revaluations								
Net revaluation increase/(decrease): Non-financial assets								
Net revaluation increase/(decrease): land			170,922	83,066			170,922	83,066
Net revaluation increase/(decrease): buildings			432,692	495,884			432,692	495,884
Net revaluation increase/(decrease): specialist military equipment			(79,370)	268,333			(79,370)	268,333
Net revaluation increase/(decrease): other infrastructure, plant and equipment			462,607	266,317			462,607	266,317
Total asset revaluations			986,851	1,113,600			986,851	1,113,600
Contributions/distributions of equity								
Distributions of capital					(103,397)	(45,616)	(103,397)	(45,616)
Contribution of equity: appropriation					675,202	93,522	675,202	93,522
Restructuring transfers ⁽³⁾					(6,834)	-	(6,834)	-
Total contributions/distributions of equity					564,971	47,906	564,971	47,906
Total equity attributable to the Commonwealth as at 30 June 2002	38,072,156	38,304,585	6,217,243	5,230,392	1,300,047	735,076	45,589,447	44,270,054

Notes

- The amount for 2001-02 is a voluntary dividend originating from interest revenue. The Department of Finance and Administration conducted reviews during 2001-02 to determine whether interest earned was consistent with the Government's budget-neutrality condition for agency transactional banking. This is a voluntary dividend in the absence of a Government decision determining the amount required to be distributed from equity. The amount for 2000-01 relates to a dividend for the sale of the Wollongong Hydrographic Office, which was required to be returned to the Official Public Account.
- Refer to Note 2.6 for details on the accounting policy for Capital Use Charge.
- Refer to Note 29 for details on restructuring transfers.

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	2001-02 \$'000	2000-01 \$'000
Note 29		
Restructuring		
As a result of a restructuring of administrative arrangements, Defence transferred responsibility for the Emergency Support Australia functions on 26 November 2001 to the Attorney-General's Department.		
In respect of the functions relinquished, the net book values of assets and liabilities transferred by Defence for no consideration were:		
Total assets relinquished	(7,869)	-
Total liabilities relinquished	1,035	-
Net assets relinquished	(6,834)	-
Net distribution by Government as owner during the year	(6,834)	-
Note 30		
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	835,153	58,303
Cash at year end per Statement of Financial Position	835,153	58,303
Reconciliation of net surplus to net cash from operating activities:		
Net surplus	4,410,020	6,398,619
Operating items not providing cash		
<i>Items from the Statement of Financial Performance</i>		
Net loss on foreign exchange	(3,529)	(20,252)
Assets now recognised	(694,050)	(1,103,459)
Change in accounting policy	-	(511,693)
<i>Items from the Statement of Financial Position</i>		
(Increase) in non capital receivables	(16,543)	(134,675)
(Increase) in net inventories	(294,816)	(245,022)
(Increase) in non capital prepayments	(4,731)	(91,294)
(Decrease) in other payables	(62,835)	(43,240)
Total operating items not providing cash	(1,076,504)	(2,149,635)
Operating items not using cash		
<i>Items from the Statement of Financial Performance</i>		
Net (gains)/losses on sales of assets	(17,930)	10,286
Depreciation and amortisation	2,526,197	2,234,956
Write-down of assets	1,573,635	1,098,870
<i>Items from the Statement of Financial Position</i>		
Increase in employee provisions	221,695	273,317
Increase in supplier liabilities	56,196	343,415
Total operating items not using cash	4,359,792	3,960,845
Net cash from operating activities	7,693,309	8,209,828
Non Cash Investing Activities		
The amount of assets obtained through finance lease arrangements are set out in Note 19 (Table D).		

Department of Defence
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Administered – Revenues and Expenses

		2001-02	2000-01
		\$'000	\$'000
Note 31	Revenues Administered on Behalf of Government		
	Interest		
	Interest on Foreign Military Sales Advance	8,604	661
	Total interest	8,604	661
	Dividends		
	Defence Housing Authority	88,636	24,000
	Total dividends	88,636	24,000
	Other revenues		
	Military Superannuation contributions	607,195	557,423
	Foreign governments and the United Nations reimbursements for East Timor	123,364	127,361
	Australian Defence Force Academy superannuation	22,369	1,322
	Other minor revenues	81	-
	Total other revenues	753,009	686,106
	Total revenues administered on behalf of Government	850,249	710,767

Note 32	Expenses Administered on Behalf of Government		
	Personal benefits		
	Military Superannuation	2,240,395	2,657,356
	Retention benefits	30,560	22,013
	Total personal benefits	2,270,955	2,679,369
	Subsidies		
	Defence Home Owner Subsidy	6,411	6,555
	Total subsidies	6,411	6,555
	Net foreign exchange losses		
	Net foreign exchange losses	12,269	-
	Total net foreign exchange losses	12,269	-
	Total expenses administered on behalf of Government	2,289,635	2,685,924

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Administered – Assets and Liabilities

	2001-02 \$'000	2000-01 \$'000
Note 33 Assets Administered on Behalf of Government		
Cash		
Cash at bank	121	170
Total cash	121	170
Receivables		
Foreign governments and the United Nations reimbursements for East Timor	169,164	171,311
Military superannuation contributions	932	3,358
Intercompany transfers between Administered and Departmental activities within Defence	6,734	5,947
Total receivables	176,830	180,616
Gross receivables are aged as follows:		
Not overdue	7,666	9,305
Overdue by:		
Less than 30 days	-	-
30 to 60 days	-	-
60 to 90 days	-	-
More than 90 days	169,164	171,311
Total gross receivables	176,830	180,616
Investments		
Commonwealth authorities - Defence Housing Authority	1,258,883	1,546,261
Total investments	1,258,883	1,546,261
The Commonwealth holds a 100% interest in the Defence Housing Authority.		
The principal activity of Defence Housing Authority is:		
<i>To provide total housing services that meet Defence operational and client needs.</i>		
Non-financial assets		
Land and buildings	84,409	-
Total non-financial assets	84,409	-
Total assets administered on behalf of Government	1,520,243	1,727,047
Assets are represented by:		
Current	176,951	180,786
Non-current	1,343,292	1,546,261
Total	1,520,243	1,727,047

Department of Defence
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	2001-02	2000-01
	\$'000	\$'000
Note 34		
Liabilities Administered on Behalf of Government		
Personal benefits payable		
Military Superannuation	26,900,000	26,005,600
Total personal benefits payable	26,900,000	26,005,600
Other payables		
Australian Defence Force Academy ⁽¹⁾	-	22,369
Other minor payables	-	71
Total other payables	-	22,441
Total liabilities administered on behalf of Government	26,900,000	26,028,041
Liabilities are represented by:		
Current	1,346,000	1,313,019
Non-current	25,554,000	24,715,022
Total	26,900,000	26,028,041
Note		
1.	The liabilities for the Australian Defence Force Academy in respect of entitlements for employees of the University of New South Wales engaged at the academy have been reviewed during 2001-02. As a result of this review, the obligations are now disclosed as unquantifiable commitments (refer to note 2.20(f)).	

Administered – Other Key Disclosures

Note 35		
Administered Cash Flows		
OPERATING ACTIVITIES		
Cash received		
Cash from the Official Public Account	1,320,361	1,282,937
Superannuation contributions	607,077	557,111
Interest	8,604	661
Dividends	88,636	24,000
Other cash received	113,242	37,327
Total cash received	2,137,920	1,902,035
Cash used		
Personal benefits	(1,318,668)	(1,278,811)
Subsidies	(6,411)	(12,779)
Cash to the Official Public Account	(812,890)	(610,482)
Total cash used	(2,137,969)	(1,902,072)
Net cash used by operating activities	(49)	(37)
Net decrease in cash held	(49)	(37)
Cash at the beginning of the reporting period	170	207
Cash at the end of the reporting period	121	170

Department of Defence
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Note 36 Administered Commitments

Quantifiable Commitments

The *Sydney Harbour Federation Trust Act 2001* was enacted March 2001. This Act requires the transfer of certain determined property from the Defence Housing Authority to the Sydney Harbour Federation Trust, via Defence. This has required a reduction in Defence's investment in the authority of \$84.409m and recognition of Land and Buildings for a value of the same amount. The Act requires that the trust land vest in the trust within 4 years of the Act commencing. As at the reporting date, no date for gazettal notice and transfer had been determined.

Unquantifiable Commitments

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 of New South Wales has employees, or former employees, of the Australian Defence Force Academy who are members of the State superannuation schemes which are unfunded or partly unfunded. This gives rise to an unfunded superannuation commitment by the Commonwealth, in respect of the schemes for accrued benefit entitlements. The amount and timing of payments are dependent on a number of factors which are uncertain at this time. This represents a change in disclosure from 2001-02 onwards (refer accounting policy note 2.20(f)).

University of New South Wales – Leave Entitlements

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 annual leave and long-service leave accrued by the employees of the university engaged at the academy. The amount and timing of payments are dependent on a number of factors including the continuing relationship between the University and the Commonwealth, the value of accumulated reserves and rate of leave takings, which are uncertain at this time. Consequently, the value of the commitment is unquantifiable. This represents a change in disclosure from 2001-02 onwards (refer to Note 2.20(f)).

Note 37 Administered Contingencies

There were no Administered contingencies as at 30 June 2002 and 30 June 2001.

Note 38 Administered Financial Instruments

(a) Administered terms, conditions and accounting policies

Defence'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 2002, 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	33	Cash includes reserved money held in the Official Public Account.	The balance of the administered cash account is non-interest bearing.
Receivables	33	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 are with entities predominantly external to the Commonwealth. Credit terms are 30 days (2000-01: 30 days).

(b) Interest Rate Risk

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		Greater than 5 Years								
		2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02	2000-01	
Financial Assets																
Cash	33	-	-	-	-	-	-	-	-	121	170	121	170	N/A	N/A	-
Receivables	33	-	-	-	-	-	-	-	-	176,830	180,616	176,830	180,616	N/A	N/A	-
Total financial assets										176,951	180,786	176,951	180,786			

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Note 38 Administered 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 2002 are as follows:

Item	Note	2001-02		2000-01	
		Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000	Total Carrying Amount \$'000	Aggregate Net Fair Value \$'000
Financial Assets					
Cash	33	121	121	170	170
Receivables	33	176,830	176,830	180,616	180,616
Total financial assets		176,951	176,951	180,786	180,786

The following assumptions are used to determine the net fair value of financial assets and liabilities which are recognised financial instruments:

Cash: the carrying amount approximates fair value because of its short-term to maturity.

Receivables: the carrying amount approximates fair value because of the established credit terms of 30 days and the debt management practices within Defence.

(d) Administered Credit Risk Exposure

The Commonwealth's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in Assets Administered on Behalf of Government.

The Commonwealth has no significant exposures to any concentrations of administered credit risk.

(e) Administered 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 revenues and expenses administered on behalf of Government. These exchange gains and losses are not speculative and no hedging is undertaken.

The Commonwealth is exposed to foreign currency exchange risk through the primary assets receivables.

Departmental – Other Disclosures

Note 39 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 2002, 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 can be reliably measured.	Refer to details below.
Cash	17	Cash includes cash on hand and at bank, measured in nominal dollars. Cash held in foreign currencies is converted to Australian dollars (AUD) at the exchange rates applying at 30 June 2002.	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 received at month end. Defence also holds balances with other financial institutions with an average weighted rate of 1.01%.
Receivables for goods and services and other receivables	18	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 are with entities predominantly external to the Commonwealth. Credit terms are 30 days (2000-01: 30 days).
Receivables - Foreign Military Sales base-level funding	18	The balance of the United States Federal Reserve Bank account is held at nominal amounts in United States dollars (USD) and converted to AUD at 30 June 2002.	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 \$AUD71.684m.
Receivables – sale of capital assets	18	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 2002.	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 can be reliably measured.	Refer to details below.
Finance lease liabilities	22	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 2002, Defence had finance leases with an average lease term of 15 years (2000-01: 15 years). The interest implicit in the leases averaged 7.482% for 2001-02 (2000-01: 7.482%).
Suppliers and other payables	26&27	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).	Settlement is usually made within 30 days.
Unrecognised Financial Liabilities			
Indemnities/Guarantees	45	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 39 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		Greater than 5 years							
		2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000	2001-02 \$'000	2000-01 \$'000
Financial Assets															
Cash on hand	17									1,565	1,171	1,565	1,171	N/A	N/A
Cash at bank	17	487,999	594,280							(453,911)	(537,148)	34,088	57,132	1.01%	1.21%
Term deposits	17			799,500								799,500		4.75%	N/A
Goods and services receivables	18									102,783	117,973	102,783	117,973	N/A	N/A
Capital Use Charge receivable	18									137,978	21,542	137,978	21,542	N/A	N/A
Receivables from sale of capital assets	18		100,141							74,355	41,825	74,355	141,966	N/A	N/A
FMS base-level funding ⁽¹⁾	18	71,684	78,880									71,684	78,880	N/A	N/A
Other receivables	18									133,492	184,234	133,492	184,235	N/A	N/A
Total financial assets		559,683	773,301	799,500						(3,738)	(170,403)	1,355,445	602,900		
Financial Liabilities															
Finance lease	22			8,914	9,954	42,669	39,579	308,688	342,152			360,271	391,685	7.48%	7.48%
Suppliers	26									1,033,744	758,326	1,033,744	758,326	N/A	N/A
Other payables	27									15,052	72,159	15,052	72,159	N/A	N/A
Total financial liabilities				8,914	9,954	42,669	39,579	308,688	342,152	1,048,796	830,485	1,409,067	1,222,170		

Note

- Interest earned is returned to the Official Public Account through administered entity.

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Note 39 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 2002 are as follows:

Financial Instrument	Note	2001-02		2000-01	
		Total carrying amount \$'000	Aggregate net fair value \$'000	Total carrying amount \$'000	Aggregate net fair value \$'000
Financial Assets					
Cash	17	835,153	835,153	58,303	58,303
Receivables – Capital Use Charge	18	137,978	137,978	21,542	21,542
Receivables – Goods and services	18	102,783	102,783	117,973	117,973
Receivables – Sale of capital assets	18	74,355	74,355	141,966	141,966
Receivables – FMS base-level funding	18	71,684	71,684	78,880	78,880
Receivables – Other	18	133,491	133,491	184,235	184,235
Total financial assets		1,355,445	1,355,445	602,900	602,900
Financial Liabilities					
Finance leases	22	360,271	360,271	391,685	391,685
Suppliers	26	1,033,744	1,033,744	758,326	758,326
Other payables	27	15,052	15,052	72,159	72,159
Total financial liabilities		1,409,067	1,409,067	1,222,170	1,222,170

The following 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 - Goods and services: the carrying amount approximates fair value.

Receivables - Sale of capital assets: the carrying amount approximates fair value.

Receivables - Foreign Military Sales base-level funding: the carrying amount approximates fair value.

Financial Liabilities

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.

Trade creditors and accruals: the carrying amount approximates 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.

(d) Credit risk exposure

Defence's maximum exposure to credit risk at 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.

Department of Defence
Notes To And Forming Part Of The Financial Statements
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Note 39 Departmental Financial Instruments (continued)

(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	British Pounds \$'000	Norwegian Krona \$'000	Swedish Krona \$'000	Other \$'000	Total \$'000
Financial Assets								
Cash	42,971	-	-	-	-	-	423	43,394
Receivables	70,186	46,901	-	-	-	-	-	117,087
	113,157	46,901	-	-	-	-	423	160,481
Financial Liabilities								
Suppliers	91,296	-	3,076	6,240	3,522	(5,590)	516	99,059

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.

	2001-02 \$	2000-01 \$
Note 40 Auditor's Remuneration		
Estimate of the fair value of services provided free of charge by the Auditor-General for auditing Defence's financial statements	1,850,000	1,750,000

No other services were provided by the Auditor-General.

Note 41 Act of Grace Payments

The number of payments made during the 2001-02 financial year pursuant to authorisation given under subsection 33(1) of the *Financial Management and Accountability Act 1997* was nil (2000-01: four), with the aggregate value being \$nil (2000-01: \$169,636).

Note 42 Defective Administration Payments

Forty-four payments were made during the 2001-02 financial year under the Defective Administration Scheme (2000-01: 22), with the aggregate value being \$343,234 (2000-01: \$237,282).

Also see Note 15.

Note 43 Waivers

The number of waivers provided during the 2001-02 financial year pursuant to authorisation given under subsection 34(1) of the *Financial Management and Accountability Act 1997* or any other legislation was three (2000-01: six), with the aggregate value being \$9,562 (2000-01: \$19,293).

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Note 44 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.

	2001-02	2000-01
	\$'000	\$'000
Maturity profile for future commitments		
One year or less	1,060,223	1,311,994
From one to five years	3,761,364	4,490,828
Over five years	2,966,062	3,710,462
Total future commitments⁽¹⁾	<u>7,787,649</u>	<u>9,513,284</u>

Note

1. Commitments are GST inclusive where relevant.

Note 45 Remote Contingencies

Defence carries an extensive range of guarantees, indemnities and undertakings, normally of a short-term nature, relating to business, exercise activities and other arrangements involving contracts, agreements and other Defence activities. Indemnities issued cover potential losses or damages for which the Commonwealth would not be liable without the indemnity.

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 25 instances (2000-01: 26) that are either unquantifiable or uncapped, and six instances (2000-01: 50) of quantifiable contingencies to the value of \$582.6 m (2000-01: \$495m).

There are many indemnities that are incorporated into major acquisition projects. These uncapped indemnities are potentially large but unquantifiable.

In addition, as at 30 June 2002, there were 44 instances (2000-01: 89) of remote or unquantifiable contingent losses arising from outstanding claims against Defence and three instances of remote or unquantifiable contingent gains. Of these, 37 (2000-01: 42) are considered remote, with an assessed liability of \$6.987m (2000-01: \$9.310m) and three (2000-01: nil) are considered remote with an assessed gain of \$0.022m (2000-01: \$nil).

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Note 46 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	2001-02 Number of Executives	<i>2000-01 Number of Executives</i>
\$100,000 to \$109,999	7	7
\$110,000 to \$119,999	8	10
\$120,000 to \$129,999	15	11
\$130,000 to \$139,999	25	18
\$140,000 to \$149,999	22	24
\$150,000 to \$159,999	21	21
\$160,000 to \$169,999	25	22
\$170,000 to \$179,999	18	22
\$180,000 to \$189,999	19	17
\$190,000 to \$199,999	10	19
\$200,000 to \$209,999	13	11
\$210,000 to \$219,999	8	7
\$220,000 to \$229,999	7	5
\$230,000 to \$239,999	3	3
\$240,000 to \$249,999	3	5
\$250,000 to \$259,999	2	5
\$260,000 to \$269,999	4	3
\$270,000 to \$279,999	2	2
\$280,000 to \$289,999	-	3
\$290,000 to \$299,999	1	2
\$300,000 to \$309,999	2	-
\$310,000 to \$319,999	1	-
\$320,000 to \$329,999	2	-
\$330,000 to \$339,999	-	1
\$340,000 to \$349,999	-	-
\$350,000 to \$359,999	-	1
\$360,000 to \$369,999	1	1
\$370,000 to \$379,999	1	-
\$380,000 to \$389,999	-	-
\$390,000 to \$399,999	1	2
\$400,000 to \$409,999	1	-
Total number of executives	222	222
	\$	\$
The aggregate amount of total remuneration of executives shown above.	39,018,498	39,562,356
The aggregate amount of separation and redundancy amounts provided to the executives shown above.	1,861,434	2,820,795

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Other Key Disclosures

Note 47 Reporting of Outcomes

As per Note 1, Defence had one outcome:

The defence of Australia and its national interests.

Accordingly for tables A, D and E below all items are attributable to the one outcome.

Changes to the *Finance Minister's Orders* for 2001-02 require the presentation of Defence's business operations by Output. The requirement for 2000-01 was by Activity.

Defence's Output structure has changed significantly for the 2001-02 financial year resulting in a 6 Output structure. Accordingly, to report comparative data is impractical. For a brief description of the 6 Output structure refer to Note 1.

Table A: Total cost of outcomes (whole-of-government)

	Outcome 1		Total Outcomes	
	Budget ⁽¹⁾ \$'000	Actual \$'000	Budget \$'000	Actual \$'000
Other administered revenues	(694,860)	(850,249)	(694,860)	(850,249)
Net subsidies, benefits and grants expenses	1,800,369	2,277,366	1,800,369	2,277,366
Other administered expenses	179	12,269	179	12,269
Net cost of departmental outputs ⁽²⁾	12,743,872	13,433,458	12,743,872	13,433,458
Net cost to Budget outcome⁽³⁾	13,849,560	14,872,844	13,849,560	14,872,844

Notes

- In accordance with the *Finance Minister's Orders 2001-2002* paragraph 11.1.8, 'Budget' refers to the estimates as at Budget time (ie does not include additional estimates, Advance to the Finance Minister, etc).
- In accordance with the *Finance Minister's Orders 2001-2002* paragraph 11.1.4, the net cost of departmental outputs must be net of revenues from independent sources (ie revenues not directly appropriated to the agency or authority).
- The net cost/contribution to the Budget outcome (ie the cost to Government) shown above includes the intra-government transactions detailed below. These transactions are eliminated at the whole-of-government level in calculating the actual net cost/contribution to Government.

\$'000

Intra-entity transactions with related parties:

Auditor-General	1,850
National Archives of Australia	207
Total related party transactions	<u>2,057</u>

**Note 47 Reporting of Outcomes (continued)****Table B: Major departmental revenues and expenses by output**

	Output 1 2001-02 \$'000	Output 2 2001-02 \$'000	Output 3 2001-02 \$'000	Output 4 2001-02 \$'000	Output 5 2001-02 \$'000	Output 6 2001-02 \$'000	Total 2001-02 \$'000
Operating Revenues⁽¹⁾							
Revenues from Government	1,150,485	5,678,971	5,068,165	5,358,014	192,235	397,664	17,845,534
Sale of goods and services	57,727	33,071	89,865	40,780	4,381	2,054	227,878
Interest	686	4,423	5,252	4,576	77	232	15,246
Net gains on sales of assets	733	3,878	8,657	4,371	97	194	17,930
Net foreign exchange gains	101	1,510	291	1,616	-	11	3,529
Assets now recognised	48,603	149,144	246,758	241,506	507	7,532	694,050
Other revenues	28,581	32,977	68,841	46,736	3,618	5,709	186,462
Total operating revenues	1,286,916	5,903,974	5,487,829	5,697,599	200,915	413,396	18,990,629
Operating Expenses							
Employees	410,129	1,332,045	2,452,465	1,312,030	87,067	151,194	5,744,930
Suppliers	369,828	1,282,910	1,450,178	1,371,017	101,548	107,429	4,682,910
Grants	188	493	1,041	672	20,135	58	22,587
Depreciation and amortisation	23,564	914,160	571,046	948,584	5,167	63,676	2,526,197
Write-down of assets	21,273	574,127	392,087	577,175	1,785	7,188	1,573,635
Other expenses	227	261	454	238	537	53	1,770
Borrowing costs expense	1,329	4,868	16,553	5,279	227	325	28,581
Total operating expenses	826,538	4,108,864	4,883,824	4,214,995	216,466	329,923	14,580,610

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. The Capital Use Charge expense for the year was \$4,633,854,000.

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Note 47 Reporting of Outcomes (continued)

Table C: Major departmental assets and liabilities by output

	Output 1 2001-02 \$'000	Output 2 2001-02 \$'000	Output 3 2001-02 \$'000	Output 4 2001-02 \$'000	Output 5 2001-02 \$'000	Output 6 2001-02 \$'000	Total 2001-02 \$'000
Output Specific Departmental Assets							
Cash	-	-	-	-	-	-	-
Receivables	3,501	112,107	27,695	32,940	1,711	448	178,402
Land and buildings	287,183	2,330,019	3,703,845	2,317,636	15,334	70,860	8,724,877
Specialist military equipment	759,807	14,314,341	3,561,652	11,959,743	2,778	58,569	30,656,890
Other infrastructure, plant and equipment	138,655	1,160,754	1,851,874	1,156,439	15,151	126,393	4,449,266
Intangibles	2,172	22,811	34,243	41,461	60	432	101,179
Inventory	-	1,258,379	1,146,015	1,216,394	-	-	3,620,788
Other non-financial assets	10,329	235,495	234,615	24,916	498	21,617	527,470
Total output specific departmental assets	1,201,647	19,433,906	10,559,939	16,749,529	35,532	278,319	48,258,872
Other Departmental Assets							
Cash	41,424	238,603	281,697	246,287	9,521	17,621	835,153
Receivables	15,287	117,314	75,522	125,827	3,397	4,544	341,891
Land and buildings	7	57	93	63	1	2	223
Specialist military equipment	-	-	-	-	-	-	-
Other infrastructure, plant and equipment	8,665	84,124	187,904	129,704	3,404	3,043	416,844
Intangibles	3,707	14,722	21,214	18,364	2,238	2,936	63,181
Inventory	-	-	-	-	-	-	-
Other non-financial assets	1,002	7,070	16,872	11,316	315	379	36,954
Total other departmental assets	70,092	461,890	583,302	531,561	18,876	28,525	1,694,246
Output Specific Departmental Liabilities							
Finance leases	10,191	78,685	181,858	83,366	2,197	3,974	360,271
Other interest bearing liabilities	-	-	-	-	-	-	-
Capital Use Charge	-	-	-	-	-	-	-
Employees	45,987	650,719	1,550,722	551,974	24,681	44,392	2,868,475
Suppliers	63,517	306,375	176,801	343,352	2,715	14,248	907,008
Other payables	99	769	1,257	843	10	28	3,006
Total output specific departmental liabilities	119,794	1,036,548	1,910,638	979,535	29,603	62,642	4,138,760
Other Departmental Liabilities							
Finance leases	-	-	-	-	-	-	-
Other interest bearing liabilities	-	-	-	-	-	-	-
Capital Use Charge	-	-	-	-	-	-	-
Employees	4,515	17,806	35,257	21,644	3,577	3,329	86,128
Suppliers	5,457	30,459	49,937	35,465	3,048	2,370	126,736
Other payables	894	3,468	3,513	3,542	305	324	12,046
Total other departmental liabilities	10,866	51,733	88,707	60,651	6,930	6,023	224,910

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2002

Note 47 Reporting of Outcomes (continued)

Table D: Major Administered Revenues and Expenses by Outcome

	Outcome 1 2001-02 \$'000
Operating revenues	
Interest	8,604
Dividends	88,636
Net foreign exchange gains	-
Other	753,009
Total operating revenues	850,249
Operating expenses	
Personal benefits	2,270,955
Subsidies	6,411
Net foreign exchange losses	12,269
Total operating expenses	2,289,635

Table E: Major Administered Assets and Liabilities by Outcome

	Outcome 1 2001-02 \$'000
Outcome specific administered assets	
Cash	121
Receivables	176,830
Investments	1,258,883
Non-financial assets	84,409
Total outcome specific administered assets	1,520,243
Outcome specific administered liabilities	
Personal benefits payable	26,900,000
Other	-
Total output specific administered liabilities	26,900,000

Note 48 Appropriations

As per Note 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.

Department of Defence
Notes To And Forming Part Of The Financial Statements
for the year ended 30 June 2002

Note 48 Appropriations (continued)

Table A: Appropriation Acts 1 and 3 for 2001-02

At Budget time, Appropriation Act No. 1 provides for the annual appropriation of sums from the Consolidated Revenue Fund for the ordinary annual services of the Government. Amounts appropriated are for particular purposes.

Where amounts appropriated at Budget time are insufficient, Parliament may appropriate more funds through the Additional Estimates Acts. Appropriation Act No. 3 provides for revised annual appropriation of sums from the Consolidated Revenue Fund for the ordinary annual services of the Government.

Particulars (Note: FMA = <i>Financial Management and Accountability Act 1997</i>)	Administered	Departmental Outputs	Total
	\$'000	\$'000	\$'000
a) Year ended 30 June 2002			
Balance as at 1 July 2001	-	80,045	80,045
Appropriation for the reporting period – Act 1	179	17,515,619	17,515,798
Appropriation for the reporting period – Act 3	-	350,984	350,984
Adjustments determined by the Finance Minister	-	(12,000)	(12,000)
GST credits (FMA s30A)	-	738,680	738,680
Annotations to 'net appropriations' (FMA s31)	-	469,278	469,278
Transfers to/from agencies (FMA s32)	-	(11,126)	(11,126)
Amount available for payments	179	19,131,480	19,131,659
Less payments made	-	(18,336,372)	(18,336,372)
Balance carried forward to next financial year	179	795,108	795,287
b) Year ended 30 June 2001			
Amount available for payments during the year	-	18,393,350	18,393,350
Less payments made during the year	-	(18,313,305)	(18,313,305)
Balance carried forward to 1 July 2001	-	80,045	80,045

Appropriations (continued)

Table B: Appropriation Acts 2 and 4 for 2001-02

At Budget time, Appropriation Act No. 2 provides for the annual appropriation of the Consolidated Revenue Fund for payments other than the ordinary services of the Government. These include expenses in relation to grants to the states under section 96 of the Constitution and for payments to the Northern Territory and the Australian Capital Territory; administered expenses for new outcomes; and departmental equity injections, loans and carryovers, as well as administered capital funding.

Where amounts appropriated at Budget time are insufficient, Parliament may appropriate more funds through the Additional Estimates Acts. Appropriation Act No. 4 provides for revised annual appropriation of sums from the Consolidated Revenue Fund other than the ordinary services of the Government.

Particulars (Note: FMA = <i>Financial Management and Accountability Act 1997</i> , SPP = <i>Special Purpose Payment</i>)	Administered SPPs and Other \$'000	Departmental			Administered Capital \$'000	Total \$'000
		Equity \$'000	Loans \$'000	Carryovers \$'000		
a) Year ended 30 June 2002						
Balance as at 1 July 2001		-				-
Appropriation for the reporting period - Act 2		10,564				10,564
Appropriation for the reporting period - Act 4		743,611				743,611
Adjustments determined by the Finance Minister						
Amounts from Advance to the Finance Minister						
Amounts from Comcover receipts						
Refunds credited (FMA s30)						
GST credits (FMA s30A)						
Annotations to 'net appropriations' (FMA s31)						
Other annotations						
Transfers to/from agencies (FMA s32)						
Administered expenses lapsed (ie expended)						
Amount available for payments		754,175				754,175
Less payments made		(754,175)				(754,175)
Balance carried forward to next financial year						
b) Year ended 30 June 2001						
Amount available for payments during the year		93,522				93,522
Less payments made during the year		(93,522)				(93,522)
Balance carried forward to 1 July 2001						

Note 48 Appropriations (continued)

Table C: Special Appropriations (Unlimited Amount)

Moneys appropriated by Parliament in an act separate from an annual Appropriation Act (as per the above tables), where the payment is for a specified amount. Special appropriations are not subject to Parliament's annual budget control, unlike the annual appropriations.

Particulars of legislation providing appropriation (Note: FMA = <i>Financial Management and Accountability Act 1997</i>)	Administered Expenses		Departmental Outputs		Total	
	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
<i>Defence Forces Retirement Benefits Act 1948, Defence Force Retirement and Death Benefits Act 1973 and Military Superannuation and Benefits Act 1991</i>						
Budget estimate	2,300,000	2,205,130	-	-	2,300,000	2,205,130
Payments made	(2,137,969)	(1,902,072)	-	-	(2,137,969)	(1,902,072)
Refunds credited (FMA s30)	-	-	-	-	-	-

Table D: Special Appropriations (Limited Amount)

There were no limited special appropriations.

Table E: Special Accounts

There were no special accounts.

Department of Defence
Notes To And Forming Part Of The Financial Statements
 for the year ended 30 June 2002

Note 49 Special Public Money

	2001-02 \$'000	2000-01 \$'000
Defence - Projects for other governments and international bodies		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20</i>		
<i>Purpose: Payment for all costs in connection with specified activities on behalf of other governments and international bodies.</i>		
Cash balance as at 1 July	102,255,954	87,827,472
<i>Less adjustment of opening balance</i>	<i>(329,942)</i>	<i>(1,765,614)</i>
Restated cash balance at 1 July	101,926,012	86,061,858
<i>Plus Receipts</i>	<i>44,832,264</i>	<i>80,061,234</i>
<i>Less Expenditure</i>	<i>77,434,119</i>	<i>63,867,138</i>
Cash balance as at 30 June	69,324,157	102,255,954
Defence - Services for non-departmental bodies		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20</i>		
<i>Purpose: Payment for all costs in connection with specified activities on behalf of non-departmental bodies.</i>		
Cash balance as at 1 July	852,839	1,899,595
<i>Plus Receipts</i>	<i>2,961,002</i>	<i>2,151,350</i>
<i>Less Expenditure</i>	<i>2,812,426</i>	<i>3,198,107</i>
Cash balance as at 30 June	1,001,415	852,839
Defence - Endowments		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20</i>		
<i>Purpose: For application in accordance with the conditions of each endowment.</i>		
Cash balance as at 1 July	551,875	252,433
<i>Plus Receipts</i>	<i>18,150</i>	<i>308,174</i>
<i>Less Expenditure</i>	<i>4,187</i>	<i>8,732</i>
Cash balance as at 30 June	565,838	551,875
Fedorczenko Legacy Fund		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20</i>		
<i>Purpose: Residue of the estate of the late Petro Fedorczenko which is to be used for the defence of Australia.</i>		
Cash balance as at 1 July	149,812	158,594
<i>Plus Receipts</i>	<i>11,087</i>	<i>1,709</i>
<i>Less Expenditure</i>	<i>8,448</i>	<i>10,491</i>
Cash balance as at 30 June	152,451	149,812
Other Trust Money		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20</i>		
<i>Purpose: For receipt of money temporarily held in trust.</i>		
Cash balance as at 1 July	2,399,262	3,468,838
<i>Plus Receipts</i>	<i>8,642,153</i>	<i>536,811</i>
<i>Less Expenditure</i>	<i>486,546</i>	<i>1,606,387</i>
Cash balance as at 30 June	10,554,869	2,399,262
Young Endeavour Youth Scheme Operating Fund		
<i>Legal Authority: Financial Management and Accountability Act 1997 s20</i>		
<i>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.</i>		
Cash balance as at 1 July	932,784	209,401
<i>Plus Receipts</i>	<i>676,028</i>	<i>811,413</i>
<i>Less Expenditure</i>	<i>105,283</i>	<i>88,030</i>
Cash balance as at 30 June	1,503,529	932,784

CAPITAL BUDGET

MAJOR CAPITAL EQUIPMENT

The following table and descriptions provide details on the approved project cost, the cumulative expenditure to 30 June 2002 and the actual expenditure for 2001-02 of the top 20 (by 2001-02 expenditure) major capital equipment projects for Defence.

Table 3.1: Top 20 Projects by Actual 2001-02 Expenditure

	Approved Project Cost	Cumulative Expenditure to 30 June 2002	2001-02 Budget Estimate Dec 00 Prices	2001-02 Revised Estimate Dec 01 Prices	2001-02 Actual
	Dec 01 Prices		Dec 00 Prices	Dec 01 Prices	
	\$m	\$m	\$m	\$m	\$m
Maritime					
Anzac Ship Project ⁽¹⁾	5,279	4,449	274	230	219
FFG Progressive Upgrade – Implementation	1,413	665	204	224	218
Evolved SeaSparrow Missile	341	305	74	80	69
New Submarine Project	5,112	4,996	66	59	43
Mine Hunter Coastal Acquisition	1,241	1,060	56	55	31
Land					
Australian Light Armoured Vehicle	616	161	112	107	89
Aerospace					
F/A -18 Hornet Upgrade – Phase 2	1,524	339	166	155	195
Armed Reconnaissance Helicopter	1,858	124	73	88	122
Anzac Ship Helicopter	1,017	793	99	84	96
P-3C Update	903	671	134	112	72
Penguin Missile Project	200	172	51	64	67
Strategic Airlift Capability	1,092	953	49	66	59
F/A-18 Hornet Upgrade – Phase 1	290	221	37	50	51
Lead-In Fighter Capability	1,014	915	43	50	30
Airborne Early Warning and Control					
Airborne Early Warning and Control	3,455	458	238	155	233
Electronic Systems					
High Frequency Modernisation	585	241	76	68	49
Jindalee Operational Radar Network	1,223	984	95	56	39
Tactical Air Defence Radar Systems	203	118	41	40	31
Joint Logistics					
Air-to-Surface Stand-off Weapons Capability	335	239	93	111	130
Air-to-Air Weapons Capability ⁽²⁾	497	310	91	88	89

Notes

1. Project approval, expenditure and estimate figures are the net cost of the 10-ship program after deducting New Zealand revenue.
2. Incorporates two phases of the project.

Eighteen of the projects above constitute the top 20 projects by total approved project cost. Details concerning the remaining three projects which make up the top 20 by total approved project cost are listed overleaf.

Table 3.2: Remaining Top 20 Projects by Total Approved Project Cost

	Approved Project Cost <i>Dec 01 Prices</i> \$m	Cumulative Expenditure to 30 June 2002 \$m	2001-02 Budget Estimate <i>Dec 01 Prices</i> \$m	2001-02 Revised Estimate <i>Dec 01 Prices</i> \$m	2001-02 Actual \$m
Maritime					
Collins Class Submarine Augmentation	228	162	54	44	27
Land					
Bushranger	316	70	10	6	3
Electronic Systems					
Military Satellite Communication – Military Satellite Payload	375	284	27	8	2

The table below provides details on those projects that were reported in either the *Portfolio Budget Statements 2001-02* or the *Portfolio Additional Estimates Statements 2001-02* but whose expenditure was not sufficient to be included in the above tables.

Table 3.3: Former Top 20 Projects

	Approved Project Cost <i>Dec 01 Prices</i> \$m	Cumulative Expenditure to 30 June 2002 \$m	2001-02 Budget Estimate <i>Dec 01 Prices</i> \$m	2001-02 Revised Estimate <i>Dec 01 Prices</i> \$m	2001-02 Actual \$m
Maritime					
Underwater and Surface Warfare Upgrade Project	167	32	18	28	24

Anzac Ship Project

Achieved

The project involves the delivery of 10 Anzac class frigates, associated shore facilities and logistic support. The 10 includes two ships (02 and 04) for the Royal New Zealand Navy. Six ships have been delivered, including both New Zealand ships. HMAS *Stuart* (Ship 06) was delivered in May 2002 (and was commissioned in August 2002). The next ship to be delivered is Ship 07 (*Parramatta*) in June 2003. Ship 08, *Ballarat*, was successfully launched in May 2002. The variation in expenditure is due primarily to a reduction in the budget requirement for the implementation of identified changes to the ships, together with deferral of payments for missiles and ordnance change packages resulting from a revised procurement strategy.

The Underwater and Surface Warfighting upgrade project, previously reported in conjunction with the Anzac Ship project, is now being reported as a separate project.

FFG Progressive Upgrade - Implementation

Partially Achieved

This project seeks to regain the original relative capability of the Navy's six FFGs and to ensure they remain effective and supportable through to their end of life in the period 2013-21. There is a schedule delay of 24 months. A significant factor to the delay is the design, development and delivery of combat system software. A detailed schedule replan is being progressed by ADI Limited, in conjunction with the project authority, and is expected to be completed by September 2002. The first ship is now planned to be introduced in late 2003.

Evolved SeaSparrow Missile

Partially Achieved

The project involves the modification of selected Anzac ship combat system elements and the procurement of the Evolved SeaSparrow Missile and canisters for Anzac and FFG classes of ship. The at-sea series of missile test firings has been completed in the United States. Due to a delay in the environmental qualification and safety certification of the missiles in the United States and software upgrades in the missile seeker, release to Australia of suitably qualified missiles, sufficient for the conduct of test and evaluation firings, is not expected to occur until early 2003. As a consequence, the Australian Defence certification of the missile as safe and suitable for service under trial conditions has also been delayed. Follow-on missiles, suitable for embarkation for operational test and deployment purposes, will be embarked once final certification has been achieved.

Actual expenditure was less than estimated because of a change to the acquisition strategy for upgrade kits for the vertical launcher system to one that allows for phased payments, and a deferral of some minor costs as a result of the delayed missile delivery and test program.

New Submarine Project

Substantially Achieved

Five of the six submarines have been delivered and provisionally accepted by the Navy. The first submarine, HMAS *Collins*, has completed its first operational cycle and is presently undergoing a full-cycle docking 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. The sixth submarine, *Rankin*, was launched in November 2001 and is now complete. Sea trials, due to commence in March 2002, were delayed until late May due to a requirement to replace faulty battery cabling and address outstanding certification issues. Additional defects have further delayed the progress of sea trials, resulting in delayed claims for payment. *Rankin* will be delivered in early 2003.

Mine Hunter Coastal Acquisition

Substantially Achieved

The project involves the acquisition and through-life support of six Huon class mine hunter coastal vessels and associated supplies, including combat system and platform trainers. The vessels are being constructed by ADI Limited. When complete, all vessels will be based at HMAS Waterhen in Sydney. The sixth and final ship, *Yarra*, commenced sea trials in June 2002 after being launched in January 2002. Current expectations are for delivery in late 2002. Actual expenditure was less than estimated due largely to reprogramming of planned configuration changes to the vessels and the redirection of resources from the planned ship 06 build program to ship 05 prior to delivery in April 2002.

Australian Light Armoured Vehicle

Partially Achieved

The 144 vehicles to be purchased under Phase 3 of the project will incorporate a range of enhancements that will also be applied to the existing fleet of 113 Phase 2 ASLAVs purchased between 1995 and 1997. In-service delivery is expected to begin in mid-2003.

F/A-18 Hornet Upgrade

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 modifications to the F/A-18 fleet was achieved in June 2002, six months later than the original schedule.

Phase 2.1 provides new radars and upgraded mission software. The fleet modification commenced in June 2002. This reflects a delay of six months that was primarily caused by the schedule slip in Phase 1 production. Some elements of the Hornet upgrade (HUG) Phase 3.1 structural refurbishment are now being included in the HUG Phase 2.1 production phase to optimise overall aircraft availability. The HUG Phase 2.1 aircraft modification phase is scheduled to be complete 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. Contract signature for the integration design work occurred in December 2001. Phase 2.2 upgrades are scheduled to be completed by December 2006. The increased expenditure for 2001-02 was primarily due to accelerated payments for the radars required for Phase 2.1.

Armed Reconnaissance Helicopter

Achieved

Acquisition and through-life support contracts were signed in December 2001. The \$1.3b acquisition contract includes the supply of 22 Tiger helicopters, a training system including simulation devices for aircrew and maintenance personnel, a software support facility and a ground mission management system. The contract has a demanding delivery schedule to achieve the initial in-service date of December 2004. While the engineering design and review workload for the prime contractor, Eurocopter, and the Commonwealth is particularly intense, satisfactory progress has been achieved and the project is on schedule. A 15-year through-life support contract will provide logistic support for the armed reconnaissance helicopter systems from 2005.

Variation in expenditure was due to the larger than forecast mobilisation payment made to Eurocopter International Pacific on contract signature. This payment was originally forecast in the 2001-02 Budget estimates. The larger payment was agreed during contract negotiations in December 2001 and accorded with Eurocopter's program set up costs.

Anzac Ship Helicopter

Not Achieved

The program to acquire Super Seasprite helicopters has suffered major schedule slippage (three and a half years late) due to problems with software systems development by 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 is viable and continues to be the best option for acquiring the capability in the shortest timeframe.

A statement of principles for the future direction of the project was developed during contract negotiations in late May 2002. Revised payment schedules will be formalised through contract change proposals during 2002-03. In the interim, Defence has withheld payments from Kaman and has reached agreement to make reduced payments against both the acquisition and the in-service support contracts.

If Kaman makes adequate progress against the project requirements and sufficient confidence is held by the Commonwealth that the full operational software will be delivered on time, limited flying training operations may commence in mid-2003.

The increase in the 2001-02 expenditure is mainly the result of two factors: acceptance and subsequent payment for a Link 11 software capability enhancement not included in the 2001-02 revised estimates, and the effect of exchange rate movements. The project is within its approved budget.

P-3C Update

Substantially Achieved

This project updates selected avionic systems in the P-3C Orion fleet to help ensure continued operational effectiveness through to the planned withdrawal date of 2015. Five modified aircraft, designated as AP-3C, have been delivered (the sixth was accepted in September 2002). Completion of the modification is expected by December 2004. The delay in the delivery of the first aircraft in October 2001 (38 months behind schedule) reflected the complexity of the modification and system integration problems, which have now been resolved. The Air Force commenced operational test and evaluation in January 2002 and the transition of operational crews from the P-3C to the AP-3C. The AP-3C is performing well in tests, and it is expected that the overall capability goals of the project will be achieved. Contractual acceptance for the first-of-type AP-3C aircraft was signed in July 2002.

The variation in expenditure achieved against the estimation was as a result of slippage to aircraft delivery.

Penguin Missile Project

Achieved

This project is for the acquisition of Penguin anti-ship missiles for the Anzac ship helicopter. This project includes weapons and telemetry heads, spares support for the missiles, aircraft port-side missile control systems, and supporting infrastructure for safe operation and maintenance. The missiles are manufactured by Kongsberg Defence and Aerospace, Norway. Delivery of the initial quantity of anti-ship missiles has occurred. Commissioning of facilities and training has been completed and weapons assembly has commenced. As a result of the delays to the Super Seasprite helicopter program, the Commonwealth has negotiated a delay in the delivery schedule for the missiles. The project is expected to be completed by May 2004.

Strategic Airlift Capability

Substantially Achieved

Twelve C-130J-30 aircraft have been acquired to replace the C-130E aircraft. Aircraft deliveries commenced in August 1999, and all twelve aircraft have now been delivered and upgraded. A role expansion program to clear the aircraft for full strategic and tactical operations is due for completion by the end of 2003. Notwithstanding final acceptance, some expenditure associated with spares and related documentation, including training packages, has been reprogrammed from 2001-02 to 2002-03.

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 previously provided by the Macchi MB-326H aircraft. Aircraft delivery was completed in October 2001, a delay of three months against the contracted delivery schedule. A further upgrade to meet advanced training requirements was effected 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.

The lower than expected expenditure in 2001-02 was primarily due to delays in the delivery of full contracted capability.

Airborne Early Warning And Control

Achieved

This project will provide Defence with an airborne early warning and control capability, with the provision of four aircraft and associated supplies and support. A contract for four aircraft was signed with Boeing in December 2000. The planned in-service date is 2007. A number of significant design reviews were successfully conducted during 2001-02, including the radar preliminary and critical design reviews and the airborne mission segment, communications subsystem, mission computing software and hardware and electronic warfare-related preliminary design reviews. Notification of Stage 1 of the RAAF Williamtown (NSW) redevelopment (principally related to establishing airborne early warning and control support facilities) was tabled in Parliament in June 2002, paving the way for Public Works Committee consideration later in 2002.

The overachievement is primarily due to the first progress payment being made one month earlier than planned. This resulted in the payment being recorded in 2001-02 rather than 2002-03. The payment was larger than anticipated due to the work being achieved in advance of the contracted schedule. Other reasons include variations in actual price escalation and exchange compared to December 2001 price and exchange rates and some minor reprogramming.

High Frequency Modernisation

Not Achieved

The project will replace Navy high-frequency stations at Canberra, Darwin, Exmouth, Sydney, Cairns and Perth, and Air Force high-frequency stations at Sydney, Townsville, Darwin and Perth. The new network will provide enhanced communications capabilities and will upgrade and provide compatible high-frequency equipment in selected ADF

mobile platforms. The project will deliver the new high-frequency radio communications capability in three stages: core, intermediate and final. Integration of the core system components, system testing and transition of existing Navy and Air Force high-frequency radio stations and staff to the core integrated system was not achieved due to delays in software development. Consequential operator training was also not achieved. While integration of the core system and some system-level testing will commence in 2002-03, transition to operations and operator training is unlikely to be achieved until 2003-04.

Boeing's failure to achieve on software development resulted in Defence withholding \$11m for failing to meet a core system milestone and three stopped earned value payments totalling \$8m.

Jindalee Operational Radar Network

Substantially Achieved

The Jindalee Operational Radar Network project will deliver two over-the-horizon radars, one near Longreach in Queensland and the other near Laverton in Western Australia, to provide a capacity for long-range, wide-area surveillance of Australia's northern approaches. Each radar will be operated from the coordination centre at RAAF Edinburgh, north of Adelaide. All site and equipment installation work has been completed, with the consoles, systems and equipment being fully installed during June 2002. Integration complications during 2001-02 slowed the contractor's rate of achievement. Technical issues are now essentially resolved and the prime contractor, RLM Management Pty Ltd, is operating the Queensland and Western Australian radars remotely from both its own integration facility in Melbourne and Defence's coordination centre. The aim of this dual approach is to minimise the occurrence of new integration difficulties late in the project and to maximise operational access to, and testing of, the network. The complex higher-level testing has begun and will continue until all network requirements have been verified as having been met. Operational release is expected in the first half of 2003, with final acceptance projected to occur around mid-2003.

Tactical Air Defence Radar Systems

Partially Achieved

The project will deliver four mobile air-defence radar systems to replace existing radars. It will also acquire heavy-lift trucks to provide a ground transport capability for the new systems and provide satellite communications between the new systems and fixed air-defence sites. Progress on the project during 2001-02 was below the level anticipated. This was due to significant under-performance of the project's main subcontract that will provide communications, cabins and other infrastructure. The subcontractor's under-performance will necessitate the restructuring of the prime contractor's program for delivery of the project, the plan for which will be presented to Defence in late 2002. The project is now expected to deliver the capability during 2003-04, about three years later than originally contracted. To compensate for project slippage, Defence is pursuing remedies and rights under the prime contract and has negotiated the provision of capability enhancements as part of this approach. Further similar compensation or financial adjustment will be pursued. The slowing of contractor payments due to the slippage has been factored into the 2002-03 budget estimates as delayed expenditure projections against the prime contract. The project is still expected to be delivered within its programmed budget.

Air-To-Surface Stand-Off Weapons Capability

Substantially Achieved

The project will acquire and bring into service the AGM-142E stand-off weapon for fitment to the F-111C fleet. Aircraft integration is being undertaken at RAAF Amberley (Qld). The missiles have been delivered and are in storage in the United States awaiting shipment. The project schedule has been revised to account for identified risk areas, including delays caused by difficulties with software integration. The revised schedule, agreed by the contractor, achieves operational capability in late 2004.

The larger than estimated spend for 2001-02 was due to larger Foreign Military Sales payments being required ahead of planned schedule for missile deliveries. This was not budgeted for as a different delivery profile had been envisaged.

Air-To-Air Weapons Capability

Substantially Achieved

Beyond Visual Range Air-to-Air Missile

The beyond visual range missile, the Advanced Medium Range Air-to-Air Missile, is being procured in two main batches through United States Foreign Military Sales. The first batch of AIM-120 missiles is operational, while the second batch of missiles is expected in the second quarter of 2003. The development of launcher modifications was substantially achieved, and awaits final approval prior to a fleet modification program. The new aircraft test set development was also substantially achieved and the test set is expected to be introduced into service in late 2002. The missile software upgrade was completed in June 2002.

Within Visual Range Air-to-Air Missile

The within-visual-range missile is the Advanced Short Range Air-to-Air Missile being procured through a commercial contract with MBDA UK Ltd. F/A-18 integration testing was completed in April 2002, with two successful guided firings in the United States. Additional developmental flight tests of the missile, including the first Royal Australian Air Force guided firing, were conducted in Australia throughout 2001-02, and further missile improvements are continuing. The missile testing was heavily supported by the Defence Science and Technology Organisation, the Aircraft Research and Development Unit and the Ranges and Assessing Unit. The UK have now accepted their variant of ASRAAM into service.

REMAINING TOP 20 PROJECTS BY TOTAL APPROVED PROJECT COST

Collins Class Submarine Augmentation

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. *Collins* (submarine 01) completed initial hull improvements in August 1999. Work to upgrade two further submarines (submarine 04, *Dechaineux* and submarine 05, *Sheean*) was completed to schedule in December 2000, but progressive, incremental improvements to the combat systems of these two submarines have continued and are scheduled to be completed in April 2003. Work to bring submarine 06, *Rankin*, to the same level of platform improvements was completed in June 2002.

Actual expenditure was less than estimated due primarily to agreed changes in the implementation schedule.

Bushranger

Not Achieved

Project Bushranger Phase 3 aims to acquire 299 infantry mobility vehicles. In 2000-01, the contractor, ADI Limited, sought a slowing of the production rate and was unable to enter production because of prototype vehicle deficiencies. Negotiations for a revised contract were conducted during late April/early May 2002. These negotiations resolved options to constrain costs by reducing vehicle numbers and ADI Limited profit, and by revising the contract to ensure clear points at which ADI Limited must demonstrate that the vehicles meet required standards. The revised contract was signed in July 2002.

Military Satellite Communication – Military Satellite Payload

Partially Achieved

Defence established contracts with Optus in October 1999 for the supply and support of a Defence communications payload on board the Optus C1 satellite, together with terrestrial infrastructure for the control and management of the Defence payload. Defence and Optus share the costs, benefits and risks of acquiring, launching and operating this jointly-owned communications satellite.

Technical issues which delayed the satellite schedule have been resolved and on-ground acceptance of the Defence payload is currently planned to occur in November 2002. While satellite launch is scheduled for February 2003, an earlier launch date is anticipated. The terrestrial infrastructure for the new satellite communications capability is in place and final acceptance testing and verification is under way.

FORMER TOP TWENTY PROJECTS

Underwater And Surface Warfare Upgrade Project

Achieved

The Anzac Underwater and Surface Warfare frigates project involves the provision or improvement of capabilities to the Anzac class including the ability to launch Harpoon anti-ship missiles, improvements to the ships' defences against torpedoes and the ability to locate and avoid obstacles such as mines and seabed obstructions. The project was approved in the context of the 1997-98 budget and has been split into three separate phases to reflect the priority of each capability, with development of the Harpoon surface-to-surface missile capability (Phase 3A) having already commenced. Government approval for the following phases, being the Mine and Obstacle Avoidance Sonar (Phase 3C) and the Torpedo Self Defence System (Phase 3B) is currently planned for 2002-03 and 2005-06 respectively. All work is to be progressed through the Anzac Alliance Agreement signed between the Commonwealth, Tenix Defence Systems and Saab Systems in July 2001.

CAPITAL FACILITIES

SIGNIFICANT CURRENT FACILITIES PROJECTS

The following table and descriptions provide details on progress and expenditure for each of the most significant major facilities projects with expenditure in 2001-02 of over \$2m.

Table 3.4: Significant Current Facilities Projects by State and Federal Electorate

Program of Works (State, Federal electorate and locality)	Total Estimated Expenditure	Cumulative Expenditure to 30 June 2002	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual
	\$m	\$m	\$m	\$m	\$m
QUEENSLAND					
Blair					
Amberley – RAAF Amberley redevelopment	77.4	75.7	15.0	22.7	21.1
Groom					
Oakey – Oakey base redevelopment	57.7	3.5	2.0	2.0	3.5
Herbert					
Townsville – Lavarack Barracks redevelopment stage 2	151.6	147.8	19.5	21.0	17.4
Townsville – Lavarack Barracks redevelopment stage 3	170.6	10.0	10.0	12.4	10.0
Townsville – RAAF Townsville redevelopment stage 1	70.1	66.7	49.6	49.4	47.3
Townsville – RAAF Townsville redevelopment stage 2	72.5	3.9	2.0	10.0	3.9
NEW SOUTH WALES					
Eden/Monaro					
Eden – naval ammunition facility	40.0	13.3	16.0	6.9	11.3
Farrer					
Mulwala – environmental remediation	63.1	6.3	1.0	0	6.3
Gilmore					
Nowra – HMAS Albatross redevelopment	110.0	96.4	31.5	34.0	30.3
Parramatta					
Ermington – pre-disposal site works	33.1	3.0	3.0	2.8	3.0
VICTORIA					
Melbourne Ports					
Fishermans Bend – relocation of DSTO's Aeronautical and Maritime Research Laboratory	61.2	7.9	31.0	10.0	5.7
SOUTH AUSTRALIA					
Bonython					
Edinburgh – RAAF Edinburgh redevelopment stage 1	39.9	2.8	9.0	3.5	2.0
NORTHERN TERRITORY					
Lingiari					
Timber Creek – Bradshaw Field Training Area infrastructure	64.8	9.4	0.6	8.0	6.4
Solomon					
Darwin – RAAF Darwin – development of operational facilities	59.5	57.4	1.9	3.2	2.6

Amberley, Queensland – RAAF Amberley Redevelopment: Completed

Achieved

This project remedied deficiencies in the existing facilities at the base, and provided improved aircraft maintenance, operation, support and training facilities. Construction was completed on schedule in mid-2002.

This project contributes to Air Force Capabilities.

Oakey, Queensland – Oakey Base Redevelopment: Continuing

Partially Achieved

This project will redevelop the Oakey base to optimise it for support of Army rotary wing flying training, including the future armed reconnaissance helicopter, and basic helicopter training which has relocated from Fairbairn in the Australian Capital Territory. The project will rationalise, upgrade and expand facilities for rotary wing training and training support. Other elements include an emergency response station, workshops, 'hot' refuel facility, trainees' living-in accommodation and a civil terminal. The managing contractor has been appointed and construction should be completed by mid-2004.

This project contributes to Army Capabilities.

Townsville, Queensland – Lavarack Barracks Redevelopment Stage 2: Continuing

Substantially Achieved

This project provides a range of new facilities and infrastructure, including new single soldier living accommodation, to ensure the long-term viability of Lavarack Barracks as the major base of the ADF Rapid Deployment Force. Project elements completed include industrial facilities, 1,004 living-in units and three combined messes. Construction was completed in September 2001. An additional 108 rooms remain to be delivered to complete the approved project scope.

This project contributes to Army Capabilities.

Townsville, Queensland – Lavarack Barracks Redevelopment Stage 3: Continuing

Partially Achieved

This project will upgrade or provide new working accommodation for existing units in the next stage of the redevelopment of Lavarack Barracks. The managing contractor for the project has been appointed and construction on the 2RAR precinct has commenced. Completion of the project is planned for 2005.

This project contributes to Army Capabilities.

Townsville, Queensland – RAAF Townsville Redevelopment Stage 1: Nearly Completed

Substantially Achieved

This project will provide new facilities, including loading aprons and aircraft and vehicle support infrastructure, to support the operational role of RAAF Townsville. The redevelopment of the base is being carried out in three or more stages, with Stage 1 being completed in August 2002. An indigenous land-use agreement with local indigenous groups has been negotiated to permit construction of operational facilities. The project has been completed except for operational facilities' airfield lighting, which is 90 per cent complete.

This project contributes to Air Force Capabilities.

Townsville, Queensland – RAAF Townsville Redevelopment Stage 2: Continuing

Partially Achieved

Stage 2 of the redevelopment is to enhance the overall effectiveness of RAAF Townsville by grouping together related base functions, providing facilities to contemporary standards and alleviating occupational health and safety problems stemming from cramped and temporary accommodation. The scope of work comprises air movement facilities, transit accommodation, combined messing facilities, a dangerous goods compound, main base entrance, physical fitness complex, base training and support complex, combined headquarters complex and engineering services and demolition. The managing contractor has been appointed. Design has commenced and construction of the transit accommodation has begun. Project completion is planned for early 2004.

This project contributes to Air Force Capabilities.

Eden, New South Wales – Naval Ammunitioning Facility: Continuing

Partially Achieved

This project will provide a naval ammunitioning facility to replace the former facility at Newington on the Sydney Olympics site. Point Wilson in Victoria is being used as an interim facility. Land tenure issues, including negotiation of an indigenous land-use agreement, have been completed. Construction of the wharf commenced in March 2002, for completion by mid-2003. Ammunition storage facilities to support the naval ammunitioning facility were put to tender in September 2002.

This project contributes to Navy Capabilities.

Mulwala, New South Wales – Environmental Remediation: Continuing

Achieved

This project will provide for the remediation and long-term management of the areas of contamination that pose a risk of harm to the environment at the Commonwealth-owned and ADI-operated explosives manufacturing facility at Mulwala. The extent of the work will depend on the final remediation strategies which are currently being developed.

This project contributes to Navy, Army and Air Force Capabilities.

**Nowra, New South Wales – HMAS Albatross Redevelopment: Continuing
*Substantially Achieved***

This two-stage project aims to replace existing facilities and services that are beyond economical repair and to redevelop the operational and administrative support facilities. Stage 1 includes aircraft support, storage and maintenance facilities, the air traffic control tower, explosive ordnance storage and loading facilities and training facilities. Stage 2 includes new flight deck procedural trainers, a helicopter underwater escape trainer, runway arrester systems, aircraft pavements and wash facilities, a gymnasium, fencing, engineering services and demolition work. Stage 1 is complete. Stage 2 construction has commenced and is scheduled for completion during 2003.

This project contributes to Navy Capabilities.

**Ermington, New South Wales – Pre-Disposal Site Works: Continuing
*Partially Achieved***

The aim of these works is to prepare this 20-hectare site on the Parramatta River for disposal. The works involve two elements:

- progressive site filling and stabilisation of the soil to provide a secure and stable building platform for future residential development. This element of the work commenced in October 2001; and
- the installation of trunk infrastructure (including main roads, water, sewerage, power and telecommunications) to enable the site to be sold progressively as a series of 'super lots' over the next three years, the first sale occurring early in 2003.

The infrastructure works will commence immediately following the issuing of development consent, expected in December 2002. Disposal planning for the rezoning, master planning and development of the site has proceeded in close association with the Ermington Residents' Committee.

**Fishermans Bend, Victoria – Relocation of Defence Science and Technology Organisation's Aeronautical and Maritime Research Laboratory: Continuing
*Partially Achieved***

This project will relocate Defence Science and Technology Organisation functions from Maribyrnong to Fishermans Bend. It will include the integration of common functions and the construction of enhanced research and laboratory facilities. The project will permit the subsequent disposal of the Maribyrnong site. The project is currently in the design stage, and early works packages have been awarded. Construction of major work packages has commenced and will be completed in early 2004. The managing contractor is taking longer to arrange contracts than anticipated, due to an overrun in costings and the complexity of the project.

This project contributes to Navy, Army and Air Force Capabilities.

Edinburgh, South Australia – RAAF Edinburgh Redevelopment Stage 1: Continuing

Partially Achieved

This project will provide new administrative, workshop and warehousing facilities, as well as an upgrade of engineering services and an aircraft shelter. The warehousing may be excluded from the scope of works depending on the outcome of the Defence Integrated Distribution System project. Construction commenced in mid-2002, with completion by mid-2003.

This project contributes to Navy, Army and Air Force Capabilities.

Timber Creek, Northern Territory – Bradshaw Field Training Area Infrastructure: Continuing

Partially Achieved

This project will provide the necessary infrastructure to allow the use of the Bradshaw property as a field training area for the 1st Brigade. Significant delays have been experienced and the project is now some three years behind its original program. A native-title claim continues to affect the project. In-principle agreement has been reached on an indigenous land-use agreement. A contract for the construction of the bridge over the Victoria River was awarded in November 2001 and construction is expected to be completed in October 2002. Contracts for the remainder of the works will not be let until the indigenous land-use agreement has been signed and registered. Project completion is currently planned for December 2004.

This project contributes to Army Capabilities.

Darwin – RAAF Darwin – Development of operational facilities: Nearly Completed

Substantially Achieved

This project provides enhances operational works at RAAF Darwin, including aircraft loading aprons, a fuel farm, an operational and technical support facility, a base command post, a rescue and fire fighting facility, additional aviation fuel storage capacity and associated civil works and engineering services. The works have been delivered as a number of coordinated head contract and design and construct packages. The works are all but complete, except for the power control monitoring system project which is expected to be finalised in mid October 2002

This project contributes to Air Force Capabilities.

CAPITAL FACILITIES EXPENDITURE BY ELECTORATE

The following table provides details of estimated actual and expenditure on works in progress and new works for 2001-02 by state, federal electorate and location. All major works (expenditure \$6.0m or greater) and medium works (expenditure \$0.250m to \$5.999m) are approved at an out-turn expenditure estimate, inclusive of fee for service and contingency.

Table 3.5: All Major and Medium Capital Facilities by State and Federal Electorate

Program of Works (State, Federal electorate and locality) *indicates planned commencements in 2002-03	Total Estimated Expenditure \$'000	Cumulative Expenditure to 30 June 2002 \$'000	2001-02 Budget Estimate \$'000	2001-02 Revised Estimate \$'000	2001-02 Actual \$'000
QUEENSLAND					
Blair – Major Works					
Amberley – RAAF Amberley – redevelopment	77,400	75,668	15,000	22,700	21,051
Blair – Medium Works					
Amberley – RAAF Amberley – relocation of Defence Materiel Organisation strike reconnaissance systems program office	5,960	57	0	1,000	57
Amberley – RAAF Amberley – fire and security school	2,000	19	0	500	19
Amberley – RAAF Amberley – weapons training simulation system	1,000 ⁽¹⁾	206	0	800	206
Amberley – RAAF Amberley – new 25-metre range	500	294	0	380	294
Brisbane – Major Works					
Enoggera - Enoggera Barracks – catering rationalisation	11,600	71	0	0	0
Forde – Major Works					
Canungra – Defence Intelligence Training Centre	17,400	854	3,000	1,900	854
Groom – Major Works					
Oakey – Oakey Base redevelopment	57,677	3,502	2,000	2,000	3,502
Herbert – Major Works					
Townsville – Lavarack Barracks redevelopment stage 2	151,587	147,841	19,522	21,000	17,360
Townsville – Lavarack Barracks redevelopment stage 3	170,649	10,034	10,000	12,400	10,034
Townsville - RAAF Townsville redevelopment stage 1	70,100	66,679	49,566	49,400	47,321
Townsville – RAAF Townsville redevelopment stage 2	72,546	3,855	2,000	10,000	3,855
Herbert – Medium Works					
Townsville - RAAF Townsville – flight deck procedural training facility*	2,310	0	1,100	0	0
Townsville - RAAF Townsville – 25m range	560	89	0	450	89
RAAF Townsville – vehicle shelters and paving	2,000	1,886	0	2,000	1,886
Townsville – Lavarack Barracks - tactical training simulation capability	4,500	100	0	500	100
Townsville – Lavarack Barracks - regional training centre North Queensland facilities*	3,000	0	1,000	0	0
Townsville – Halifax Bay range relocation*	3,000	0	3,000	0	0
Maranoa – Medium Works					
Wallangarra – storage facilities	5,700	0	2,700	0	0
TOTAL QUEENSLAND	659,489	311,155	108,888	125,030	106,628

Program of Works (State, Federal electorate and locality)	Total Estimated Expenditure	Cumulative Expenditure to 30 June 2002	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual
*indicates planned commencements in 2002-03	\$'000	\$'000	\$'000	\$'000	\$'000
NEW SOUTH WALES					
Eden-Monaro – Major Works					
Eden - naval ammunition facility	40,000	13,302	16,000	6,900	11,326
Farrer – Major Works					
Mulwala – environmental remediation	63,102	6,324	1,000	0	6,324
Gilmore – Major Works					
Nowra – HMAS Albatross redevelopment	110,000	96,416	31,500	34,000	30,282
Gilmore—Medium Works					
Nowra – HMAS Albatross – Commander Australian Naval Aviation Group office refurbishment*	1,800	0	0	1,500	0
Nowra – relocation of Defence Materiel Organisation naval aviation systems program office	3,900	3,214	0	3,300	3,214
Lindsay – Medium Works					
Penrith – construction of Army multi-user depot	4,400	241	0	900	241
Macquarie – Medium Works					
Richmond – RAAF Richmond – fuel farm upgrade*	3,000	0	1,000	600	0
Richmond – Air Lift Group office accommodation*	1,500	0	0	0	0
North Sydney – Medium Works					
Waverton – HMAS Waterhen – wharf power infrastructure	763 ⁽¹⁾	387	400	578	387
Waverton – HMAS Waterhen – relocation of Defence Materiel Organisation mine warfare and clearance diving systems program office*	2,025	0	0	100	0
Parramatta – Major Works					
Errington – pre-disposal site works	33,106	2,992	3,000	2,750	2,992
Paterson – Major Works					
Williamtown - RAAF Williamtown – Eastern Regional Operations Centre	18,000	16,879	1,200	615	97
Paterson – Medium Works					
Williamtown - RAAF Williamtown – building extension for computer services	1,400	35	1,400	0	35
Williamtown - RAAF Williamtown – lead-in fighter works*	965 ⁽¹⁾	0	480	740	0
Williamtown - RAAF Williamtown – Duckhole Hill radar works	950	13	950	950	13
Williamtown - RAAF Williamtown – install dehumidifiers to aircraft shelters	483	17	483	320	17
Williamtown - RAAF Williamtown – Salt Ash perimeter fence*	500	0	500	0	0
Williamtown - RAAF Williamtown – relocation of Defence Materiel Organisation tactical fighter systems program office	2,757	2,591	0	2,100	2,591
Williamtown - RAAF Williamtown – weapons training simulation system	1,000 ⁽¹⁾	206	0	800	206
Sydney – Medium Works					
Mosman – Headquarters Training Command Army relocation	5,900	3,041	4,000	5,850	3,041
Victoria barracks, Paddington - Headquarters training technology centre relocation	500	442	500	500	442
Warringah – Medium Works					
Balmoral – 1 Commando Company collocation*	2,500	0	1,500	500	0
TOTAL NEW SOUTH WALES	298,551	146,100	63,913	63,003	61,209

Program of Works (State, Federal electorate and locality) *indicates planned commencements in 2002-03	Total Estimated Expenditure \$'000	Cumulative Expenditure to 30 June 2002 \$'000	2001-02 Budget Estimate \$'000	2001-02 Revised Estimate \$'000	2001-02 Actual \$'000
VICTORIA					
Ballarat – Medium Works					
Ballarat – construction of Army multi-user depot	5,800	42	4,000	40	42
Bendigo – Medium Works					
Bendigo - construction of Army multi-user depot	5,050	4,472	4,466	4,900	4,432
Corangamite – Medium Works					
Fort Queenscliff – Soldier Career Management Agency relocation to Fort Queenscliff	5,800	3,710	5,700	5,100	3,710
Corio – Medium Works					
Geelong - construction of Army multi-user depot	2,800	28	2,738	260	28
Gippsland – Medium Works					
East Sale – East Sale child care*	1,800 ⁽¹⁾	0	0	1,500	0
Jagajaga – Medium Works					
Watsonia – Regional Training Centre facilities*	1,400	0	1,000	200	0
Maribyrnong – Major Works					
Albion – decontamination works	28,635	25,090	500	1,300	1,128
Melbourne – Medium Works					
South East Melbourne – construction of Army multi-user depot	4,940	4,380	4,125	4,900	4,380
Melbourne – Victoria Barracks – relocation of Defence Materiel Organisation Land Systems Division	5,650	4,110	0	5,400	4,110
Melbourne Ports – Major Works					
Fishermans Bend – relocation of DSTO's Aeronautical and Maritime Research Laboratory	61,200	7,945	31,000	10,000	5,658
TOTAL VICTORIA	123,075	49,777	53,529	33,600	23,488
SOUTH AUSTRALIA					
Bonython – Major Works					
Salisbury – RAAF Edinburgh redevelopment stage 1	39,887	2,760	9,000	3,500	2,041
Bonython – Medium Works					
Edinburgh – RAAF Edinburgh – advanced flight simulator facility	3,330	3,187	30	43	106
Edinburgh – RAAF Edinburgh – airfield defence*	3,500	0	0	200	0
Edinburgh – RAAF Edinburgh – relocation of Defence Materiel Organisation maritime patrol systems program office*	1,604	0	0	100	0
Edinburgh – DSTO hybrid torpedo simulator facility*	1,000	0	1,000	8	0
Edinburgh – Systems Simulation Centre extension	2,500 ⁽¹⁾	3	500	8	3
Edinburgh – DSTO Ship simulation facility*	700	0	300	4	0
Edinburgh – uninterrupted power supply to electronic warfare building	1,400	47	1,400	20	47
Edinburgh – aerial test field relocation*	2,200	0	1,000	0	0
Edinburgh – refurbish Defence Science and Technology Organisation Land Operations Division facilities	5,600	4,448	5,000	4,300	4,188
Edinburgh – relocation of Defence Materiel Organisation over the horizon radar systems program office	5,039	29	0	100	29
Wakefield – Medium Works					
Port Wakefield – ammunition breakdown facility	4,000	19	3,800	0	19
TOTAL SOUTH AUSTRALIA	70,760	10,493	22,030	8,283	6,434

Program of Works (State, Federal electorate and locality)	Total Estimated Expenditure	Cumulative Expenditure to 30 June 2002	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual
*indicates planned new commencements in 2002-03	\$'000	\$'000	\$'000	\$'000	\$'000
WESTERN AUSTRALIA					
Brand – Major Works					
Garden Island – HMAS Stirling – base redevelopment stage 3	19,000	18,130	30	200	194
Brand – Medium Works					
Garden Island - HMAS Stirling – periscope workshop facility	2,600	32	2,000	240	32
Garden Island - HMAS Stirling – torpedo/underwater target teams facility*	1,500	0	1,500	0	0
Garden Island - HMAS Stirling – armoury, magazine and gunners store	1,500	21	1,500	21	21
Garden Island - HMAS Stirling – Wharf Services upgrade*	5,522	0	2,000	10	0
Curtin – Medium Works					
Swanbourne – 4 Signal Troop facilities*	4,000	0	1,000	0	0
Pearce – Major Works					
Bullsbrook - RAAF Pearce – facilities for lead-in fighter	6,936	6,605	1,436	1,100	1,063
TOTAL WESTERN AUSTRALIA	41,058	24,788	9,466	1,571	1,310

NORTHERN TERRITORY					
Lingiari – Major Works					
Timber Creek – Bradshaw Field Training Area infrastructure	64,783	9,362	600	8,000	6,410
Lingiari – Medium Works					
Bathurst Island – facilities upgrade	2,000	2	1,000	200	0
Katherine – Delamere radar facilities	2,000	0	0	200	0
Katherine – RAAF Tindal – approach control facility	1,800	1,575	927	560	562
Katherine – RAAF Tindal – Northern Regions Operations Centre 2 Control and Reporting Unit relocation	1,250 ⁽¹⁾	185	1,200	700	185
Katherine – RAAF Tindal – new 400 - metre range	3,500	2	0	200	2
Katherine – RAAF Tindal – living-in accommodation	5,800	67	0	1,000	67
Solomon – Major Works					
Darwin – Robertson Barracks - Joint Army Deployment facility development stage 2	268,300	228,431	127	2,200	1,058
Darwin – Larrakeyah Barracks - north Australia naval infrastructure stage 1	12,600	12,557	650	1,000	974
Darwin – RAAF Darwin – development of operational facilities project	59,458	57,432	1,964	3,200	2,634
Darwin – 1 Aviation Regiment relocation	10,738	0	1,000	400	0
Darwin – RAAF Darwin – base redevelopment	11,670	6,492	5,395	1,500	786
Solomon – Medium Works					
Darwin – Robertson Barracks – emergency response facilities	4,000	0	1,000	500	0
Darwin – Robertson Barracks - tactical training and simulation site	4,800	23	0	1,900	23
Darwin – RAAF Darwin – central emergency power station	4,400	4,419	3,830	3,700	4,159
Darwin – married quarters electrical upgrade	3,600	99	0	0	12
TOTAL NORTHERN TERRITORY	460,699	320,646	17,693	25,260	16,872

Program of Works (State, Federal electorate and locality)	Total Estimated Expenditure	Cumulative Expenditure to 30 June 2002	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual
*indicates planned new commencements in 2002-03	\$'000	\$'000	\$'000	\$'000	\$'000
AUSTRALIAN CAPITAL TERRITORY					
Canberra – Major Works					
Weston – Australian Command and Staff College	28,000	26,228	400	1,100	991
Canberra – Defence Network Operations Centre	19,600	45	0	2,000	45
Canberra – Medium Works					
Canberra – multi-user depot construction	5,800	0	2,000	400	0
Fraser – Medium Works					
Jervis Bay – HMAS Creswell—waterfront facility for 4RAR	2,410	19	0	200	19
Russell Offices – child care facilities	2,400	2,400	1,400	2,400	2,400
Jervis Bay – remediation of Mary Creek	1,100	90	964	200	70
TOTAL AUSTRALIAN CAPITAL TERRITORY	59,310	28,782	4,764	6,300	3,525
Other - Major Works					
Location to be advised – RAAF College development	36,038	0	300	0	0
Other – Medium Works					
RAAF Butterworth – building upgrades	1,500	8	1,500	250	8
RAAF Butterworth – fuel farm upgrade	4,900	4,298	1,664	4,705	4,298
Project Ninox – training, storage and maintenance for night fighting equipment – various locations	4,885	3,383	2,000	3,500	2,062
Air traffic control systems – various locations	3,258	2,877	426	400	280
TOTAL OTHER	50,581	10,566	5,890	8,855	6,648
TOTAL NEW BUILDINGS AND WORKS	1,763,523	902,307	286,173	271,902	226,114

Note

1. Increase in outturn due to increased costs.

ASSET MANAGEMENT

Defence manages some \$50 billion in total assets, of which the largest share is about \$31 billion in specialist military equipment. Other assets under Defence's management include land and buildings, infrastructure, plant and equipment, inventories and intangibles.

Defence began implementation of an improved asset management and reporting framework in February 2001. The framework seeks to:

- integrate asset planning, management and disposal decisions into corporate planning processes, including the Defence Plan;
- ensure that asset planning decisions are based on evaluation of alternatives, including life-cycle costs, benefits and risks of ownership;
- assign responsibility for asset management policy development;
- increase the involvement of senior Defence committees in balance sheet management of key assets; and
- assign accountability, giving lead responsibility for accounting and reporting of assets to appropriate senior executives.

2001-02 ACHIEVEMENTS

Steady progress has been made in implementing the framework. The focus in 2001-02 was on improving asset accountability and reporting. In addition, asset planning is better integrated into the overall planning framework, with the Defence Capability and Investment Committee taking an increased role in management of key assets, particularly major military platforms. The Defence Capability Plan is an integral part of Defence planning.

The asset management and reporting framework is intended to be substantially integrated into Defence's financial planning and reporting by 30 June 2003.

Considerable work has been undertaken to improve the quality of the asset accounting for military repairable items and inventory. The functionality of the current Standard Defence Supply System was improved through partial implementation of the inventory accounting project for the reporting of military spares. A major review was also completed of the SDSS upgrade project, which will upgrade the current version of the software as well as significantly improve business processes. This review identified risks in the project plan as well as and resulted in better alignment of the implementation strategies with the project risk. In terms of the asset accounting for explosive ordnance inventory, the functionality of the specialised inventory system, COMSARM, was improved to enable it to provide accrual accounting information. A number of major exercises were conducted to improve the data integrity of the two major logistics asset management systems, SDSS and COMSARM.

In terms of assets under construction, a financial reporting review was undertaken of around 97 per cent of Defence's major military acquisition projects to ensure that all current balances were correct in terms of the value of the remaining work in progress.

This has provided managers with better visibility of the amount of future military assets partly delivered compared to the total investment program.

Land, buildings and infrastructure assets have been progressively reviewed and revalued over the past three years, with work undertaken by the Australian Valuation Office. Procedures and processes are in place to ensure that the asset data are accurately maintained.

In addition, significant effort has been put into the identification, validation and correction of administrative asset records. This includes information technology assets.

PURCHASER-PROVIDER ARRANGEMENTS WITH THE DEFENCE HOUSING AUTHORITY

Defence and the Defence Housing Authority have completed the second year of a ten-year agreement for the delivery of housing services to ADF members. The agreement formalises the relationship between Defence (as purchaser) and the Defence Housing Authority (as provider).

Since commencing the agreement, Defence has transferred other responsibilities to the Defence Housing Authority. These encompassed housing allocation and re-occupation (including cleaning and maintenance on vacation of property), itinerary management and removals. During the peak end-of-year posting cycle for 2001-02, the Authority experienced significant difficulties in the delivery of relocation services. The Authority's inability to deliver payments of allowances and other relocation services in a timely manner impacted upon the morale of a number of Service members being relocated. Defence and the Defence Housing Authority are currently working together to ensure the events of the last posting cycle are not repeated.

Defence and the Defence Housing Authority are negotiating a relocations agreement with an initial transition contract through to 31 July 2003. Defence has the option to sign a further seven-year contract, upon evaluation of the Authority's performance.

The overall aim of this initiative is for the Defence Housing Authority to provide a high standard one-stop shop for relocation services to ADF members and their families.

DISCRETIONARY GRANTS

Table 3.6: Grants Awarded in 2001-02

Grant Program	2001-02 Budget Estimate \$'000 Year Price	2001-02 Revised Estimate \$'000	2001-02 Actual \$'000	Variation \$'000
Army Military History Research Grants Scheme	50	50	50	-
Defence Family Support Funding Program	1,250	1,350	1,134	- 216
Grant to the Royal United Services Institute of Australia	75	75	75	-
Centenary of Federation Grant	0	500	500	-
Total	1,375	1,975	1,759	-216

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 on the table below.

Table 3.7: Army History Research Grants Scheme Grantees 2001-02

Grantee	Grant Amount (\$)	Title of Research
Major Russ Parkin	9,100	<i>An Ideal Defence: The Impact of Imperial Defence Policy on the Australian Army 1920-39</i>
Mr John Connor	8,700	<i>Senator George Pearce as Minister for Defence 1914-1918</i>
Mr Stuart Braga	5,000	<i>Biography of Major General A S (Tubby) Allen</i>
Mr James Wood	4,350	<i>The Chiefs of the Australian Army – From Hutton (1901) to Sturdee (1950)</i>
Dr John Williams	3,500	<i>The 1st AIF 1914-1918: Through German Eyes</i>
Mr Ian Northcott	3,200	<i>A Life of Duty: The Biography of Lieutenant-General Sir John Northcott</i>
Ms Margaret Hardy	3,100	<i>Padres in No Man's Land: Australian Military Chaplains 1914-1918</i>
Mr Dale Blair	2,700	<i>To Kill or Not to Kill: Australian Attitudes Towards the Taking of Prisoners on the Western Front 1916-1918</i>
Mr Paul Anderson	2,100	<i>History of the 1st Armoured Regiment (South Vietnam) 1969-71</i>
Ms Sarah Fairhead	2,000	<i>Indigenous Citizenship and the Defence of Australia</i>
Dr Anita Callaway	2,000	<i>Soldier as Spectacle: The Public Face of the Australian Army</i>
Mr Jim Faggoter	1,500	<i>Australia, Don't Forget About Us – The Vietnam War, Volume Two</i>
Mr Steve Eather	1,000	<i>Pharlap – The Career of Major General Ken Eather, CB, CBE, DSO, ED, MID, DSC</i>
Mr David Palmer	900	<i>Reorganising Australian Intelligence Capabilities: Brigadier Kenneth Wills, the AIB and MacArthur's staff</i>
Mr George Franki	500	<i>Harry Murray VC, CMG, DSO & Bar DSM</i>
Dr John Coe	350	<i>Drums and Symbols: The South African War and Australia's Military Culture</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 2001-02 revised estimate identified \$1.35m available for the program, of which \$1.2m was available for direct grants. The remaining \$0.15m was targeted to family support assistance and necessary administration of the program. The 2001-02 result refers to direct expenditure on grants, which totalled \$1.134m, as identified in the following table.

Table 3.8: Family Support Funding Program Expenditure 2001-02⁽¹⁾⁽²⁾

State	Organisation	Grant (\$)
AUSTRALIAN CAPITAL TERRITORY	Allen Main Memorial Preschool (3 grants)	3,028
	Australian Military Forces Relief Trust Fund	100,000
	Canberra Service Wives Craft Group	3,406
	Duntroon Community Centre (4 grants)	35,943
	Gungahlin Defence Families Playgroup	2,650
Total Australian Capital Territory		145,027
NEW SOUTH WALES	Anklebiters Playgroup	2,333
	Anzac Village Pre School Association Inc	2,240
	Baby Bombers Playgroup	929
	Banksia House Interest Group (5 grants)	12,760
	Defence Special Needs Support Group (Hills Area)	2,012
	Defence Special Needs Support Group (Wagga Wagga)	422
	Defence Special Needs Support Group (Williamstown)	895
	Family Welcome Service	1,940
	Forest Hill Community Preschool Inc	2,123
	Forest Hill Public School Parents & Citizens Association	1,600
	Glenbrook Family Support Group Inc	8,457
	High Flyers Gym Club Inc	2,601
	Holsworthy Occasional Care Centre	14,378
	Kapooka Community Coordination Committee	765
	Kapooka Playgroup	1,663
	Kapooka Toy Library	2,000
	Kissing Point Cottage	36,487
	Little Diggers Playgroup	3,624
	Little Learners Toy Library	2,732
	Night Owls Spouse Support Group	3,709
	Nursing Mothers' Association of Australia (Raymond Terrace Group)	1,929
	Post Natal Depression Family Support Network	1,400
	Quakers Hill Support Group	10,140
	RAAF Richmond Playgroup	2,245
	RAAF Wagga Playgroup	792
	RAAF Williamstown Playgroup	1,511
	Singleton Area Military Support Network Inc	7,942
	Service Wives Initiating Self Help	4,334
	Shoalhaven Defence Families Association Inc	16,052
	The Junction Works Inc – Wattle Grove Neighbourhood Centre	508
	Tiny Time Inc	1,289
	Tea Ladies Catering	4,700
	Toy Library Singleton Area Military Support Network Inc	1,465
Wagga Wagga Defence Newsletter Team	12,013	
Wagga Women's Health Centre Inc	1,817	
Williamstown Craft Group	1,015	
Total New South Wales		172,822
NORTHERN TERRITORY	ICER Regimental Trust Fund – Sportsman's Club Children's Playground	2,000
	Casuarina Street Primary School Council	15,256
	Creative Craft Club	399
	Defence Special Needs Support Group (Darwin)	838
	Katherine East Community Centre Inc	1,068
	Larrakeyah Neighbourhood House Inc	18,503
	Nemarluk School	468
	Network Incorporated	2,000
	North Australia Area Family Support Committee Inc (2 grants)	24,215
RAAF Darwin Community Centre (3 grants)	26,034	

State	Organisation	Grant (\$)
	Robertson Barracks Family Centre	5,353
	St Peter's Chapel	250
	The Good Neighbours Scheme	11,951
	Tindal Tidal Waves	1,450
	Tindal Preschool Parent Association	2,250
	Tindal Playgroup	2,207
	Top Ender Tri-Service Newsletter	30,586
Total Northern Territory		144,828
QUEENSLAND	5 Aviation Regiment Pegasus Club Family Sub-Committee	2,000
	Amberley Community Preschool and Kindergarten Association Inc	1,500
	Blue Skies Preschool and Kindergarten	143
	Canungra Community Kindergarten	11,238
	Defence Community and Recreation Centre (7 grants), Leichhardt	38,579
	Defence Special Needs Support Group (Brisbane)	800
	Defence Special Needs Support Group (Cairns)	960
	Defence Special Needs Support Group (Darling Downs)	1,140
	Defence Special Needs Support Group (Townsville)	510
	Enoggera Childcare & Kindergarten Assoc Inc – Kindy Corner (2 grants)	7,910
	Family Community Centre Inc (5 grants)	29,523
	Katunga Playgroup	685
	Kokoda Barracks Women's Association	3,020
	Pine Rivers Family Association Inc (4 grants)	10,726
	Pine Rivers Welfare Association Inc	3,880
	RAAF Amberley Toy Library	1,919
	SOS Playgroup	3,858
	Stingers Family Support Group	1,886
	Toowoomba Defence Family Support Association Inc	3,345
	Townsville Schools Cooperative Mobility Project	15,000
	Tri-Service Defence Family Support Association Inc	9,594
	Vincent Neighbourhood Craft Groups	2,363
	Vincent Neighbourhood House	37,762
Total Queensland		188,341
SOUTH AUSTRALIA	Defence Special Needs Support Group (Woodside)	818
	Edinburgh Craft Group	1,355
	Edinburgh Family Support Committee	31,281
	Edinburgh Playgroup	4,906
	North East Defence Community	19,998
	South Australia Connection Newsletter	15,117
	Woodside Defence Families Association (7 grants)	12,083
Total South Australia		85,558
TASMANIA	Dowsing Point Community Centre	21,466
Total Tasmania		21,466
VICTORIA	Albury Wodonga Defence Families Group Pack-a-Picnic	3,610
	Bandiana Neighbourhood House Inc	1,000
	Bandiana Primary School Council	13,391
	Baranduda Community Committee	589
	Central Gippsland Health Services	6,860
	Crib Point Community House Inc	1,500
	Defence Special Needs Support Group (Melbourne North East)	1,455
	Defence Special Needs Support Group (Melbourne West)	1,690
	Defence Special Needs Support Group (National) (5 grants)	70,381
	Defence Special Needs Support Group (Sale)	892
	East Sale Family Group Inc (3 grants)	7,124

State	Organisation	Grant (\$)
	East Sale Kindergarten Inc	1,084
	Kapooka Community Coordination Committee (3 grants)	25,806
	Kapooka Kindergarten	3,847
	Little Mac's Playgroup	1,325
	Mactier Community Centre	805
	Mactier Community Craft Group	2,145
	Majorie Hall Kindergarten (2 grants)	7,792
	Necana Association Inc (2 grants)	4,445
	Point Cook Primary School (2 grants)	4,000
	Puckapunyal & District Neighbourhood Centre Inc	29,324
	Puckapunyal Kindergarten Association Inc	5,291
	Puckapunyal Primary School	23,800
	RAN Family & Friends Association (2 grants)	25,632
	Werribee Defence Community House Inc (2 grants)	19,610
	Western Area Group Support Toy Library	1,878
	Willy Wagtails Rostered Playgroup Inc	4,660
	Wippa Snappas Playgroup	1,720
Total Victoria		271,656
WESTERN AUSTRALIA	Army Families (WA) Inc	22,225
	Charthouse Primary School P&C Association	4,000
	Combined Ships Contact Group	3,173
	Karrakatta Community House Inc	24,574
	Little Smarties Playgroup	898
	Nursing Mothers' Association of Australia (Rockingham District)	2,189
	Octopus Garden Support Association Inc (3 grants)	27,995
	Pearce Toy Library Inc	464
	Rockingham Women's Health and Information Centre	4,500
	St George's Chapel Counselling and Sunday School	1,500
	Swanbourne Primary School P&C Association	4,000
	The Special Air Service Regiment Auxillary	3,150
Total Western Australia		98,668
OVERSEAS	Butterworth Support Group, Penang (3 grants)	2,820
	Port Moresby Australian Defence Family Club	2,878
Total Overseas		5,698
GRAND TOTAL		1,134,070

Notes

- Totals may not add due to rounding.
- Amounts are exclusive of GST.

ROYAL UNITED SERVICES INSTITUTE OF AUSTRALIA

This grant provided assistance to the institute in publishing its journal and in sponsoring lectures and seminars on strategic and national defence issues. The grant also provided continued support for the institute's national secretariat to position the institute to become more financially independent over the next three years.

CENTENARY OF FEDERATION GRANT

This grant provided one-off assistance for the establishment of the Naval Memorial Park in Hastings, Victoria. It included assistance for the costs of towing the former submarine *Otama* from HMAS Stirling, Western Australia to its waterfront, land-based display.

VICE CHIEF OF THE DEFENCE FORCE

The following section outlines owner support achievements and activities performed within the Vice Chief of the Defence Force (VCDF) Group. In addition to primary responsibilities related to support the Chief of the Defence Force and a specific role in the capability development process, VCDF has specific and discreet responsibilities for oversight of Reserve policy, cadet policy, the Headquarters Australian Theatre Project and the Defence workplace safety project.

RESERVE POLICY

The *Portfolio Budget Statements 2001-02* listed the following as a priority for Reserve policy during the year.

“Allow wider employment options for enlisted Reservists and provide increased support to Reservists and their employers” (*Portfolio Budget Statements 2001-02* p.10).

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

The office of Reserve Service Protection was established within Defence in November 2001 to administer the provisions of the *Defence Reserve Service (Protection) Act 2001*. The office is primarily intended to protect the employment and education rights of Reservists and ensure their availability for Defence service. It has also established an avenue of appeal for employers who may be compelled by legislation to release employees for service.

The ADF Reserves employer support payment scheme was introduced in June 2001 to compensate employers and self-employed Reservists in allowing their employee-reservists to undertake periods of continuous Defence service. The employer support payment initiative seeks to facilitate the release, by employers, of their employees for Defence service. The employer support payment, provided for most categories of Reserve service short of call-out, is payable to an eligible employer from the third and subsequent weeks of Reserve service.

A program of Defence activities was instituted at the beginning of 2002 to showcase the benefits of Reserve service to the community. Over 30 separate activities have been conducted in the six months to June 2002 demonstrating the skills, experiences and training that Reservists gain from service. In addition, Defence continues to support ongoing commemorative events.

DEFENCE WORKPLACE SAFETY PROJECT

In November 2001, the Chief of the Defence Force and the Secretary directed the formation of the Defence workplace safety project. The project aims to facilitate the development and implementation of an integrated safety management system that meets the requirements, responsibilities and objectives of Defence. In delivering this system, the project will ensure that all the modified F-111 Deseal/Reseal Board of Inquiry recommendations have been addressed, to the extent that they apply throughout Defence.

The Defence workplace safety project team, although working closely with the Defence Safety Management Agency, performs a different function. While the Safety Management Agency provides Services and Groups with policies, tools and services to enable them to manage their responsibilities for safety, the workplace safety project has a finite lifespan and will disband once a Defence-wide integrated safety management system has been introduced. The occupational health and safety section in Chapter Five provides detailed information on the Defence Safety Management Agency.

The project office to work closely with stakeholders to identify current systems and address any gaps or deficiencies in safety management practices. The office will provide stakeholders with necessary project management, change management and communication expertise to assist them in this process.

HEADQUARTERS AUSTRALIAN THEATRE PROJECT

The theatre headquarters project was established following the Government's decision in late 2001 to build the operational-level headquarters at Bungendore, NSW. The project aims to bring together government and non-government interests to ensure timely delivery of the new headquarters in 2006-07. Currently in the preliminary phase, an environmental impact study and an operational concept definition study are being undertaken prior to tenders being sought. Different methods of delivering the headquarters, including private financing initiatives, are being investigated.

CADETS

The mission of the ADF Cadets is

“to provide opportunities for the young people of Australia to experience exciting personal challenges and development within an adventurous military environment in order to promote citizenship and positive relationships within the community and Defence.”

Over 26,000 cadets and 2,200 adult volunteers parade in 446 cadet units across Australia as members of the Australian Navy, Army and Air Force cadet corps. The Government announced, in the Defence White Paper, enhancements for the Australian Services Cadet Scheme, based on the report, *Cadets: The Future*, released in December 2000. As part of the cadet enhancement program, the Australian Services Cadets Scheme was renamed the ADF Cadets.

In 2001-02, \$30m was allocated to the cadets. This included \$24m of ongoing Defence support and an additional \$6m for enhancement initiatives. The balance of support for the program comes from cadets, parents, and the community.

\$3.1m of the \$6m allocated for the cadet enhancement program was spent in 2001-02. The \$2.9m underspend reflects the period taken to establish a new Directorate of Defence Force Cadets to implement the program and the significant planning phase for a number of major projects.

Major enhancement activities commenced or undertaken in 2001-02 included:

- computerisation of all cadet units across Australia, which will continue in 2002-03 with the development of an on-line management system following provision of hardware and Internet connectivity;
- additional funding for, and improved access to, uniforms and equipment for cadets and cadet staff;
- an audit and review of all cadet unit accommodation;
- a tri-Service occupational health and safety policy and procedures for cadets (to be completed in 2002-03);
- delivery of occupational health and safety training to 350 staff and distribution of awareness packages to all staff;
- the inaugural ADF Cadets national conference, held in April 2002, with collaboration from other Australian youth organisations;
- development of an indigenous participation strategy for cadets and a trial of cultural awareness training;
- preliminary work on the development of strategies and policies relating to communications, equity and diversity, people management, and greater cadet involvement in decision making;
- a review of the military-like activities and firearms activities that may be undertaken by cadets; and
- identity cards for cadet staff.

The \$24m in ongoing Defence support for the ADF Cadets comprises cadet staff salaries, salaries for ADF staff supporting cadets, uniforms for cadets and cadet staff, cadet corps running costs, annual camps and staff and cadet training. To ensure greater transparency of the ongoing resources Defence allocates to cadets, formal support agreements were drafted between the ADF Cadets and each of those Defence Groups which support cadet activities.

DEFENCE SCIENCE AND TECHNOLOGY

The following section summarises the performance of the Defence Science and Technology Organisation for 2001-02. The organisation has focused on implementing the Defence White Paper by seeking to make best use of technology and expanding the skills required to exploit technology to Australia's advantage. This included contributing to Defence outputs and organisational renewal, assisting in the development of a competitive industry base and people development.

CONTRIBUTION TO DEFENCE OUTPUTS

OUTPUT 1 - DEFENCE OPERATIONS

The research conducted during the year in support of Defence operations focused on:

- the application of a range of information systems, networks, and information acquisition systems on current and future Defence capabilities (encompassing both commercial off-the-shelf and emerging technologies);
- the Defence information environment;
- joint command, control and communications systems;
- reconnaissance and surveillance systems (including the Jindalee Operational Radar Network);
- Defence information operations capabilities;
- support to operational planning tools and techniques in Headquarters Australian Theatre and the Deployable Joint Force Headquarters;
- development of the collocated Headquarters Australian Theatre to be established in 2006-07, developing a conceptual model for the Theatre Operations Centre; and
- support for the national chemical, biological and radiological anti-terrorist response capability, including support to the Commonwealth Heads of Government Meeting.

OUTPUT 2 - NAVY CAPABILITIES

Science and technology research assisted the Navy in the following areas:

- **Amphibious and Afloat Support** - including a high-level operational analysis study investigating operational issues surrounding the ADF's future amphibious and afloat support forces.
- **Collins-class Submarine** - including assessing the replacement combat system and advice on the structural integrity of the hull. The organisation developed a fatigue-life management plan which provides safety by inspection of the propellers, and extends the lives of existing propellers until third-generation propellers become available.

- **Major Surface Combatants** - including supporting the Anzac anti-ship missile defence upgrade, research into the Nulka active missile decoy's effectiveness, sensor performance and operational tactics, and the establishment of a virtual ship simulation facility. The organisation also reviewed and analysed potential future capability gaps, and the overall contribution of major surface combatants to Navy maritime strategic objectives.
- **Patrol boats** - by providing technical advice on various issues, including platform materials and crewing.
- **Mine Warfare** - including research on the mine hunter coastal ship mine-hunting sonar system and computed tomography (image reconstruction) using ultra-wideband sonar data to view sea mine images at safe stand-off distances.

OUTPUT 3 - ARMY CAPABILITIES

The land science and technology research program included research into the following areas:

- **Special Forces Operations** - including improved commando capability, acquisition of a direct-fire guided weapon, commando operational watercraft and integrated helmet systems.
- **Mechanised Operations** - including research into Leopard tank hull cracking and the optimisation of weld repair procedures.
- **Combat Support Operations** - the Defence Science and Technology Organisation deployed two force operations research operational teams to East Timor in support of the United Nations. The organisation also contributed to an urgent countermine protection/detection/neutralisation program for deployed forces.
- **Army Aviation Operations** - including science and technology support to the armed reconnaissance helicopter project tender specification and technical evaluation, and to enhancing the Black Hawk's armour and its human-machine interface.
- **Light Infantry Operations** - including support to the advanced individual combat weapon: a combined 5.56mm Steyr rifle and 40mm grenade launcher capability.
- **Protective Operations** - including an important role in advising the ADF on setting up the Incident Response Regiment, tasked with rapidly responding to terrorist threats, and research into 'Metal Storm' technology for a new area denial weapon system.

OUTPUT 4 - AIR FORCE CAPABILITIES

Science and technology research assisted the Air Force in the following areas:

- **Future Aerospace Combat Capability and Experimentation** - including support to the new aerospace combat capability and the virtual air environment simulation capability.



- **Through-Life Support of Aircraft** - including advice aimed at reducing the cost of ownership, extending the life, and improving the safety of RAAF airframes and engines. Work also entailed the completion of the cycling phase of the international follow-on structural test program fatigue test of the F/A-18 aft fuselage and empennage, and F-111 sole operator program.
- **Support to Air Projects** - including the ADF air refuelling capability, follow-on stand-off weapons, various Hornet upgrade systems, the airborne early warning and control system, the AP-3C Orion maritime patrol aircraft and the C-130J. Work involving missiles encompassed testing of advanced short and medium range air-to-air missiles and the AGM-142, a medium range conventional stand-off missile.
- **Electronic Warfare** - including work on the next generation electronic warfare ground support environment and input to future acquisition projects.
- **Global Hawk** - providing advice on the performance of the radar sensor, various system performance issues, and Australian communications issues.

OUTPUT 5 - STRATEGIC POLICY

The research conducted during the year in support of Strategic Policy focused on:

- **Strategic and joint warfighting concepts** - developed to guide the ADF in future force development.
- **The Defence experimentation framework** - a policy document for coordinating experimental activities within Defence.
- **Preparedness analysis** - through wargames and simulations, to determine the optimum quantities of explosive ordnance stockholdings.
- **Command, control, communications, computing, intelligence, surveillance and reconnaissance capabilities** - including investigations to support future force structure studies. Analyses of force options testing for the Defence White Paper were further refined and used to inform several reviews within Defence.
- **International Relationships and Activities** - including the Technical Cooperation Program with the United States, United Kingdom, Canada and New Zealand, and bilateral involvement with countries such as the United States, the United Kingdom and France. Interaction with regional countries including helping them to sustain and increase their abilities to defend themselves in cost-effective ways, supporting regional countries' operations with the ADF, and dialogue on science and technology issues of mutual interest.

OUTPUT 6 - INTELLIGENCE

The organisation developed and delivered network analysis and protection tools to Defence. In particular, work focused upon:

- Computer-based techniques and tools to support weapon systems analysis; and
- further research into intelligence processing and dissemination systems was undertaken in support of future systems.

IMPROVING THE ORGANISATION – DEFENCE SCIENCE RENEWAL

The Defence Science and Technology Organisation continued to develop change strategies and organisational initiatives as part of the wider Defence organisational renewal process. The initiatives detailed in the organisation's 2002 strategic plan included:

- increasing support for Defence's capability analysis and decision making;
- developing closer customer partnerships;
- broadening the organisation's technical base through external providers;
- reviewing and renewing the organisation's science and technology base; and
- undertaking workforce planning, reviewing the career structure, and improving management and leadership of defence science.

IMPROVING THE ORGANISATION – MAKING THE BEST USE OF SCIENCE AND TECHNOLOGY AND AUSTRALIAN INDUSTRY

In 2001-02, the Defence Science and Technology Organisation concentrated on the best usage of science and technology for the enhancement of the ADF and the development of a competitive industry base that can support a technologically-advanced ADF.

To provide strategic guidance to the science and technology program over the five to ten year term, a technology plan was developed in 2002. The plan aligns the organisation's future science and technology priorities with client needs, in the light of defence technology trends and the organisation's expertise in both the ADF environment and the science and technology domains.

The organisation also developed stronger coordinating mechanisms with its customers and continued to provide quality support and advice to the ADF. To ensure advice is impartial and timely, a strategic analysis policy section was created.

A new research division, Defence Systems Analysis Division, was established. This division is the organisation's centre of expertise in operations and systems analysis applied to Defence strategic and theatre planning and operations.

NETWORK SECURITY AND REVOLUTION IN MILITARY AFFAIRS

Significant effort was applied during the year to 'revolution in military affairs' technologies and network security. Network-centric warfare is a key concept in the revolution in military affairs, and the organisation undertook analysis of relevant enabling technologies. Examples included new surveillance assets, tactical data links, third party targeting and common engagement capability. A Defence experimental framework was developed to further refine network-centric concepts. Network security is an essential component of protecting a nation's information infrastructure and countering forms of asymmetric warfare. To this end, installation of a pilot system

to protect Defence network infrastructure commenced. Further trials on this system will continue over 2002-03.

BACKING AUSTRALIA'S ABILITY – INDUSTRY INVOLVEMENT

The organisation continued to implement the Government's 2001 innovation statement *Backing Australia's Ability*. In support of this, and Defence White Paper implementation, a technology transfer and commercialisation office was created with the aim of enhancing the discovery, management and take-up of Defence science and technology intellectual property. This enables industry to capitalise on the Defence Science and Technology Organisation's intellectual property, improving its responsiveness to Defence's needs. Ultimately, this can also lead to wider economic benefit.

Specific initiatives that demonstrate the organisation's commitment to the *Backing Australia's Ability* initiative included:

- supporting the expansion of the Cooperative Research Centres program. Defence participated in six bids as part of the 2002 selection round and is working to establish a Commonwealth Cooperative Research Centres Reference Group;
- applying for involvement in the World Class Centre of Excellence in Information and Communications Technology; and
- working with relevant government departments and industry to ensure a successful implementation of the competitive Pre-Seed Fund initiative.

The organisation strengthened its links with industry and universities with a number of initiatives. Further licences to transfer dual use or Defence technologies to industry were approved, and research agreements with universities and other centres of expertise around Australia were strengthened and expanded.

The Defence Science and Technology Organisation continued to provide support to Australian industry through undertaking research and development under contract in areas where it held unique facilities or capabilities.

The organisation continued its support to the capability and technology demonstrator program. Six rounds of the program have been conducted, with fifteen capability and technology demonstrator projects under way. The program continues to attract innovative high-technology ideas from industry and within Defence.

IMPROVING THE ORGANISATION – PEOPLE MATTER

The Defence Science and Technology Organisation developed a number of people initiatives over the reporting period. A management feedback program was facilitated for the organisation's senior managers as part of the organisation's leadership and management framework. This program provided 360-degree feedback for senior managers based on both the Defence leadership model and the Defence Science and Technology Organisation leadership meta-competencies model.

The organisation strengthened its science and technology knowledge capability through the development of a number of integrated programs aimed at providing staff

with a focused approach to their continued knowledge and skills development. A continuous education initiative, promoting science and technology postgraduate study throughout the organisation, was developed to address present and future science and technology skill requirements.

A single science and technology career structure was introduced to provide greater flexibility and adaptability of the organisation's capability for the future. This structure allows more flexible deployment of staff and recognises skills and knowledge, rather than focusing on the way they are obtained. It also allows staff greater access to improved career prospects. A feedback and development scheme was developed to accompany the new career structure. The intent of this scheme is to clarify staff roles in the context of the organisation's strategic directions, and establish an environment where performance improvement is enhanced through feedback and where staff are able to plan and manage their individual developmental needs.

The organisation recruited 51 graduates from various science fields through its graduate recruitment program in 2001-02. To support both the graduate and general recruitment programs, the organisation introduced an orientation and development program designed to develop staff in their first five years in the organisation. The aim of the program is to optimise staff's professional and personal development and their knowledge and understanding of both the organisation and Defence.

PROTECTIVE SECURITY IN DEFENCE

11 SEPTEMBER 2001

The terrorist attacks of 11 September 2001 triggered both immediate and long-term enhancements to Defence's protective security framework. Commanders and executives at bases and establishments across Australia responded quickly to the increase in Defence's alert status by instituting more stringent access controls and other physical security measures. The Chief of the Defence Force and the Secretary established *Operation Safebase* to coordinate Defence's enhanced security response and to assess Defence's protective security vulnerabilities. *Operation Safebase* ran from September 2001 to March 2002. Its achievements included the implementation of a better security alert system, allowing for more graduated and flexible responses to changes in the threat environment, and the completion of a series of vulnerability assessments of bases and establishments. These assessments directed protective security improvements in 2001-02 and will guide the expenditure of Government funding for enhanced protective security across bases and establishments in 2002-03.

SECURITY RENEWAL

Prior to the events of 11 September 2001, action was already in train to improve Defence's security performance. A new organisation, the Defence Security Authority, was established on 1 July 2001 incorporating a central office in Canberra and seven regional offices. Under the leadership of Deputy Secretary Intelligence and Security, the authority works with ADF commanders, civilian executives and Defence industry to protect Defence's people, information and assets. The Defence Security Authority is responsible for the development of security policy (in line with Commonwealth policy), the oversight of security training and awareness, the evaluation and monitoring of Defence security performance, the conduct of serious and complex security investigations, and the processing of the bulk of Defence security clearances.

Defence Service Chiefs and civilian Group Heads are responsible to the Secretary and Chief of the Defence Force for security in their areas. Responsibility for the maintenance of effective security at bases and establishments is, in turn, devolved to the unit level. Work has begun on the establishment of a Defence security governance framework which will harness Defence's existing accountability arrangements to make security 'everybody's business'.

PERFORMANCE TARGETS

In its first year, the Defence Security Authority developed five key strategic themes to guide the transformation of Defence security:

- 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 Authority.

Provide clear and comprehensive policy and high-quality selected services

Partially achieved

Defence has a significant backlog of personnel security vetting requests. This has resulted from the increased operational tempo and the inclusion of mandatory clearance re-evaluation requirements in the *2000 Commonwealth Protective Security Manual*. To improve its performance, Defence has substantially increased the resources allocated to vetting and is making its processes more efficient and effective. It is intended to clear the backlog of priority initial clearances by December 2002 and to progressively reduce the re-evaluation backlog over the subsequent 18 months.

Defence is reviewing its internal security policy to ensure that it is consistent with the *2000 Commonwealth Protective Security Manual* and that additional Defence-specific policy is only developed where there is a clear need. Particular emphasis is being placed on refining Defence security policy to better support Defence's international engagement, its use of information technology and communications, its expanding relations with industry and its operational security and counter-intelligence doctrine. Over the next year the Defence Security Authority expects to negotiate a series of new security agreements to facilitate participation in global defence business in the classified domain.

Defence has also increased its capacity to conduct complex security investigations and is working to refine the electronic tools and systems that support the investigation process.

Strengthen Defence's security culture

Partially achieved

The Defence Security Authority aims to lessen the risk to Defence information and assets by developing a robust security culture built on training, awareness, security assurance and the inclusion of security within all levels of Defence's accountability frameworks. All new Defence employees based in Canberra receive a security awareness briefing as part of the 'Putting you in the Picture' monthly orientation program. This program will be rolled out across Australia in 2002-03. Work is in progress to revitalise the Defence Unit Security Officer network across Australia. Defence is also working to develop a consistent and coordinated approach to security risk assessment across its Service and geographic boundaries, with a rolling program of security compliance audits to begin in December 2002. Defence has also been developing a security plan, to be completed by October 2002, that links the broader Commonwealth protective security manual requirements and Defence's enterprise risk management framework.

Exceed stewardship expectations

Partially achieved

The Defence Security Authority informs senior Defence officials and the Commonwealth security oversight bodies on Defence's security performance and has reported to several Commonwealth forums over the last year, including the 2001

Australian National Audit Office review into personnel security. Transparent and accurate reporting will demonstrate to Government that Defence's security performance is improving over time.

Strive for business excellence

Partially achieved

The Defence Security Authority is working to ensure consistent approaches to security across its seven state/territory offices. Over 2002-03 the Defence Service Authority will continue to work closely with the Navy, Army and Air Force to ensure single-service policy and practice is consistent with Defence and Commonwealth security policy and that Defence security policy is, in turn, informed by Service-specific requirements.

Build a resilient and adaptive authority

Partially achieved

As recommended in previous security reviews and foreshadowed in the *Defence Annual Report 2000-01*, significant additional resources have been allocated to the security function. Among other things, this enabled the Authority to launch an Australia-wide recruitment campaign in February 2001 that will see the organisation increase from 141 to approximately 225 personnel by October 2002. The campaign attracted some 1,500 applications and will contribute to a flexible workforce that combines security specialists and generalists with leadership and management experience from both the public and private sector. A comprehensive induction program and ongoing professional development will ensure that the authority continues to attract and retain the best people.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT AND ENVIRONMENTAL PERFORMANCE

Defence is entrusted with managing large tracts of land, water and heritage assets on behalf of the Australian community. Given the size and nature of Defence's activities, the organisation is aware of the potential impact it has upon the environment. Defence is adopting ecologically sustainable development principles, and is striving to make them an everyday part of its business.

STRATEGIC ENVIRONMENTAL OBJECTIVES

Defence's environmental vision is to be a leader in sustainable environmental management to support the ADF's capability to defend Australia and its national interests. A new Defence environmental policy, endorsed by the Secretary and the Chief of the Defence Force, was released in December 2001. The policy identifies six strategic objectives, which are to:

- establish an innovative environmental management system, which supports ADF capability, promotes environmental sustainability and achieves the Government's broader environmental objectives;
- create a culture where sustainable environmental management is considered an integral element of capability development, equipment acquisition and through-life support, including operational application;
- establish clear lines of accountability for environmental outcomes;
- develop effective processes for education and training in support of the creation of an environmental-aware culture;
- measure and report on environmental performance as part of a process of continuous improvement; and
- create a climate of transparency and strategic partnerships with key environmental stakeholders.

During the year, Defence commenced a number of initiatives, which were aimed at achieving these objectives. The initiatives are discussed under the headings that follow. Further information can be found at www.defence.gov.au/id/ems

DEFENCE ENVIRONMENTAL MANAGEMENT SYSTEM

In accordance with Government policy, Defence is developing a quality assured environmental management system. The system builds on the standards required under the International Standards Organisation 14000 series for environmental management systems. It will set a continuous improvement framework for the development of environmental policy, planning, implementation, measurement and review mechanisms to progress Defence's strategic environmental objectives.

As an organisation with a large workforce that conducts a diverse range of activities in a substantial and widespread infrastructure, this represents a significant undertaking.

Defence manages approximately three million hectares of land, and approximately 700 leased and owned properties, and the Defence estate embraces five world heritage areas.

During the year, Defence made substantial progress in the development and implementation of its corporate-level environmental management system to meet the Government's deadline of the end of 2002. Defence also progressed towards environmental management system certification of one major site by the end of 2003, as a pilot for the planned rollout to major sites over the next three years. At present, Defence's environmental management plans cover 211 sites.

ENVIRONMENTAL TRAINING AND AWARENESS

The Defence environmental education strategy was completed during 2001-02. The strategy has developed a national system of training and is a key element of Defence's environmental management system. The training identifies the need to ensure Defence personnel are aware of their obligations under the *Environment Protection and Biodiversity Conservation Act 1999*.

A regional management brief was conducted nationally during 2001-02 informing managers and commanding officers of legislative and Defence environmental obligations. A total of 29 presentations were provided to some 584 military and civilian personnel.

To further address training and awareness needs, three environmental-awareness training modules were developed during 2001-02. They include:

- creating environmental awareness, a web-based awareness-raising module for all personnel, published on the web in June 2002;
- understanding and applying environmental management, a course for civilian and military managers, to be delivered nationally during 2002-03; and
- environmental leadership, an interview presentation designed for senior leadership, to be delivered during 2002-03, which addresses the importance of sustainable environmental management for Defence.

ENVIRONMENTAL ACCOUNTABILITY

During 2001-02, Defence rolled out its environmental accountability framework across major bases. The framework establishes clear lines of responsibility to meet Defence environmental management objectives and *Environment Protection and Biodiversity Conservation Act* obligations.

Under the *Environment Protection and Biodiversity Conservation Act* Defence is obliged to refer any activities it considers will have, or is likely to have, a significant impact on the environment to Environment Australia for a decision on whether approval is required. During 2001-02, Defence referred eight actions, listed in the table overleaf:

Referral Title	Ref No	Date	Decision / Determination	Status of Referred Action
Defence Science and Technology Organisation Timor Sea Commonwealth marine sonar and acoustic trials	2001/345	5 Jul 2001	Approval not required providing undertaken in accordance with mitigation procedures described in referral.	Referred action completed.
Department of Defence RAAF Base Williamtown NSW RAAF Williamtown Upgrade	2001/362	26 Jul 2001	Approval not required.	Parliamentary approval process for upgrade underway.
Defence Science and Technology Organisation Navy's WA Exercise Area Rottneest Island Commonwealth marine sonar and acoustic trials	2001/538	24 Dec 2001	Proposal withdrawn by Defence.	Action not undertaken. Potential for environmental impacts reviewed by Defence.
Defence Science and Technology Organisation Navy's WA Exercise Area Commonwealth marine airborne sonar trials	2001/540	24 Dec 2001	Approval required.	Action not undertaken due to time constraints.
Department of Defence Multi user depot Werrington NSW	2002/562	30 Jan 2002	Approval not required.	Multi User Depot tenders being assessed. Contractor to be appointed within next month.
Department of Defence Woodlands near Bungendore NSW Headquarters Australian Theatre	2002/599	4 Mar 2002	Approval required/ Assessment by Environmental Impact Statement (EIS)/EIS Guidelines Issued by Environment Australia	Guidelines under review to determine terms of reference for engagement of Defence Environmental Panel member to complete EIS
Department of Defence Jervis Bay Territory Waterfront Facility at HMAS Creswell	2002/658	14 May 2002	Approval of Commonwealth Minister for Environment and Heritage not required providing: consultation occurs with Australian Heritage Commission (under section 30 of the <i>Australian Heritage Commission Act 1975</i>); and comments taken into account in finalising design of facilities and during construction and operation, as relevant	User requirements for facility currently being reviewed.
Defence Science and Technology Organisation Research and investigations Indian Ocean, Northwest of Perth WA Scientific sonar trial	2002/680	3 Jun 2002	Approval Not Required	Trial to take place 29 July – 9 August 2002

More information on Defence referrals to Environment Australia can be found via the Environment Australia web site at: http://www.ea.gov.au/cgi-bin/epbc/epbc_ap.pl

Where an activity is unlikely to have a significant impact on the environment, and the activity is not covered by environmental conditions in standard operating procedures, Defence uses an Environmental Clearance Certificate. These certificates are an internal Defence mechanism used to impose environmental mitigation measures, to ensure the risk of environmental impacts is minimised. Around 300 new certificates were issued during the year. The certificates covered:

- Army, Navy and RAAF exercises (driving training, infantry training, live fire and movement exercises, underwater demolitions, aircraft activities, range practice and engineering activities, refuelling and adventure training activities);
- foreign force activities (Australian/international combined);
- general works (building and range construction/demolition, surveys and general assets maintenance, road maintenance, fire management, installation of optical fibre cabling, washdown facilities, remediation works); and
- equipment trials.

During 2001-02, Defence developed a system of internal environmental instructions to guide Defence personnel on their obligations with respect to environmental legislation. So far, 11 instructions have been issued. Complementary instructions, with force under the provisions of the *Defence Act* and binding on members of the ADF, have also been developed. The instructions issued covered the following areas:

- assessment of a Defence action that requires the approval of the Minister for Environment and heritage;
- management of threatening processes affecting endangered and vulnerable native species and ecological communities on Defence land;
- interfering with whales or other cetaceans;
- reporting of Environmental incidents within Defence;
- referral of a Defence action that has, will have, or is likely to have a significant impact on the Environment;
- management of Defence infrastructure that contains a wetland of international importance;
- management of Defence infrastructure that is a listed world heritage property;
- killing, injuring or taking listed marine species in a Commonwealth area;
- killing, injuring or taking listed migratory species in a Commonwealth area;
- killing, injuring or taking listed threatened species and ecological communities in a Commonwealth area; and
- Defence environmental policy and management system.

ECOLOGICALLY SUSTAINABLE DEVELOPMENT APPLICATION FOR CAPITAL INFRASTRUCTURE INVESTMENT PROJECTS

In addition to improving the energy performance and greenhouse gas emissions of new building developments, Defence is keen to ensure that it achieves the appropriate ecologically sustainable development balance that realises a quality working environment.

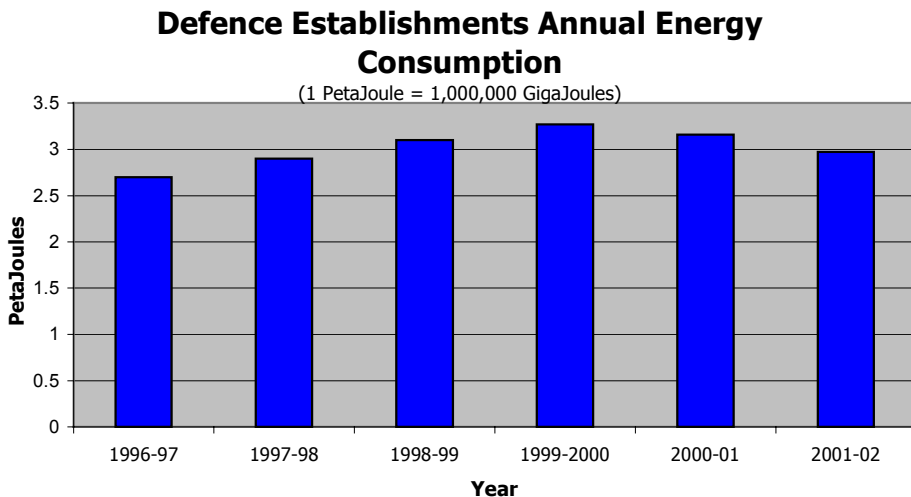
In partnership with industry, Defence is pursuing the greater application of ecologically sustainable development principles, along with whole-of-life costing analysis, at the concept development, design and construction stages of facilities' development. In 2001-02, Defence commissioned independent reviews from a sustainable development

perspective of two project proposals, RAAF Williamtown Redevelopment (NSW) and Canungra Base Redevelopment (Qld). A case study on Canungra can be found under 'sustainable development' in the Defence environment website. Reports on both proposals identified key performance targets for facilities and services.

ENERGY CONSUMPTION

In recognition of its responsibility as one of the largest Commonwealth energy users, Defence established a three-year energy efficiency program in 2000. In accordance with Commonwealth policy, Defence has agreed energy reduction targets and reports annually on its progress. The targets include a reduction for Defence establishments of 545,000 GigaJoules in annual energy consumption by June 2003. Defence began to reduce its energy consumption during 2000-01 and continued to do so in 2001-02. While Defence instigated a number of energy conservation measures, several were not completed during 2001-02, which may result in Defence not realising its June 2003 target.

The graph below depicts the annual energy consumption of Defence establishments for the period 1996-97 to 2001-02.



GREENHOUSE GAS EMISSIONS

Defence joined the Australian Greenhouse Office's Greenhouse Challenge in March 2001. The Greenhouse Challenge Cooperative Agreement between Defence and the Australian Greenhouse Office focuses on reducing greenhouse gas emissions through more efficient use of energy at Defence facilities. During 2001-02, Defence substantially achieved the development of its greenhouse strategy, which will be finalised during 2002-03. Under the agreement Defence will consider other environmental measures to reduce emissions, such as waste management and effective vehicle fleet management. By 30 June 2004, Defence is committed to reducing annual greenhouse gas emissions from facilities by no less than 120,000 tonnes of carbon dioxide compared with the static efficiency forecast.

The emissions covered by this agreement are those arising directly from fuel combustion on-site (eg natural gas, heating fuels, and LPG) and those arising indirectly from on-site use of electricity derived from fossil fuel consumption. Emissions from vehicles and those

from liquid fuels related to the operational activities of the ADF (eg, aviation fuels and mobility fuels for combat equipment) are not covered.

Defence submitted its first report under the Greenhouse Challenge Cooperative Agreement in November 2001 (for 2000-01). Defence's greenhouse gas emissions reduction target for 2000-01 was 25,000 tonnes. Defence energy efficiency activities in this period resulted in actual greenhouse gas abatement totalling 43,825 carbon dioxide equivalent tonnes, exceeding its target by 18,825 tonnes. It is anticipated that Defence will meet its 2001-02 target reduction of 80,000 tonnes. Defence will report on the 2001-02 results in November 2002.

HERITAGE

During the year, Defence reviewed the way it manages heritage obligations and opportunities and established dedicated resources to heritage issues in a strategic manner. An ongoing process was initiated to identify Defence heritage sites and assets, including cultural and natural heritage aspects, and to establish a Defence Heritage Register. Work also commenced on other business tools including the development of heritage policies, strategies and guidance. Various projects were initiated, on a site-by-site basis, for the management of known heritage aspects during the year. These projects included:

- Assessment of buildings (eg, Q-store building at Armidale Training Depot, NSW);
- Studies to identify preservation requirements (eg, Murinbin House, Singleton Army Training Area);
- Remediation and stabilisation of significant indigenous archaeological sites (eg, archaeological sites at Salt Ash Air Weapons Range, NSW);
- Preservation of indigenous artefacts (eg, artefacts identified during rehabilitation works on Singleton Army Training Area, NSW);
- Identification and documentation of sites with heritage values (eg, for various sites in North Queensland);
- Development of Conservation Implementation Plans (eg, plans developed for Hammerhead Crane Garden Island and HMAS Watson Gun Emplacements, NSW and Canungra, Queensland); and
- Registered Indigenous Land Use Agreements (eg RAAF Townsville agreement, Townsville Town Common agreement and Twofold Bay agreement).

WATER AND WASTE

During 2001-02, Defence spent \$13.3m on water - an increase on the \$12.9m spent in 2000-01. Defence has identified the need to develop a water conservation strategy during 2002-03. A pilot waste separation scheme commenced in late 2001 in a Canberra-based office. If successful, the scheme will be considered for Defence sites across Australia.

PARTNERSHIPS

Trilateral

Defence cooperates, on a formal basis, with the defence organisations of Canada, the United States and the United Kingdom to share information and developments on

environmental management in the defence context. Currently, targeted areas include environment management systems, greenhouse gas emissions reduction, contamination management and pollution prevention.

Industry

Defence has established an environmental panel of consultants to ensure that it has access to sound professional advice. The consultants can be engaged to undertake specific tasks relevant to environmental management and/or impact assessment. During the year, the six companies on the panel completed 298 environmental projects, shown in the table below, at a value of \$10.2m. The need for the panel arose from the following requirements:

- to ensure that environment and heritage services being supplied to Defence across Australia are of a consistent standard;
- to reduce administrative overheads in the procurement process;
- to pool the expertise gained by companies working with Defence; and
- to share that expertise across the wider Defence organisation.

Table 3.9: Defence Environmental Panel Projects completed in 2001-02

Category	Number
Assessments, reviews, surveys and studies	111
Monitoring, sampling and testing	32
Specific management plans (conservation, fire, weed, water and contingency)	24
Awareness	7
Risk assessments (outside of Environmental Management Plan development and clearance certificates)	4
Environmental Management Plans	43
Environment and Heritage works (including remediation, regeneration and experiments)	42
Internal audits and investigations	17
Referrals, Environmental Impact Statements and Public Environmental Reports	7
Development and advice (including projects, strategies, statements, reports, design advice and legislative review)	11

ADMINISTRATION OF THE COMMONWEALTH POLICY ON THE MANAGEMENT OF LAND AFFECTED BY UNEXPLODED ORDNANCE

Defence has continued the engagement of commercial unexploded ordnance search and clearance organisations to assist in managing the unexploded ordnance program, undertake investigative surveys and report on unexploded ordnance in selected areas. The Defence unexploded ordnance panel, established in May 2001, provides advice to Defence, other Commonwealth agencies, State and Territory instrumentalities and local authorities. Further information can be accessed via the Defence website at:

<http://www.defence.gov.au/army/uxo/index.htm>

In its second year of operation, the Defence unexploded ordnance panel has proven to be increasingly effective in simplifying and expediting Defence-sponsored investigative surveys and remediation projects. Other Commonwealth agencies, as well as the State of Western Australia have used the panel structure and, with the assistance of Defence, the panel standing agreement to expedite unexploded ordnance assessment and remediation

projects. The panel arrangement continues to improve the commercial and technical relationship between Defence and the unexploded ordnance industry. The first Defence unexploded ordnance forum has been scheduled for early November 2002. Of significant importance is the intended introduction of an unexploded ordnance risk assessment model, jointly developed between Defence and the panel, under which ordnance assessment and remediation tasks can be prioritised.

There remain over 1,100 sites recorded on the Defence register that are potentially affected by unexploded ordnance. Approximately 10 per cent of the sites remain under Commonwealth control. Approximately one third of the sites have been assessed as being 'significant'. A 'significant' site requires detailed assessment and, if considered necessary, remediation prior to any change in land use that is likely to result in increased exposure by persons to an unexploded ordnance hazard. Included in this group are ranges currently used by the ADF. The categorisation of sites will be reassessed and refined once Defence endorses the risk assessment model.

In Queensland, the unexploded ordnance site assessment project is nearing completion and is expected to conclude by mid-2003. Final reports by local authority area continue to be prepared for the Queensland environmental protection agency.

The identification of sites potentially affected by unexploded ordnance is nearing completion in New South Wales. The assembly of a database identifying unexploded ordnance-affected land by real property title nears completion. This will facilitate the attaching of appropriate advice to each of these titles.

In Western Australia, the information-sharing agreements with the Fire and Emergency Services Authority of Western Australia Unexploded Ordnance Service established in 2001-02, continue to work well. The Western Australian Government is in the process of establishing an accredited body, similar to the Defence unexploded ordnance panel, and Defence has provided advice and assistance in this area.

In respect to Commonwealth property, Defence has initiated a program to progressively remediate Defence training areas of unexploded ordnance and explosive ordnance waste. During the reporting period, two contracts have been let at Singleton Army Training Area New South Wales and one each at Bindoon, Western Australia, Mount Bunday and Kangaroo Flats in the Northern Territory and Puckapunyal in Victoria. Similar projects are planned at a number of locations, including Holsworthy New South Wales, during 2003-04.

PUBLIC AFFAIRS AND CORPORATE COMMUNICATION

OVERVIEW

In its second year of operation since formation on 1 July 2000, the Public Affairs and Corporate Communication Division has undergone a year of consolidation.

The division has a charter to develop a strategy-based, whole-of-Defence public affairs and corporate communication capability. This has involved significant change to the way Defence conducts its communication business.

In a year that has seen the strongest level of public pride in the ADF in more than a decade, Public Affairs and Corporate Communication has focused on the provision of corporate public affairs services to customers, clients and stakeholders in Defence and the government.

The ADF had a high operational tempo in 2001-02, with a corresponding increase in the level of public interest. The division has played a role in the information handling requirements for several major operations, including Australia's contribution to the war against terrorism and the surveillance of Australia's northern waters.

Included in that role was the division's involvement in the Senate Select Committee inquiry on a Certain Maritime Incident. This challenging environment provided the division with the opportunity to review internal processes, with an emphasis on its role in Defence's critical incident management functions.

For the division, the primary result of the incident and the subsequent inquiry is to sharpen the emphasis, for the coming year, on relationship building with Services, Groups and Government, as well as externally in other government departments and the media.

LONG-TERM OBJECTIVES

This was the first year of implementation for the *Defence Overarching Organisational Communications Strategy*. Covering the period from 2001-04, the strategy provides Defence's long-term public affairs and corporate communication objectives. The major goals are:

- to raise awareness of the Government's defence policy and increase community understanding and confidence in Defence;
- to improve communication with the Government and other stakeholders; and
- to make internal communication more effective to help people do their jobs.

OBJECTIVES FOR 2001-02

Key objectives for the year were:

- providing a high level of public affairs support to strategic issues management;

- commencing the enhanced military public affairs capability trial;
- improving business processes and people planning;
- implementing the Defence 'Below the Line'¹ recruiting campaign; and
- supporting the implementation of the *Defence Overarching Organisational Communication Strategy* (published in May 2001).

Strategic issues management is a critical requirement within Defence and provision of public affairs advice and input has been a primary focus for the division. In 2001-02, the division introduced a customer service function to provide nationwide strategic-to-operational level communication and public affairs advice to senior commanders and managers. This function was expanded in 2002-03 in recognition of the requirement for communication expertise in virtually all areas of Defence.

During the year the division completed a review of military public affairs capability. In 2001, it was agreed to trial a proposed military public affairs capability, within existing resources. The first Joint Public Affairs Unit (Provisional) was raised in January 2002 for an 18-month trial. In the first six months of operation, the unit sent public affairs deployable field teams to nine international locations - Kyrgyzstan, Afghanistan, the Persian Gulf, East Timor, Bougainville, Singapore, Papua New Guinea, Turkey and South Africa. Additionally, the unit has fielded teams to provide support to operations, training and major community relations activities around Australia, including to the Southern Ocean. The unit deployed personnel to support 27 separate activities in the six months to 30 June 2002.

Underpinning the division's key objectives for the year has been the continuous improvement of business processes and a heightened focus on personnel development. Improved business processes have seen alignment of the division's goals, objectives and activities against the Defence balanced scorecard. Other improvements included production cost savings through adoption of a business unit model for production of newspapers, audio-visual material and web design.

The year saw the implementation of a people plan with an emphasis on personal development. The division has instituted a program which includes consultation with staff through a quarterly forum and surveys to provide feedback on management performance at the director and executive level. A professional development training package is in its second year, providing tertiary-level training in public affairs for staff within and outside the division. Staff development against specialist skills criteria was also a focus for the year.

The Defence 'Below the Line' recruiting campaign aims to support a cohesive, integrated and strategic approach to external Defence recruitment communication in support of advertising. The campaign has an emphasis on current critical trade requirements and is designed to compliment and thereby enhance the current advertising campaign and recruitment strategy.

1. 'Below the Line' communication refers to activities that vary from traditional media advertising, which is referred to in 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.

RESULTS FOR 2001-02

The table below details Public Affairs and Corporate Communication's key results against the goals of the *Defence Overarching Organisational Communications Strategy*:

Goals:	Key Results:
1. Raised awareness of the Government's defence policy and increased community understanding of, and confidence in, Defence.	<p>Achieved</p> <ul style="list-style-type: none"> • Provision of a comprehensive media liaison function, with over 18,000 media inquiries, more than 800 media releases issued and 48 media conferences conducted. • Implementation of Defence 'Below the Line' recruiting activities to complement key Defence marketing strategies, including: <ul style="list-style-type: none"> - extensive editorial coverage in newspapers; - sponsorship of key national events; - recruiting exhibitions; and - information products and production of interactive CD-ROM for public distribution. • Development and implementation of regional public affairs plans for major Defence sites/bases. These plans, directly linked to the overarching defence strategy, are designed to ensure a consistent approach to communication at each level of the organisation. • Support to over 500 public events and community relations activities at Defence establishments around Australia. • Introduction of Mobile Career Reference Centres – 'trade show' style displays supporting major recruiting activities. • Proactive engagement of the film and television industry through the implementation of a program to facilitate and manage its interaction with the Services. • Responses to more than 3,000 calls on the Defence public inquiries line. <p>Substantially Achieved</p> <ul style="list-style-type: none"> • Redesigning and improving the Defence Internet to facilitate the dissemination of a wide range of information. The number of Internet hits has doubled this year to 12.8 million. • Improved transmission of digital stills and video imagery to facilitate shortened timeframes between events and provision of material to support public affairs activities. <p>Partially Achieved</p> <ul style="list-style-type: none"> • Development and implementation of the Defence corporate identity program. • Development of a dedicated, deployable public affairs capability to provide integrated public affairs support and enable proactive promotion of Defence in a diverse range of operating environments.
2. Improved communication with the Government and stakeholders	<p>Achieved</p> <ul style="list-style-type: none"> • Establishment of a liaison function to coordinate ministerial responses. • Establishment of an intra-departmental working group for communication. • Development of more than 100 strategies and plans for responding to emerging issues. <p>Partially Achieved</p> <ul style="list-style-type: none"> • Introduction of client service agreements between PACC and Services and Groups.
3. More effective multi-dimensional internal communication that helps us do our job	<p>Achieved</p> <ul style="list-style-type: none"> • Broadening the exposure of Defence personnel at all levels to organisational communication through the conduct of a range of courses completed by more than 300 civilian and Service personnel. • Development and implementation of the Defence brand. • Establishment of a dedicated program development team for production of audio-visual material to support recruiting/retention and internal communication initiatives.

Goals:	Key Results:
	<p>Substantially Achieved</p> <ul style="list-style-type: none"> • Redevelopment of internal newspapers for three Services and civilians with access through the internal and public Defence website and improved distribution. • Upgrading the Defence Events Calendar to provide an effective communication tool for all areas of Defence for events, announcements and launches. <p>Partially Achieved</p> <ul style="list-style-type: none"> • Integration of public affairs capability into the existing Defence crisis management framework. • Redevelopment of the Defence web and establishment of a consultative group for liaison with internal webmasters.

MEASUREMENT

A critical platform in the *Defence Overarching Organisational Communications Strategy* was the development of a dedicated research capability. This research program can assist in addressing the complex challenge of measuring corporate communication results by providing information that can be used for comparative assessment. The research program has completed the first full year of data gathering, providing a baseline level for comparative findings. The program will operate until 2004.

The research program contributed to planning and evaluation of Defence organisational communication through studies of community attitudes to national security and Defence issues and of public events and displays.

Community attitudes research was conducted in two waves in 2001-02, first in November 2001 and again in April 2002. 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:

- Eighty-six per cent of respondents to a national random phone poll in April 2002 agreed with the statement, 'I take pride in the Australian Defence Force'. (This same statement received a response of 83 per cent in November 2001). This is the highest level of community pride in the ADF on record since tracking of this opinion began in the 1980s.
- High levels of community awareness of, and support for the continuation of all major current Defence operations and activities were shown - mostly above 80 per cent, and many above 90 per cent (results were consistent in both November 2001 and April 2002 surveys).
- High figures were maintained for trustworthiness of Service personnel (78 per cent in November 2001 and 76 per cent in April 2002) and Defence exhibitions and displays (69 per cent in both November 2001 and April 2002 surveys) as sources of information about national security and Defence.
- A nine per cent increase in support for cadets in schools was revealed between the two waves of research (63 per cent in November 2001, increasing to 72 per cent in April 2002).

cent in April 2002). This coincided with extensive publicity leading up to development of the national cadets communication strategy.

There was analysis of 25,959 items of mainstream Australian news media coverage on national security and Defence issues during 2001-02. External analysis rated the overall coverage as more than two-thirds favourable to Defence's reputation.

CHALLENGES

Defence has enjoyed a heightened public profile, mirroring the heavy commitment of the ADF in a range of operational environments, particularly in Afghanistan.

This has emphasised the division's role in critical issues management and highlighted the need for it to integrate into existing crisis response capabilities within Defence.

This high-pressure environment has tested the division's processes and, where necessary, improvements have been made to increase responsiveness to customers, clients and stakeholders. This area remains the division's critical shortcoming and will be the primary focus for the next year.

The coming year will see a refinement in the structure, following detailed review of core business of the division. Greater emphasis and resources will be dedicated to customer and client support, including support to Services and Groups, as well as to Government. A coordination function will be developed, enabling easier integration of the division into Defence's crisis response capabilities. The division will be working with Services and Groups to enhance the existing communication network within Defence.

THE FUTURE

The *Defence Overarching Organisational Communications Strategy* will continue to guide the development of Defence's public affairs and corporate communication capability. The division has commenced a review of the strategy, after the first year of implementation, to ensure it remains relevant and accurately reflects changing organisational priorities.

FREEDOM OF INFORMATION

Section 8 of the *Freedom of Information Act 1982* (the FOI Act) requires each Commonwealth agency to publish information about the way it is organised, its functions, the decision-making and other powers it has 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 the Defence organisation 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 procedures 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, while details about access within Defence are at the end of the 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 (unless the fee is not required or it has been remitted by the department) and should include a telephone number and a return address by which the applicant can be contacted. 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 – Canberra
R8-1-013
Department of Defence
CANBERRA ACT 2600

Advice about making a request under the FOI Act may be obtained by telephoning the directorate on (02) 6265 3683 or (02) 6265 1305 or by facsimile on (02) 6265 1270. 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 granted to

appropriate officers. Details can be obtained from the Freedom of Information Directorate, *see 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

May declare, by notice in the Commonwealth of Australia Gazette, an area in or adjacent to Australia to be a firing area; may make orders and give instructions in relation to canteens and clubs for members of the Navy; and may grant to a person a licence to trade in a naval establishment.

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 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 members' military histories.

Chief of Army

May prescribe conditions for entry to the Army; places the names of officers and former officers on the retired list, grants them military title and authorises the wearing of uniform and insignia by such persons; determines who shall be employed, reside or stay in an Army establishment; and approves the possession, sale, supply and consumption of intoxicating liquor at gatherings of members of the Army and their guests.

Land Commander Australia

May make decisions relating to public access to military (Army) areas; selects private, state or Commonwealth property for training exercises; provides Defence assistance to the civil community as directed by the Vice Chief of the Defence Force; 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

May authorise the provision of Defence assistance to the civil community by any of the schools, colleges or training establishments; and may release information from the records of any member and ex-member who has undergone training by the command.

Chief of Air Force

Exercises powers granted to him by the Air Force Regulations to approve, reject, initiate and determine conditions governing the appointment, re-enlistment, re-engagement, promotion, rank level, retirement, discharge and resignation of members of the Royal Australian Air Force; transfers officers to other arms of the Defence Force; places officers and former officers on the retired list and determines their rank on that list; reviews grievances submitted by serving members of the Air Force in respect of matters relating to their service; determines appointments in respect of the Australian Air Force Cadets; undertakes security clearance reviews in respect of Air Force members; approves Air Force assistance to the civil community; authorises the use of words protected under the Defence (Prohibited Words and Letters) Regulations; approves the wearing, manufacture or supply of protected RAAF emblems, crests and flags; and approves the sale, supply and consumption of intoxicating liquor at gatherings of members of the Air Force and their guests.

Air Commander Australia

Provides Defence assistance to the civil community and may summon civilian witnesses to attend Air Force courts martial.

Defence Personnel Executive

Delegations are held by the Defence Force Psychology Organisation to allow the release of information from individual psychological records.

The Director-General Career Management Policy may authorise the release of serving and former members' honours and awards histories.

The Director-General Defence Health Service may authorise the release of serving and former members' medical and dental records.

The Director Social Work and Client Services may authorise the release of individuals' confidential counselling records to those individuals concerned.

Under Secretary Defence Materiel

Has the authority to determine methods of procurement and approve contracts for major capital equipment and through-life support requirements.

Heads of Maritime Systems, Land Systems, Aerospace Systems, Electronic Systems and Aerospace Surveillance and Control Divisions

Have the authority to issue invitations to register interest and requests for tender; to evaluate tenders; and to 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

Has the authority to issue approvals for the export of certain defence equipment and goods with dual civil and military applications; and to accept tenders and recommendations about quotations for the purchase of supplies and services.

Commander Joint Logistics

Has the authority to issue invitations to register interest and requests for tender; and to evaluate tenders and recommend source selection.

Head National Operations Division

Has the authority to 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; issue period contracts; 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 specifying which matter, if any, contained in classified Defence historical records is considered to be exempt under sections 33(a) and (b) of the Archives Act. Such advice is generated in the course of Defence's continuing program of clearing classified historical records for public release or in response to requests from members of the public for access to such records (pursuant to section 35 or 40, respectively, of the Archives Act).

Head Infrastructure Division

Has the authority to 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, facilities operations and the purchase of services; and has the responsibility for management of 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 give 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.

Australian Noise Exposure Forecasts are produced for all Defence airfields as necessary. Based on Australian standards, forecasts for each airfield are provided to

local governments as a planning tool which can result in the local government imposing restrictions on the usage of the surrounding land.

Head Information Systems

Has the authority to determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; approve contracts; and approve gifts of equipment for protocol purposes.

Chief Finance Officer

May provide instructions to legal providers on the Defence Legal Panel on the settlement of claims against the Commonwealth; write off public money; 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 to waive the full cost recovery for supplies and services provided by Defence; 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 Commonwealth'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.

Chief Information Officer

Has the authority to determine the method of procurement; issue invitations to register interest and requests for tender; evaluate tenders; recommend source selection; and approve contracts.

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.

ARRANGEMENTS FOR OUTSIDE PARTICIPATION

Australian Defence Human Research Ethics Committee

This 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 group 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 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.

National Consultative Group of Service Families

The group 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.

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 dependents in necessitous circumstances can be accommodated and supported. There are three external members of the trust with previous Air Force service or private industry experience.

Shoalwater Bay Training Area Environmental Advisory Committee

The committee provides advice on environmental matters relating to the Shoalwater Bay Training Area (Qld) and includes representatives from Defence and local community and business organisations.

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 (on sale through the Australian Government Information Shops).
- Draft and final environmental impact statements (held by Corporate Services and Infrastructure Group).
- Commercial Support Program Manual.
- Journals and magazines published by Service colleges and schools.
- The Defence Force Journal
- 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> and the Corporate Services and Infrastructure Group website at <http://www.defence.gov.au/cs>).
- 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 (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 and recruiting 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; and
- ADF Defence Force Pay and Conditions Manual.

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 e-mail 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 Commonwealth agencies and with state and territory governments and agencies;
- accounting records;
- Cabinet documents (including submissions, memoranda, minutes and promulgation of decisions);
- 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 Communications 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

CHAPTER FOUR

ENABLING BUSINESS PROCESSES

IMPROVEMENT INITIATIVES

EFFICIENCIES

COMMERCIAL SUPPORT PROGRAM

CUSTOMER-SUPPLIER ARRANGEMENTS

DEFENCE MATERIEL REFORM

PURCHASING

DELIVERING INTERNAL SERVICES

EXTERNAL CONSULTANTS

CONTRACTS EXEMPT FROM PUBLICATION

ADVERTISING AND MARKET RESEARCH

IMPROVEMENT INITIATIVES

EFFICIENCIES

The White Paper resourcing strategy requires Defence to make efficiency savings of \$50m in 2001-02, \$100m in 2002-03 and \$200m in 2003-04 and thereafter.

Table 4.1 lists the initiatives identified to meet the efficiency savings for 2001-02. As stated in the *Portfolio Additional Estimates Statements 2001-02*, in relation to the more cost-effective employment of professional service providers, responsibility for the achievement of savings was devolved to individual Groups within Defence. While Groups' allocations were reduced to achieve the savings from a whole-of-Defence perspective, the overall use of professional service providers continued to increase. Professional service providers have been engaged to augment shortages in specialist and technical skills, particularly in the areas of business process improvement, IT support, project management, stocktaking and asset accounting, and financial statements preparation and associated data assurance processes.

The reduction in the Fringe Benefit Tax liability had two components - recurring savings (\$14.2m) and a refund of previous overpayments (\$22m) to the Australian Tax Office. The increase in savings reflected a conservative revised estimate.

The travel savings, totalling \$20m, were achieved as forecast in the revised estimates.

More than half the revised estimate savings from the Defence commercial vehicle fleet initiative derived from the sale of vehicles that were not part of the regular fleet. These vehicles were purchased primarily for Operation Gold (Sydney Olympics). With their removal from the initiative, the actual savings were \$1.9m. Had they been included, the savings for the Defence commercial vehicle fleet would have been \$4.7m.

Table 4.1: Actual Efficiency Savings in 2001-02

	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual	Variation
	\$m	\$m	\$m	\$m
More cost-effective employment of professional service providers	12.7	0.0	0.0	0.0
Fringe Benefits Tax liability reduction	13.6	30.0	36.2	6.2
Savings in travel	10.0	20.0	20.0	0.0
Reduction in, and improved management of, the Defence commercial vehicle fleet	10.0	4.3	1.9	-2.4
Total	46.3	54.3	58.1	3.8

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, by contracting out those services where 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. These include the Defence Integrated Distribution System and ADF Health Services activities.

The new *Defence Employees Certified Agreement 2002-03*, as did its predecessor, 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 4.2: Status of the Commercial Support Program as at 30 June 2002⁽¹⁾⁽²⁾

CSP Evaluation Decisions Made	117	
Commercial Contracts	78	(67%)
In-House Options	32	(27%)
Status Quo Retained	7	(6%)
Number of Positions Tested	14,443	
Mean Projected Annual Savings	31%	
Total Value of Commercial Contracts and In-house Options	\$4,702.8m	

Note

1. Savings, values and positions tested are based on information provided at the time of the decision announcement.
2. Total value of contracts covers the full term of the contracts.

RESULTS FOR 2001-02

See overleaf.

Table 4.3: Contracts Let in 2001-02

Activity Name	Nature	PBS 2001-02 (Table 4.2) Expected Decision	PAES 2001-02 (Table 4.2) Decision Announced	Contractor	Let Date	Contract Duration (yrs)	Contract Value (\$m)	Net Savings (\$m)
Woomera Support Services	Garrison Support	May 2001	August 2001 ⁽¹⁾	Bae Systems Australia Limited	9 October 2001	10+1+1	63.0	5.70
Publishing and Printing	Publishing and Printing	July 2001	August 2001 ⁽¹⁾	In-House Option	11 December 2001	5+2	72.8	5.82
501 Wing (RAAF Amberley) – F-111 Weapons Systems	Maintenance	-	-(2)	Boeing Australia Limited	16 August 2001	10+10	569.8	0 ⁽³⁾
Electronic Warfare Training	Training	-	-(2)	Raytheon Systems	14 December 2001	10	103.7	0 ⁽⁴⁾

Notes

1. Expected decision announcement date achieved.
2. Decision announced August 2000 - reported in *Portfolio Additional Estimates Statements 2000-01*.
3. No savings were made because of increases in the services required.
4. No savings were made as the function incorporated additional training capability.

Table 4.4: Forecasts Not Achieved

Activity Name	PBS 2001-02 (Table 4.2) Expected Decision	PAES 2001-02 (Table 4.3) Revised Expected Decision	Comment
ADF Health Services in Victoria	May 2001	May 2001	Delayed due to evaluation and resourcing issues. An announcement is expected in October 2002.
ADF Health Services in ACT and Southern NSW	December 2001	-	Delayed due to the complexities involved in the tender evaluation. An announcement is expected in October 2002.
Defence Integrated Distribution System	-	May 2001	Delayed due to evaluation and resourcing issues. An announcement is expected in October 2002.

Table 4.5: Active Contracts Let Prior to 2001-02⁽¹⁾

Activity	Nature	Prime Contractor	Contract Let	Contract Duration (yr) ⁽²⁾
Navy Port Services/Support Craft	Logistics	Defence Maritime Services	July 1997	10
Hunter Valley Logistics Battalion - Base Support Functions	Base Support	Transfield Pty Ltd	August 1997	5 ⁽³⁾
Albury/Wodonga Military Area Logistics and Base Support Functions	Logistics	Tenix Pty Ltd	August 1997	6
Richmond Corrosion Control Facility (Round 2)	Maintenance	ANZES	February 1998	5
Base Support Services 302ABW Williamtown	Base Support	Serco Gardner Merchant	March 1998	4 ⁽⁴⁾
Garrison Support - South Queensland	Garrison Support	Serco Gardner Merchant	September 1998	5
Garrison Support - North Queensland	Garrison Support	Serco Gardner Merchant	December 1998	5
Aircraft Research and Development Unit (SA) Reform Project - Airborne Test and Transport Support	Logistics	AFTS	March 1999	6
Garrison Support – Northern Territory/Kimberley	Garrison Support	Serco Gardner Merchant	May 1999	5
Garrison Support - Western Australia	Garrison Support	Transfield Pty Ltd	May 1999	5
Garrison Support – Australian Capital Territory	Garrison Support	Eurest (Australia) Support Services Pty Ltd	June 1999	5
Garrison Support - Central Sydney	Garrison Support	Serco Gardner Merchant	July 1999	5
Garrison Support - Southern Victoria	Garrison Support	Transfield Pty Ltd	September 1999	5
Aircraft Research and Development Unit (SA) Reform Project - Maintenance Services	Maintenance	Raytheon Systems	November 1999	5
Class 8 Medical and Dental Supply Chain Management	Logistics	Serco Gardner Merchant	November 1999	5
Garrison Support - South Australia	Garrison Support	Transfield Pty Ltd	January 2000	5
501 Wing (RAAF Amberley) – F-111 Workshop	Logistics	ANZES	March 2000	3
Garrison Support - South Coast of NSW	Garrison Support	Serco Gardner Merchant	March 2000	5
Garrison Support - Western Sydney	Garrison Support	Serco Gardner Merchant	March 2000	5
503 Wing C130 Deeper Maintenance	Maintenance	Qantas	May 2000	7
ADF Recruiting	Recruitment	Manpower Services Australia Pty Ltd	September 2000	Trial Pilot Project cont. ⁽⁵⁾
Facilities and Property Operations - DSTO Melbourne	Maintenance	SSL Asset Services	September 2000	3
Garrison Support - Riverina & Murray Valley	Garrison Support	BAe Australia	December 2000	4
501 Wing (RAAF Amberley) - Avionics	Logistics	Honeywell Limited	February 2001	7
503 Wing (RAAF Richmond) - Avionics	Logistics	Contract combined with 501 Wing (RAAF Amberley) - Avionics	February 2001	-
ADF Explosive Ordnance Project	Logistics	ADI Ltd	June 2001	10

Notes

1. Excludes in-house options.
2. Contract duration is from the date that the contract is implemented, not from the date the contract is let.
3. Contract due to expire in February 2003.
4. Contract due to expire in October 2002.
5. Contract decision amended in September 2002 to commence in 2003-04



Table 4.6: Market Testing Activities to be Progressed or Considered

Activity Name
ADF Health Services in Northern Territory
ADF Health Services in Queensland
ADF Health Services in South Australia
ADF Health Services in Tasmania
ADF Health Services in Western Australia
ADF Rotary Wing Flying Training
Amphibious Afloat Ships – Fully Contracted Integrated Materiel Support
Anzac Ships - Fully Contracted Integrated Materiel Support
Army Marine Platforms and Systems
Catering and Accommodation Services – Anglesea Barracks Hobart
FFG Ships - Fully Contracted Integrated Materiel Support
Information Technology Infrastructure Support Services – Central Office – Deakin, Australian Capital Territory
Information Technology Infrastructure Support Services – Regions to be sequentially tested
Navy Technical Training Services
Personnel Services (Corporate Services and Infrastructure Group)
Royal Military College Transport Unit
Routine Pathology Services

CUSTOMER-SUPPLIER ARRANGEMENTS

A key initiative in 2001-02 was the introduction of customer-supplier arrangements, which ensure that Defence has a management framework to deliver on the strategic objectives and tasks set by the Government. The customer–supplier model was the process chosen by Defence to formalise these arrangements by establishing long-term agreements between the purchasers and internal suppliers of goods and services. These agreements define the needs, allocate budgets and provide the basis for monitoring financial and non-financial performance.

The benefits of this model are that it will:

- provide an improved framework for establishing expected and agreed performance levels;
- focus on performance in delivering outputs, rather than just the inputs used to deliver services;
- promote accountability and performance review across Defence; and
- provide a long-term performance picture to aid future decision making within Defence.

The process of establishing these agreements has proven to be complex due to the size and range of combat capabilities that constitute the Defence outputs. During 2001-02, Defence began a progressive introduction of the customer–supplier model. It focused initially on aligning the detailed performance objectives and resources of the 14 major organisational units in Defence (Groups) to broader Government direction, testing business relationships and identifying the information systems and processes needed to support the model. Prototype agreements were developed that, for the first time, defined and costed Groups' detailed contributions to delivering on the objectives and tasks defined by the Government.

The information derived from this definition phase is being used to develop robust agreements for 2002-03, against which Groups can be held accountable for performance delivery, and as a tool to drive further improvements to the supporting management information systems in Defence. A full model is expected to be substantially implemented during 2004-05.

DEFENCE MATERIEL REFORM

The Defence Materiel Organisation reform plan encompasses three fundamental types of reform – organisational, process and people reforms.

- Organisational reforms, which are well advanced, include the integration of the acquisition and support elements of Defence and locating them with their customers or supplier to provide greater focus on effective outcomes.
- Process reforms include 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 are aimed at creating a climate where the staff responsible for Defence materiel are suitably trained, valued and motivated to do their best in a complex work environment that requires an innovative work ethic.

Significant reform has been achieved during 2001-02. Performance against the initiatives forecast in the *Portfolio Budget Statements 2001-02* and the *Portfolio Additional Estimates Statements 2001-02* is discussed below. Forecasts are shown in italics.

Organisational Reforms

Relocating approximately 550 military and civilian positions to regional centres around Australia. The majority of these relocations will be from Canberra to Perth, Amberley, Darwin, Adelaide, Nowra and Williamstown.

Forty-eight integrated systems program offices responsible for whole-of-life capability management have been created and located with ADF customers, replacing previously separate acquisition project offices and support units.

Relocation of project offices will be an ongoing feature of Defence Materiel Organisation operations. As new projects become established, they will generally relocate closer to their ADF customers.

Table 4.7: Comparison of Project Management Staff Positions Relocated in 2001-02 against 2000-01 Projections

From	To	Planned position relocations 2000-01	Actual positions relocated 2001-02
Canberra	Nowra, NSW	44	44
Canberra	Sydney, NSW	101	58 ⁽¹⁾
Canberra	Williamstown, NSW	40	40
Canberra	Wollongong, NSW	21	21
Canberra	Darwin, NT	0	6
Canberra	Amberley, Qld	51	51
Canberra	Oakey, Qld	10	10
Canberra	Adelaide, SA	10	10
Canberra	Edinburgh, SA	0	17
Canberra	East Sale, Vic	6	6
Canberra	Melbourne, Vic	169	169
Canberra	Perth, WA	45	45
Melbourne	Canberra, ACT	0	71
Melbourne	Perth, WA	25	25
Newcastle	Sydney, NSW	14	3 ⁽¹⁾
Total		536	576

Note

1. Pending collocation of Sydney Defence Materiel Organisation elements.

Establishing new project governance boards.

The role of committees within the organisation has been reduced. Project and line managers have been given increased responsibility and ten project governance boards have been established to review the technical, financial, contractual, risk and schedule performance of projects. These boards provide independent advice to decision makers in a manner that ensures the governance principles of accountability, transparency, disclosure and independence are maintained.

Process Reforms

Applying a new tendering and contracting pro forma for major projects, Strategic Materiel Acquisition Request for Tender (SMART) 2000, which reflects commercial realities and reduces the cost of tendering.

Based on lessons learnt from the application of SMART 2000, new tendering and contracting templates have been developed for strategic materiel involving software intensive systems and complex procurement.

The templates use plain English, reflect commercial realities, simplify and strengthen intellectual property provisions and aim to reduce the cost of tendering.

Developing a standard statement of work for major software intensive projects.

The new strategic materiel template, developed in consultation with industry, includes a draft statement of work suitable for the acquisition of software intensive systems. Work has commenced on a complementary statement of work template for in-service support.

Improving risk management, emphasising increased investment in risk reduction prior to committing to acquisition.

A Defence Materiel Organisation risk management framework and risk management system to assist with the monitoring and control of risks have been developed and made available for use.

New processes, requiring operational concept documents, function and performance specifications, and test concept documents to be developed before project approval, have been introduced to reduce risks associated with requirements' definition.

New contracting templates have been designed to improve risk sharing and standardise risk management processes after contract signing. In addition, the contracting templates allow for an offer definition phase, which can include risk reduction activities with the preferred tenderer(s) prior to contract signature.

Techniques for profiling risks associated with software acquisition have been reviewed and new processes introduced to improve risk assessment prior to, and after, project approval. A policy has been issued for appraising the maturity of tenderers' systems engineering and software process capabilities to identify process-related risks and drive the implementation of process improvement programs.

Implementing an activity-based costing model which may be expanded to encompass all Defence Materiel Organisation activities.

A trial activity-based costing model has been introduced to assist in identifying the total cost of acquisition projects and to enable performance benchmarking. Results from the trial will be reviewed in the second half of 2002 prior to a decision being made on implementation by other areas of the Defence Materiel Organisation.

Adopting best commercial practice in acquisition management, consistent with public sector accountabilities.

In implementing best commercial practice in acquisition management, the thrust of the materiel reforms has been to simplify acquisition processes and tailor them to the requirements of individual acquisitions.

A standard acquisition management system is being implemented to provide expert guidance, tools, templates and training, based on best-practice systems engineering, project management, risk management and software acquisition management principles.

A project to improve project scheduling and reporting using commercial tools and practices has been successful and will be deployed on major projects throughout the Defence Materiel Organisation.

Developing a framework to permit the more rigorous application of past performance as a source discriminator in tender evaluations.

Selection of contractors based on past performance is now part of source selection processes. These processes involve the company scorecard system, reference sites and assessments of company performance in similar activities.

Implementing a company scorecard system to ensure regular assessment of contractor performance of major suppliers and to provide companies with feedback on their performance.

A commercial-in-confidence company scorecard system has been introduced which enables the Defence Materiel Organisation to collect, assess and monitor contractor performance using an objective set of measures. This gives contractors insight into Defence Materiel's view of their performance, while identifying areas for discussion and improvement. Four rounds of assessments have been completed with round five under way. As an example of the numbers involved, round four assessed the performance of 223 contracts being delivered by 75 contractors.

The Defence Materiel Organisation has also piloted a 360-degree scorecard to measure its performance from an industry perspective. This highlights systemic and project-specific shortfalls, so that policies, practices and new training may be introduced.

The health of the Defence and industry relationship has been assessed via a Defence purchaser/supplier attitudinal survey and issues arising from the survey are being addressed.

Increasing government and industry involvement in capability definition and acquisition processes.

Government and industry involvement in capability definition and acquisition processes has been increased via several forums, including the Capability Development Forum and subordinate environmental working groups.

Market surveys and other industry consultations are conducted during requirement phases to gain an understanding of equipment availability, costs and risks. Draft tender documents are routinely made available to industry for comment before release and, where possible, discussions are held with individual tenderers to ensure that the process is open to innovative solutions and does not inadvertently rule out otherwise acceptable solutions.

To support the development of a sustainable Australian defence industry, a series of strategic industry sector plans covering shipbuilding and repair, aerospace, electronics, land and guided weapons sectors are being prepared. The most complex of these plans is likely to be the electronics sector because of its pervasive nature. The Naval Shipbuilding and Repair Sector Plan was released by the Minister for Defence in August 2002 and is being considered by the Government.

Improving logistic processes and upgrading logistic support information systems including the linkages to other corporate systems.

Progress has been made on the planned upgrade to the Standard Defence Supply System to ensure the ADF is supported by a standardised, efficient and effective inventory management system.

With most Defence warehouses now centralised under Joint Logistics Command, personnel from all three Services practise common warehousing procedures.

Reviewing, simplifying and documenting all common processes.

Common processes have been identified and documented in a work breakdown structure to enable policy, process and guidance documents to be updated to reflect new business practices.

Improving the quality of software acquisition management and systems engineering.

As reported earlier in regard to improving risk management, as part of the software acquisition reform program, a policy for appraising the maturity of tenderers' processes to identify process-related risks and drive the implementation of process improvement programs has been issued. This is based on a world-recognised methodology for assessing systems engineering and software process capability.

Techniques, processes and tools to improve software cost and schedule estimates are being investigated.

An extensive training program covering various aspects of software acquisition management has been undertaken.

A systems engineering improvement program aimed at improving requirements' development and management and technical control of projects has also commenced.

Introducing a performance reporting tool to monitor performance across the organisation and using the Australian Business Excellence Framework as a means of organisational improvement.

The Defence Materiel Organisation balanced scorecard has been implemented and aligned with the Defence balanced scorecard.

The first organisation-wide assessment using the Australian Business Excellence Framework has been completed and used to identify organisational improvement opportunities.

Introducing alliance contracting.

Defence has signed its first alliance contracts – one for the lightweight torpedo project and the second for the management of change in the Anzac ship project. Alliance contracting represents a fundamental change to traditional contracting, as the parties assume a degree of joint management responsibility for the acquisition of a capability. Guidance documentation on alliance contracting has been released.

People Reforms

Attracting, developing and retaining skilled personnel.

Several initiatives are being pursued to ensure that the Defence Materiel Organisation has a highly skilled workforce with greater project management experience. A career management framework will assist employees to make career choices within the Defence Materiel Organisation. It will identify the skills and qualifications required for a particular job discipline, such as project management. A training and development framework, linked to the career management framework, will identify the appropriate on-and-off the job training opportunities needed to equip Defence Materiel Organisation staff with the necessary skills.

A strategic workforce-planning tool is being developed to assist the Defence Materiel Organisation in planing and developing its future workforce in terms of both staff numbers and distribution, together with requisite skills. To date, the planning tool is under trial in the contracting, project management and software engineering disciplines to forecast future workforce requirements.

PURCHASING

The following provides an assessment of Defence's performance against core purchasing policies and principles.

PROCUREMENT POLICY AND CONTRACTING TEMPLATES

The *Defence Procurement Policy Manual* is the primary reference document for purchasing officers undertaking procurement at all levels within Defence. A major review was undertaken in 2001-02 to update and revise the content of the manual to ensure that it reflected current policies and practices. The third version of the manual was released in April 2002. It provides information on the policy and guidance contained in the *Commonwealth Procurement Guidelines* and *Best Practice Guidance* (February 2002) and outlines how Defence will comply with that policy and guidance

when conducting its procurement activities. The latest version of the manual also incorporates new guidance on:

- sole source and staged procurements;
- innovative contracting methodologies including alliance contracting, evolutionary acquisition and private financing; and
- key contracting issues such as commercial-in-confidence information, earned value management and Defence security and intellectual property.

As part of the ongoing materiel reform process within the Defence Materiel Organisation, a new contracting template was developed for use in the acquisition of software-intensive systems, including major platforms. This strategic materiel template was developed in consultation with industry and contains a statement of work that will provide a standardised document for use in software intensive acquisitions. The template was released in March 2002.

Work has commenced on the development of a suite of contracting templates for use across Defence. In April 2002, a template for the acquisition of non-software intensive systems was released. This complex materiel template does not currently contain a statement of work, but work has commenced to develop one appropriate for the complex procurement environment.

Work has also commenced on the development of a standard in-service support template to complement the strategic and complex materiel templates. Other templates currently under development include:

- an updated consultancy/professional services template to replace DEFPUR 301;
- a new standing offer template for the acquisition of goods;
- a new template for use in complex or strategic procurements of supplies from a sole supplier; and
- a new template for use when a contractor is required to provide supplies or services in an area of operations.

ALLIANCE CONTRACTING

One of the initiatives undertaken by the Defence Materiel Organisation is a trial of innovative contracting techniques. Alliance contracting represents a fundamental change to traditional contracting methods. Alliance contracting is an alternative contracting model in which the parties assume a degree of joint management responsibility for the acquisition of a capability. Alliance concepts comprise open-book accounting, target cost identification, risk/reward payment structures, risk sharing and integrated project team structures. The focus of alliance contracts is on the ability of the parties to work in a close and cooperative alliance, rather than in the traditional 'adversarial' relationship. All alliance participants share both the risks and rewards, and a major outcome of an alliance is that costs are driven down through continuous improvement and innovation.

The Defence Materiel Organisation is piloting alliance contracting in two projects. Project Djimindi involves the acquisition and integration of lightweight torpedoes for a

range of ADF platforms. The first phase of this project, a project definition study, has been completed successfully and the alliance participants (the Commonwealth, EuroTorp and Thales Underwater Systems) are currently working together on the agreement for the second phase. The Anzac ship alliance was created in July 2001 when the Commonwealth signed an alliance agreement with Tenix Defence and Saab Systems. The alliance has been able to help prepare the Anzac ships for their operational deployments over the last year, and is currently working on the introduction of the active missile decoy, lightweight torpedo and Harpoon capabilities into the Anzac ships. The alliance has also prepared costing information for the Anzac anti-ship missile defence program.

INTELLECTUAL PROPERTY

Over the past year, Defence has continued to improve the effective management of intellectual property by:

- conducting regional intellectual property awareness workshops for procurement staff and industry;
- revising the intellectual property manual;
- organising the third 'Annual Intellectual Property Conference and Awareness Workshop' to promote intellectual property awareness within Defence and among industry partners; and
- commencing a review of Defence's intellectual property policy, *Getting Smarter About Knowledge Rights*.

Defence significantly revised its approach to intellectual property for complex and strategic materiel acquisitions in Defence's contracting templates ASDEFCON (Strategic Materiel) and ASDEFCON (Complex Materiel). These templates continue to support Defence's requirements for access to contractors' and sub-contractors' intellectual property for the use and support of equipment, and ensure that the contractor has proper management and monitoring procedures for intellectual property.

CONTRACT REPORTING

To demonstrate openness in procurement, Defence, like other government agencies, reports all contracts or purchase orders valued at \$2,000 and above in the Commonwealth Government Gazette. In 2001-02, approximately 54,000 Defence contracts were reported in the gazette. The Secretary of the Department of Defence, or his delegates, can stop contracts from being reported in the gazette if they would be subject to exemptions under the *Freedom of Information Act 1982*. Such exemptions are usually obtained for national security reasons (see Table 4.11 later in this chapter).

In accordance with the Senate Order for Department and Agency Contracts (September 2001), Defence promulgates additional information on contracts valued at \$100,000 and above on its 'Buying Australian' website (<http://www.defence.gov.au/dmo/>, then select 'Industry Resources' then 'Business'). Contracts reported on the website must advise whether any off-shore purchases were made, the reasons for purchasing off-shore and the anticipated Australian and New Zealand content of the contract. In

2001-02, approximately 3,300 purchases were reported on the website. In the past year, the financial management system was amended, requiring procurement areas to lodge their 'Buying Australian' reports at the time purchase orders were raised.

PROCUREMENT TRAINING

Defence runs a procurement training program aligned to the Public Services training package to ensure that staff involved in procurement activities are aware of the Commonwealth and Defence procurement guidelines and their responsibilities under them. In 2001-02, 1,208 Defence personnel undertook training in 'simple' procurement, while 1,201 modules of the 'complex' procurement program were completed. Simple procurements usually are for low-value, off-the-shelf items and for purchases made against common use arrangements and/or Defence standing offers. Simple procurement is generally conducted under routine supervision in an environment where established routines, methods and procedures and small degrees of risk are involved. Complex procurements are generally carried out by skilled procurement staff within a broad framework of policy and best practice. As the procurement activity becomes more complex, both the degree of risk involved and the level of expertise and professional judgement required become greater.

The reduction in complex procurement modules delivered (1,525 modules were conducted in 2000-01) was due to the review and redevelopment of the entire complex procurement curriculum. This review, initiated in April 2002, required the cancellation of all existing modules. The redevelopment of complex procurement is seeking to ensure that the curriculum is more closely aligned to Defence agency process and policy, as well as to national competency requirements. Piloting of the revised curriculum will be conducted from August to October 2002. The new training program will commence from mid-October 2002.

The simple procurement curriculum is also being reviewed to comply with the Public Services training package unit 'Procure Goods or Services'. The review will also explore the options of converting this course to an e-based learning format.

AUSTRALIAN AND NEW ZEALAND INDUSTRY INITIATIVES

The Australian industry involvement program provides a mechanism for Defence to develop and enhance Australian and New Zealand defence-related industries. Through tendering and contracting, Defence seeks an industry involvement plan for all contracts greater than \$5m. In addition, the tendering documentation calls for tenderers to consult the Industrial Supplies Office network, an independently managed non-profit organisation financially supported by state, territory and Commonwealth governments, to identify opportunities for Australian and New Zealand industry.

For militarily significant acquisitions (usually capital equipment acquisitions), more stringent industry requirements apply under the Australian industry involvement program. These requirements are aimed at developing support for ADF capabilities leading to Defence's self-reliance.

The Defence 'Buying Australian' program seeks to improve opportunities and provide greater access to Defence business for small to medium enterprises. Through

information posted on the 'Buying Australian' website, companies may contact purchasing officers for comment or consideration for future procurements. This initiative ensures that Australian and New Zealand-based suppliers are given full and fair opportunity to compete.

In accordance with the Government's commitment to adopt a more strategic approach to Defence industry, Defence is engaging industry earlier in the capability development phase and providing industry with the forward planning guidance necessary for industry to sustain critical Defence capabilities. To achieve this, a series of industry sector strategic plans are being developed for key Defence industry sectors (maritime, aerospace, electronics systems, land and weapons). The benefits of the new strategic approach are in the creation of an environment conducive to sustaining Defence capability, with Defence industry more certain of long-term business.

DELIVERING INTERNAL SERVICES

Corporate Services and Infrastructure Group was created on 1 July 2000, as a result of the Defence Reform Program, and combined the former groups of Defence Estate, Defence Corporate Services and Defence Information Systems.

The Group comprises some 5,500 staff who create the living and working environment for Defence people at some 370 locations around Australia. In this way, the Group is one of the vital elements underpinning Defence capability, as well as playing a central role in the communities in which Defence operates.

PRODUCTS AND SERVICES

The Group's products and services can be categorised broadly into three areas—infrastructure, information systems and service delivery. The organisational structures and processes that deliver these products and services have been the focus of reform over 2001-02. The Group has established twelve regional locations with clear lines of management and accountability at each base location to simplify customer access to products and services. The operating principles for the development of the revised structure included a strong customer focus, a single line of accountability and authority for the delivery of services, with decision making devolved as close as practical to the customer.

In 2002-03, the management systems across the twelve regions will be further developed and supported by revised national office arrangements to enhance planning and procedures.

In line with the implementation of the Defence business model, Corporate Services and Infrastructure Group has established customer service agreements with most of its internal customers which outline the performance standards for the products and services that the Group provides. These fall into four categories: impact on capability, customer satisfaction, compliance with standards and relationships with industry.

INDUSTRY ENGAGEMENT

A large proportion of the products and services that the Group provides are delivered by industry, with more than \$1.3 billion under contract in 2001-02. The larger of these contracts are listed below, along with the approximate value of the contracts during 2001-02.

Table 4.8. Corporate Service and Infrastructure Group Contracts for 2001-02

Service	Value \$m	Key Providers
Air travel	120	Qantas
Enterprise Commercial off-the-shelf software	25	Microsoft, Oracle, IBM Lotus, Cognos and Veritas
Facilities operations	280	Asset Services, Resolve, Transfield and Defence Maintenance Management
Garrison support	270	Serco Sodexho, Transfield, Eurest, BAe, United KG and Tenix
Housing services	340	Defence Housing Authority
Infrastructure investment	280	Walter Construction, Transfield Construction, Thiess, St Hilliers, Multiplex Constructions, Leighton Contractors, John Holland, Hansen Yuncken, Coombs and Barei, Bovis Lend Lease, Boulderstone Hornibrook, Barday Mowlem and ABI Group
IT&T services	123	Telstra, Hughes and Optus
Property leases	36	KFPW
Salary packaging	5	Smart Salary
Utilities	65	Various electricity and gas suppliers
Vehicle hire	14	Europcar and Leaseplan

FUTURE PRIORITIES

The purpose of integrating the three formerly separate organisations was to improve the delivery of products and services to Defence customers, by harnessing the skills available in the three former groups into one seamless organisation. In working to shape such a large organisation, the cultural change required is profound. It involves changes in attitudes to customers, to others within the Group and to industry. This sort of cultural change has at least a three-to-five year horizon, and the Group is just two years into the change process. Much has been achieved in 2001-02, and Corporate Services and Infrastructure Group will continue to support the whole-of-Defence reform agenda during 2002-03 through a focus on:

- engaging customers to enable better visibility of their planning requirements, including the establishment of customer forums to further develop relationships and the Group's ability to respond to customer needs;
- reforming the management of the Group's support to operations;
- representing the Government's interest in the stewardship of the Defence estate, IT and service provision;
- implementing the Defence enterprise risk management framework within the Group;
- meeting commitments in the endorsed capital investment/disposals program;
- developing effective strategic planning processes;
- leading the reform of transaction processing within Defence;
- implementing a product costing capability in support of the Defence customer-supplier model;
- finalising a register of the Group's high value non-IT assets and a register of its accounting strategies, policies and procedures;
- implementing the outcomes of the *Defence Employees Certified Agreement 2002-03* and the ADF Enterprise Productivity Arrangement;
- implementing the Defence safety risk management framework within the Group;
- developing a program of education and training for the Group's people; and
- continuing to develop a strategic workforce plan for the Group.

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.

Value for money considerations, when contracting for a consultant, relate not only to cost, but to the experience and previously 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 4.9: Defence Use of Consultants

Group	Number of Consultants		Expenditure \$	
	2001-02	2000-01	2001-02	2000-01
Headquarters Australian Theatre	3	2	60,088	27,889
Navy	10	10	660,308	290,728
Army	2	1	29,028	13,000
Air Force	7	0	288,934	0
Strategic Policy	4	3	238,527	110,668
Intelligence	3	0	31,238	0
Vice Chief of the Defence Force ⁽¹⁾	4	7	298,136	210,451
Chief Finance Officer ⁽²⁾	5	1	159,358	33,619
Defence Science and Technology Organisation	9	2	130,419	72,068
Defence Personnel Executive	31	13	2,175,762	490,503
Public Affairs and Corporate Communication	1	2	94,000	60,652
Defence Material Organisation	24	18	2,536,238	4,152,823
Corporate Services and Infrastructure ⁽³⁾	23	10	791,039	444,168
TOTAL	126	69	7,448,663	5,906,569

Notes

1. Formerly Capability Group.
2. Chief Finance Officer data include the Secretary and the Chief of the Defence Force data.
3. Corporate Services and Infrastructure Group data includes the Inspector General's Division data.

The consultants and professional services category in suppliers expenses (see Note 11 in *Notes to the Financial Statements*) showed a significant increase in 2001-02 (\$280m) compared to 2000-01 (\$182m). The increase reflects increased usage of professional service providers rather than consultants. Professional service providers exercise professional/technical skills, under Defence supervision and guidance, in the delivery of a service. The contract for a professional service provider, generally, does not require a significant contribution to management decision-making processes, and requires the professional service provider to perform a prescribed task as a result of management decisions.

BREAKDOWN OF DEFENCE USE OF CONSULTANTS IN 2001-02

The following list provides detail on all consultancy services utilised by Defence Groups during 2001-02.

Key	
Symbols	Justification
*Consultancy was publicly advertised	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 4.10: Particulars of Consultancy Contracts

Consultant Name	Purpose	Total Amount Paid \$	Justification
Commander Australian Theatre			
Brewer, Wal	Security risk review and assessment of current security arrangements in order to identify a suitable upgrade path and scope for future improvements.	11,055	1
Changedrivers Pty Ltd	To examine options for the strategic future of the Australian Defence Force Warfare Centre.	18,411	1
CIT Solutions Pty Ltd*	Australian Defence Force Warfare Centre courses and make recommendations for the way ahead and improvements to the way they are delivered.	30,622	1
Navy			
Ankie Consulting Pty Ltd	Provide options in building dynamic career models for the Clearance Diving, Combat Systems Operator Mine Warfare, Mine Warfare categories.	27,000	1
Barry Nunn Consulting Pty Ltd	To provide an expert external review of revisions to the Navy's Human Resources Management Plan.	1,950	1
Changedrivers Pty Ltd	Develop a strategy to address the shortfall in Marine Technical Electrical category.	80,182	2
Changedrivers Pty Ltd*	Review of the role of Warrant Officers in the Navy.	41,801	1
Greenbank Consultants	Conduct a review of Training Ship <i>Young Endeavour</i> strategic planning and key performance indicators.	6,000	1
Keystone Corporate Positioning	Advise senior Navy Committees on all aspects of the development of 'Brand Navy' including corporate image, values, logos, documentation, marketing and communication.	390,550	1
Keystone Corporate Positioning	Advise on and evaluate video footage for the most effective communication depicting the essence of 'Brand Navy' for the Chief of Navy Leadership Conference and future communications.	45,000	1
Keystone Corporate Positioning	Advise on and review design and content of the mission and the Chief of Navy's Future Direction Statement.	50,000	1
Keystone Corporate Positioning	Provide advice on 'Brand Navy' implementation, communication and marketing strategy development.	8,400	1
URS Australia Pty Ltd	To provide HMAS Stirling a comprehensive oil spill contingency plan that is in line with the national plan to combat oil pollution and the WA state plan.	9,425	2
Army			
Auto-Qual Pty Ltd	Provide Quality management review of unit quality system and recommendations on methods to increase effectiveness of current system.	2,215	1

Consultant Name	Purpose	Total Amount Paid \$	Justification
Pyles, David	Detention standards review.	26,813	1
Air Force			
Ball Services Solutions	Assistance with the design and implementation of the RAAF capability management system.	197,500	1
Clements Human Resource Consultants	Aircraft research and development unit project involving management review and recommendations.	3,800	1
Ocean Internet Pty Ltd	To recommend a database structure	49,840	1
Issa & Associates Architects	A feasibility study to investigate and make recommendations of the suitability of buildings at RAAF Williams for use as classrooms.	10,900	1
Netbridge Systems Integration	Investigate requirements of student IT network and recommending a solution.	5,986	1
Rexport Materials Handling Pty Ltd	To model the ADF pilot system, identifying what constraints exist and what methods could be used to optimise recruitment of pilots.	20,908	3
Strategic Policy			
Boeing Australia Ltd	To develop a concept for the Defence experimentation framework.	92,486	1
Connell Wagner Pty Ltd	Samoa wharf project harbor investigation.	66,662	1
IISM Group Pty Ltd	Critical infrastructure report concentrating on high-level strategic policy relating to Defence infrastructure methodologies.	26,379	1
Mincom Pty Ltd	Total asset visibility study with Thailand. This was an initial scoping study which provided recommendations and costs of such a project. The outcome is yet to be determined and this will rely on Thailand's budgetary commitment to the project.	53,000	1
Intelligence			
Aspect Computing Pty Ltd	Review of existing process software macros for desktop applications including recommendations for improvement.	12,000	2
GK&A Comsec Pty Ltd	Provide a report on the relocation of DIO with recommendations for efficiency.	18,000	2
SPD Consulting	Review of all IT systems security providing recommendations for improvement.	1,238	1
Vice Chief of the Defence Force			
Sigma Consultancy	Provide recommendations and develop policy for enhancement of the ADF Reserves.	133,000	3
SMS Management & Technology	Requirements study to support the Coalition Theatre Logistics Project.	16,461	2
Tenix Defence Pty Ltd	JP 2079 project definition study for the joint synthetic environment and overarching simulation project.	137,940	1
Topley & Associates Pty Ltd	Provide report outlining recommendations for the ADF enhancement program.	10,735	1
Chief Finance Officer ⁽¹⁾			
Barry Nunn Consulting Pty Ltd	To review and make recommendations relating to ADF remuneration arrangements as directed by the Ministers for Defence and Finance.	40,856	1

Consultant Name	Purpose	Total Amount Paid \$	Justification
Cogent Business Solutions	Provide an opinion as to the lease classification of the replacement patrol boat project and provide a solution to enable classification as an operating lease.	22,182	2
Kennedy, P	To review and make recommendations relating to ADF remuneration arrangements as directed by the Ministers for Defence and Finance.	7,620	1
KPMG Corporate Finance	Review a private financing financial model for the High Frequency Modernisation project. The task required the contractor to verify the financial accuracy of a proposal received by Defence to private finance a capability. There were no options put forward by the contractor but the result did assist the decision making process for that particular project.	12,196	1
Uniquist Ltd	The Minister appointed Professor Zimmer in August 2000 to conduct a review of the Australian Defence Force Academy.	76,504	1
Defence Science and Technology Organisation			
APP Strategic Partners	Conduct knowledge management research and advice.	43,182	1
BAe Systems Australia Ltd	Conduct a project definition study for Land Based Submarine Test Facility.	9,628	1
Drack Consulting Pty Ltd	Consultancy and advice on parallel computing infrastructure of computational fluid dynamics.	24,480	1
McLachlan, Dr Anthony	Conduct review into integration/rationalisation of AMRL facilities, including cost benefit analysis of amalgamating two sites.	5,800	2
McLachlan, Dr Anthony	Review AMRL research papers and provide recommendations.	3,780	1
Preston, Dr Peter	Analyse proposals and make recommendations for combat systems research studies.	13,299	1
Preston, Dr Peter	Provide recommendations on the way forward on the Avionics Mission System.	16,220	2
Preston, Dr Peter	Provide recommendations on the way forward on the combat systems research study.	12,375	2
Schofield Science & Technology	Review and recommend options for Maritime Operations Division Sydney's future site disposition.	1,655	2
Defence Personnel Executive			
ACT Community Care	Conduct a study into substance abuse in the ADF.	4,000	2
APP Strategic Partners Pty Ltd	Conduct staff and management consultation sessions for the <i>Defence Employees Certified Agreement</i> and present options.	5,815	1
Benmarco Pty Ltd	Analysis of current single Service reserve command and staff courses.	7,339	2
Changedrivers Pty Ltd	Recommend change options for the process and standing operating procedures implementation of PMKeyS.	15,049	1
Deloitte Touche Tohmatsu	Evaluate the performance of Manpower Defence Recruiting in providing recruiting services to the ADF.	573,863	1
Department Of Veterans' Affairs	To determine the effects of the F-111 fuel tanks on workers.	34,406	1
Emitch Pty Ltd	Develop a strategy for the Defence Force Recruiting Organisation internet recruitment activities.	125,210	1
Innovative Process Group	Review base-line business process and advise on improvements to work processes.	57,682	1

Consultant Name	Purpose	Total Amount Paid \$	Justification
Intime HR Consultants*	Provide analysis for PMKeyS payroll implementation.	247,200	1
Keatsdale Pty Ltd*	Baseline costing and activity review of rationalisation of ADF health services in Sydney and surrounds.	40,779	1
Mastech Asia Pacific Pty Ltd*	Provide analysis and design for PMKeyS payroll implementation	60,676	1
Mcarthur, Morag	Survey and provide advice on first year midshipmen and officer cadets experiences of the ADFA year 1 familiarisation program.	37,091	1
Mcarthur, Morag	Survey, evaluate, report and provide recommendations on ADFA induction process.	14,700	1
New Focus Pty Ltd	Research and analysis to determine how Army Reserve soldier and officer enrolments can be increased.	3,040	1
New Focus Research Pty Ltd	Provide advice and recommendations on ways of obtaining ethnic community support for recruitment strategies.	107,494	2
Noel Arnold & Associates Pty Ltd	Safety review of Frontline canteens including improvement options.	56,875	2
Pricewaterhouse Coopers	Undertake career path appreciation pilot program, assess 10 one star officers, and present findings and recommendations.	30,836	1
PSI Consulting Pty Ltd	Review and cost common administration services delivered at ADFA and provide recommendations for improvements.	49,000	2
Raytheon Australia Pty Ltd	Provide initial assessments of improvements required for PMKeys reporting framework.	13,300	1
Roberts Weaver Pty Ltd	Investigate and report on the audio visual system at the Australian Defence College and provide recommendations for upgrading the system to meet course requirements.	45,500	1
Sigma Consultancy	Develop and administer a dimate survey, provide reports to Head Defence Personnel Executive, Deputy Chief of Army and relevant branch heads on the way forward for organisational improvement.	108,910	1
SMS Management & Technology	Strategic review of the civilian personnel system including options for improvement.	24,170	1
Tanner James Management	Provide advice, options and recommendations on the implementation of the Prince2 methodology for the Defcare program.	4,425	1
Team HR (Australia) Pty Ltd	Training information management system scoping study.	15,252	2
The Empower Group	Review the current tertiary environment and develop an effective strategy to enable the ADF to successfully compete in the Australian graduate market.	50,000	1
Think Plan Reform Pty Ltd	Investigate the 'review of action' function delivered by regional offices and the complaint and resolution agency to identify options for improved service delivery and reporting arrangements.	31,100	1
Unisearch	Study into the effectiveness of current orthopedic standards on ADF recruiting.	11,000	2
Wainwright, G.R	Make recommendations on future employment conditions for Reserve members.	137,020	2
Worthington Di Marzio	Provide advice and recommendations on obtaining ethnic community support for recruitment strategies.	168,030	2
Worthington Di Marzio	Conduct market research to evaluate the effectiveness of the Defence Force Recruiting Organisation communications strategy.	96,000	1

Consultant Name	Purpose	Total Amount Paid \$	Justification
Public Affairs and Corporate Communication			
New Focus Research Pty Ltd	Conduct focus group testing and research for the Defence 'brand'.	94,000	1
Defence Material Organisation			
Andersen, Arthur	Develop a flexible remuneration framework and methodology and outline options for the development of remuneration elements that reinforce the achievement of the DMO's people agenda and business plan.	15,096	1
AON Risk Services Australia Ltd	Review and advise on the risk/insurance aspects of the Djimindi alliance agreement for the Lightweight Torpedo project.	13,500	2
AUSCERT	Definition and design study to scope the requirements for the Defence Information Systems Security Incident Response Team.	145,299	1
Bevington Consulting Pty Ltd	Conduct business process review of all Maritime Patrol Systems Program Office.	95,000	1
Brown & Root Services Asia Pacific	Project definition study evaluation for the Heavyweight Torpedo project.	13,915	2
Brown & Root Services Asia Pacific	Project definition study of bulk liquid distribution.	247,298	2
Brown & Root Services Asia Pacific	Scoping study for the truck fire-fighting field requirements.	15,597	2
Clayton Management Pty Ltd	Provide advice on the introduction of best management practice into DMO.	174,920	1
Collin Hastings Milner	Review and report on the Australian Defence Air Traffic System project.	22,813	1
Compucat Research Pty Ltd	Project definition study of the Bunyip net base station.	50,107	1
Convaris Pty Ltd	Review and report on options available for the Collins-class submarine design authority.	12,783	2
CSIRO	Antenna characterisation study on proposed terminals for military satellite communications project network.	45,000	3
Distillery	Requirement study and system design evaluation of the Joint Intelligence Centre Target Analysis Facility as part of the collocated joint headquarters project.	1,268,772	1
Dowse Quality Consulting	Develop strategies for deployment of the Australian Business Excellence Framework in DMO.	2,727	1
Earned Value Performance	Evaluation of the improved project scheduling and status reporting project.	40,000	1
Halliburton KBR	Project definition study on bulk liquid distribution project.	247,298	2
Primed Online	Scoping of the through-life support disciplines project requirements.	5,000	2
Property Concept & Management	Review and advise on the risk/reward aspects of the Djimindi alliance agreement for lightweight torpedo project.	13,612	1
Robson Huntley & Associates	Scoping review to identify the DMO's requirement for logistics systems operator level training and to identify the optimum model for the management and delivery of such training.	55,000	1
Simtars	Review of noise assessment and Boeing F-111 fuel tank spray sealing proposal.	5,229	1

Consultant Name	Purpose	Total Amount Paid \$	Justification
Thomson Marconi Sonar	Project definition study on gap activities relating to the lightweight torpedo project.	482	1
Total Logistics Management Pty Ltd	Project study of Defence vehicle fleet management.	2,000	2
Total Logistics Management Pty Ltd	Scoping study on the supportability test and evaluation manual.	15,329	2
Wizdom Australia Pty Ltd	Provide guidance to Project Executive Board decisions regarding the implementation of Vision 2001 and the integrated materiel support strategy	29,461	1
Corporate Services and Infrastructure⁽²⁾			
Acumen Alliance	Investigate current environmental reporting requirements, predict future requirements and link to departmental reporting requirements.	32,603	1
Acumen Alliance	Undertake an analysis addressing energy information systems input gaps and information outputs and address Defence's internal needs for energy data in the long and short term.	3,000	1
Acumen Alliance	To produce a draft environmental reporting template and provide options on what data Defence should be collecting from an environmental and a management perspective.	6,000	1
APA Management Services	Review and report on the range of issues affecting living accommodation for members without dependants including reviewing the costs of various future options, developing business cases to compare options and recommending a way forward.	17,963	2
Changedrivers Pty Ltd	Provide options for the future roles of the base representatives in the Sydney Central and Sydney West regions.	159,613	2
Changedrivesr Pty Ltd	Research and develop strategies to implement Military Personnel Administration Centres across all regions.	18,053	1&3
Corey, Rod	Undertake preliminary work to scope the parameters of any future consultancy for living-in accommodation for ADF members.	8,656	1
Enterprise Knowledge	Review the existing mail system and provide options for improvement.	10,260	1
Environmental Resource Management	To conduct a feasibility study into carbon sinks for Defence.	4,500	1
Gemini Solutions	Review the efficiency and effectiveness of Defence clothing services and provide recommendations to improve the delivery of these services.	12,342	1
Greame Kelleher & Associates Pty	Provide advice on the Booderee Plan of Management and the implications of such a plan for Defence.	4,200	1
Grosvenor Management Consulting	Review and re-engineering of Civilian Personnel Administration Centre.	123,648	1
Neil McLaren Ltd	Provide advice on the best method of providing range danger area information electronically	1,185	2
Niche Strategies Pty Ltd	Research and report on a CSIG communications benchmarking study and communication audit.	27,814	1
PPK Environment & Infrastructure	Provide advice and support for the navy user requirement options team to assist with the identification of suitable sites around Australia for the conduct of Navy underwater training.	2,795	1

Consultant Name	Purpose	Total Amount Paid \$	Justification
PPK Environment & Infrastructure	Phase two of the navy options user requirement involves broad assessment of two sites in NSW that are potentially suitable for live firing associated with mine warfare countermeasures training.	154,783	1
Pricewaterhouse Coopers	Conduct an assessment of the economic impact that RAAF Richmond has on the surrounding region and examine potential options and strategies for attracting alternative aviation-related activities to the base.	20,577	1
Success Factors	Support the conduct of a review of Reserve Legal Officer roles, structure and remuneration, including professional support and advice, providing recommendations and a report.	13,488	1
True Q Pty Ltd	Provide expert advice and guidance on the development of a balanced scorecard-based business planning and quality system.	17,712	2
True Q Pty Ltd	Provide expert advice and guidance on the implementation of a balanced-scorecard based business planning and quality management system.	11,376	1
University of Central Queensland	Conduct a study into the socio-economic impact of Defence (including foreign forces) in the central Queensland region.	100,000	1

Notes

1. Chief Finance Officer data includes the Secretary and the Chief of the Defence Force data.
2. Corporate Services and Infrastructure Group data includes the Inspector General's Division data.

CONTRACTS EXEMPT FROM PUBLICATION

Efficient and effective competition requires that Defence procurement is visible and accessible and that there is an opportunity for suppliers to do business with Defence. 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 Disposals Gazette*.

Defence must notify 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 2001-02, Defence had a total of 301 contracts or standing offers, at a total value of \$168,019,743, exempted from publication as it was determined that publication could cause damage to the national security, defence or international relations of the Commonwealth (under 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 4.11: Contract/Standing Offer Exemptions from Publication by Group

Group	Number of Exemptions	\$
Navy	28	\$4,598,096
Intelligence and Security Group	37	\$19,478,874
Chief Finance Officer Group	1	\$5,527,498
Defence Materiel Organisation	235	\$138,415,275
Total	301	\$168,019,743

ADVERTISING AND MARKET RESEARCH

Under section 311A of the *Commonwealth Electoral Act 1918*, the annual report is to include particulars of all amounts paid by, or on behalf of, Defence during the financial year to:

- advertising agencies;
- market research organisations;
- polling organisations;
- direct mail organisations; and
- media advertising organisations.

Defence spent a total of \$39.4m on advertising and market research in 2001-02, broken down as follows:

Table 4.12: Total Advertising and Market Research Expenditure by Group

Group	Expenditure in 2001-02 \$	Expenditure in 2000-01 \$
Headquarters Australian Theatre	0	3,042
Navy	388,799	157,017
Army	194,318	166,482
Airforce	56,254	97,025
Strategic Policy	11,217	216,748
Intelligence and Security	379,711	361,705
Vice Chief of the Defence Force ⁽¹⁾	1,411,439	4,356
Chief Finance Officer	35,123	21,285
Defence Science and Technology Organisation	893,987	463,691
Defence Personnel Executive	33,578,148	42,358,877
Public Affairs and Corporate Communication	887,474	225,415
Defence Materiel Organisation	610,192	253,918
Corporate Services and Infrastructure	948,254	1,135,786
Total	39,394,916	45,465,347

Note

1. Vice Chief of the Defence Force was previously referred to as Capability.

The following table shows expenditure by type of agency.

Table 4.13: Total Advertising and Market Research Expenditure by type of Agency

Type of Agency	Expenditure in 2001-02 \$	Expenditure in 2000-01 \$
Advertising agencies	5,760,249	0
Market research organisations	1,020,629	1,069,396
Polling organisations	0	0
Direct mail organisations	1,505	18,701
Media advertising organisations	32,612,533	44,377,250
Total	39,394,916	45,465,347

The following table lists all particulars of payments, on a Group basis, made to relevant individuals and organisations for advertising and market research.

Table 4.14: Particulars of Payments by Group for Advertising and Market Research

Payee	Amount \$	Purpose
Navy		
Media Research Organisations		
Keystone Corporate Positioning	310,587	Brand Navy market research and promotion
Maritime Australia Ltd	6,300	Pacific 2002 exhibition
Newspoll	15,320	Navy reputation tracking
Roy Morgan Research	6,688	Survey of the awareness of Young Endeavour Youth Scheme
SmartArts	3,715	Spring 2001 Newsletter
Media Advertising Organisations		
Boating Industry of NSW	5,440	Advertising at Sydney boat show
Crowther Blayne & Associates Pty Ltd	3,500	Advertising products and services
John Fairfax Publications PTY Limited	4,766	Employment advertisement
KNJ Publishing	1,550	Advertising products and services
Paula M Promotions	12,124	Promotional merchandise
Reflections Media	1,999	Advertising products and services
Resource Information Unit	1,675	Advertising products and services
Sanctuary Cove Boat Show	2,073	Advertising at Sanctuary Cove boat show
SK Corporate Marketing	7,261	Promotional merchandise
Starcom Worldwide (Aust) Pty Ltd	3,575	Expression of interest/tender process on submarine operational analysis group contract
UK Hydrographic Office	2,227	Advertising products and services
Army		
Media Advertising Organisations		
Access 31	7,100	Recruitment – Army Reserves
APN Newspapers Pty Ltd	2,805	Recruitment – Army Reserves
Canberra FM Radio	5,227	Advertisement for Trooping of the Colour and Queen's Birthday parades
Community Newspaper Group	39,118	Recruitment – Army Reserves
Consolidated Broadcasting System (WA) Pty Ltd	4,470	Recruitment – Army Reserves
Cumberland Newspaper Group	2,929	Advertisement for Heritage Open Day, 100 Years
Gippsland Audio Visual Consultancy	4,545	Recruiting- development and production of unit video
Mirror Australian Telegraph	1,633	Recruitment – Army Reserves
Mirror Australian Telegraph	2,000	Advertisement for Heritage Open Day, 100 Years
Mitchell and Partners Aust Pty Ltd	9,341	Recruitment – Army Reserves
Post Newspaper Pty Ltd	8,756	Recruitment – Army Reserves
Prime TV Southern Pty Ltd	1,680	Advertisement for Beat the Retreat parade
Queensland Corporate Communications Network	9,026	Recruitment – Army Reserves
Queensland Newspapers Pty Ltd	9,256	Recruitment – Army Reserves
Quest Newspaper Group	6,475	Recruitment – Army Reserves
Ramm & Co	11,259	Recruitment – Army Reserves
Starcom Worldwide (Aust) Pty Ltd	53,013	Recruitment – Army Reserves
Network TEN Australia	2,000	Advertisement for Beat the Retreat parade
The Federal Capital Press Of Australia	5,599	Advertisement for Beat the Retreat parade
Network TEN Australia	5,000	Recruitment – Army Reserves
Win Television	3,085	Advertisement for Beat the Retreat parade
Air Force		
Media Advertising Organisations		
3AW Southern Cross Radio	3,510	Advertising Twilight Spectacular
3AW Southern Cross Radio	6,215	Advertising for the RAAF museums and opportunities for school visits to museums

Payee	Amount \$	Purpose
Fairfax Community Newspaper	2,000	Advertising Twilight Spectacular
Fairfax Community Newspaper	1,440	Advertising special museum exhibition
Starcom Worldwide (Aust) Pty Ltd	22,683	Employment vacancies
Starcom Worldwide (Aust) Pty Ltd	3,290	Recruitment – Air Force
Starcom Worldwide (Aust) Pty Ltd	17,116	Recruitment - civilian
Strategic Policy		
Media Advertising Organisations		
Starcom Worldwide (Aust) Pty Ltd	11,217	Recruitment - civilian
Intelligence & Security		
Advertising Agencies		
Spherion Recruitment Solutions	8,675	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	367,736	Recruitment - civilian
Direct Mail Organisations		
The University of Western Australia	1,505	Recruitment - civilian
Media Advertising Organisations		
Paddywack Promotional Products	1,795	Marketing for Graduate Recruitment Program
Chief Finance Officer		
Advertising Agencies		
Green Advertising	4,397	Printing of Chief Executive Instructions
Green Advertising	1,973	Printing of Chief Executive Instructions
Green Advertising	1,308	Printing of Chief Executive Instructions
Media Advertising Organisations		
Starcom Worldwide (Aust) Pty Ltd	27,445	Recruitment - civilian
Public Affairs and Corporate Communication		
Media Research Organisations		
Media Monitors Australia Pty Ltd	4,736	Monitoring of local media
Media Advertising Organisations		
AM Broadcasting Pty Ltd	5,250	Promotional advertising
Australasian Trade & Industry	1,895	Promotional advertising
Deadline Services	1,800	Maritime patrol group website
Eclipse Signs and Graphics	5,000	Centenary of Federation promotional activities
Eureka Quality Printers	4,295	Promotional material
Exponautic Pty Ltd	5,400	Local event promotion
Great Southern Land Broadcasters	4,860	Promotional advertising
Hood Sailmakers (Aust) Pty Ltd	6,218	Centenary of Federation promotional activities
Jaymac Promotional Advertising	6,134	Promotional material
Mitchell and Partners Aust Pty Ltd	143,250	Centenary of Federation promotional activities
Northern Tasmanian Broadcasters Pty Ltd	2,708	Promotional advertising
Paula M Promotions	91,233	Centenary of Federation promotional activities
Purple Elephant Promotional Product	306,529	Centenary of Federation promotional activities
Self Adhesive Systems	252,506	Centenary of Federation promotional activities
Sign A Rama	2,530	Centenary of Federation promotional activities
Starcom Worldwide (Aust) Pty Ltd	43,129	Promotions and displays for open days at bases
Science and Technology		
Media Advertising Organisations		
Adelaide Advertiser	61,144	Recruitment - civilian
Australian/ Melbourne Age/ Telegraph/ Sydney Morning Herald	176,849	Recruitment - civilian
Canprint Communications Pty Ltd	4,000	Advertising to promote technology expertise
Co-operative Ventures Aust	3,637	Advertising to promote technology expertise
Starcom Worldwide (Aust) Pty Ltd	519,798	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	21,576	Advertising to promote technology expertise
The Western Australian	6,484	Recruitment - civilian
TMP Worldwide	91,832	Recruitment - civilian

Payee	Amount \$	Purpose
Yaffa Publishing Group	8,667	Advertising to promote technology expertise
Defence Personnel Executive Advertising Agencies		
2C Management Pty Ltd	9,705	Recruitment - RAAF
Emitch Pty Ltd	34,733	Recruitment advertising - ADF
Mitchell and Partners Aust Pty Ltd	711,208	Recruitment advertising - ADF
New Millenium Print	1,500	Defence Community Organisation brochures
Northern Defence Magazine	3,409	Advertising Defence equity advice lines
Starcom Worldwide (Aust) Pty Ltd	2,482	Advertising for tenders
Starcom Worldwide (Aust) Pty Ltd	163,458	Recruitment advertising - civilian
The Good Guides Group	4,150	Advertising in Graduate Opportunities 2001 - civilian
Unimail Pty Ltd	7,500	Advertising the Graduate Development Program - civilian
Young & Rubicam Mattingly	3,222,621	Contractor retainer
Young & Rubicam Mattingly	27,502	Recruitment advertising - ADF
Young & Rubicam Mattingly	158,420	Recruitment - ADFA
Young & Rubicam Mattingly	267,961	Recruitment - Navy
Young & Rubicam Mattingly	539,386	Recruitment - Army
Young & Rubicam Mattingly	219,761	Recruitment - RAAF
Market Research Organisation		
Davidson Wilson/Deakin	3,438	Advice on gathering and disseminating information related to civilian workplace agreement
Horizon Research K&GM Pty Ltd	192,401	Research for ADF recruiting
New Focus Pty Ltd	354,242	Research for ADF recruiting
Uni of New England	22,203	Research for ADF recruiting
Worthington Di Marzio	96,000	Research for ADF recruiting
Young & Rubicam Mattingly	3,205	Research for ADF recruiting
Media Advertising Organisation		
ADCORP Australia Ltd	5,463	Recruitment advertising - civilians
Australian Medical Association Ltd	1,790	Recruitment - contract health professionals
Borderline Publishing	2,136	Recruitment - Army Reserves
Emitch Pty Ltd	9,550	Recruitment - Army Reserves
Futuretrain	30,000	Recruitment - Army Reserves
Flight Publishing Pty Ltd	1,649	Recruitment - Army Reserves
LTD North Queensland Newspaper	2,861	Recruitment advertising - civilians
Media Liaison Group Pty Ltd	3,000	Recruitment advertising - ADF
Medical Observer Pty Ltd	2,640	Recruitment advertising - civilians
Mirror Australian Telegraph	3,986	Recruitment advertising - civilians
Mitchell & Partners Aust Pty Ltd	6,394,667	Recruitment advertising - ADF
Mitchell & Partners Aust Pty Ltd	4,658,138	Recruitment - Navy
Mitchell & Partners Aust Pty Ltd	2,317,555	Recruitment - RAAF
Mitchell & Partners Aust Pty Ltd	3,131,952	Recruitment - Army
Mitchell & Partners Aust Pty Ltd	1,808,476	Recruitment - ADFA
Mitchell & Partners Aust Pty Ltd	2,965,195	Recruitment - ADF Aircrew - Tri-Service
Mitchell & Partners Aust Pty Ltd	345,090,	Recruitment - Tri-Service
Mitchell & Partners Aust Pty Ltd	1,884,140	Recruitment - Royal Military College
Mitchell & Partners Aust Pty Ltd	201,485	Recruitment - RAAF Reserve
Mitchell & Partners Aust Pty Ltd	2,771,939	Recruitment - Army Reserves
National Promotions	9,865	Promotional material
New Focus Research	55,125	Advertising research into recruiting people from different ethnic backgrounds
Northern Territory News	1,656	Recruitment advertising - civilians
Reed Business Information Pty Ltd	2,925	Recruitment advertising - civilians
Raging Media Pty Ltd	4,000	ADF Recruitment - Southern region
Starcom Worldwide (Aust) Pty Ltd	228,042	Recruitment advertising - contract health professionals
Starcom Worldwide (Aust) Pty Ltd	13,077	Recruitment - medical officers
Starcom Worldwide (Aust) Pty Ltd	3,022	Recruitment - dental officers
Starcom Worldwide (Aust) Pty Ltd	114,585	ADF Recruitment - Qld region
Starcom Worldwide (Aust) Pty Ltd	3,436	Advertising tender

Payee	Amount \$	Purpose
Starcom Worldwide (Aust) Pty Ltd	133,996	ADF Recruitment – NSW region
Starcom Worldwide (Aust) Pty Ltd	16,302	Recruitment – Army Reserves
Starcom Worldwide (Aust) Pty Ltd	178,258	ADF Recruitment – Southern region
Starcom Worldwide (Aust) Pty Ltd	62,970	ADF Recruitment – SA/NT region
Starcom Worldwide (Aust) Pty Ltd	102,259	ADF Recruitment – WA region
The Border Mail	2,163	Recruitment advertising - civilians
The Daily Advertiser	1,165	Recruitment advertising - civilians
Worthington Di Marzo	52,800	Advertising research into recruiting people from different ethnic backgrounds
Corporate Services and Infrastructure		
Media Advertising Organisations		
AH Peters	1,871	Recruitment - civilian
Asset Services Pty Ltd	2,417	Advertising - tender
Jaymac Promotional Advertising	4,500	Promotional material
Millbank Publications	8,100	Notice of environmental activities
Noel Smith Scribing & Recruitment	2,037	Recruitment - civilian
Public Service & Merit Protection Commission	218,455	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	666,343	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	11,330	Requests for tender
Temp Worldwide Resourcing	28,140	Recruitment - civilian
Defence Materiel Organisation		
Media Advertising Organisations		
Adcorp Australia Ltd	1,889	Recruitment - civilian
Banksia Media Group Pty Ltd	3,500	Recruitment - civilian
Executive Media Pty Ltd	1,886	Expert advice for Defence export solutions
Paddywack Promotional Products	10,173	Marketing for civilian recruitment
Starcom Worldwide (Aust) Pty Ltd	453,037	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	33,336	Advertising for tenders
Starcom Worldwide (Aust) Pty Ltd	6,814	Legal advertising
Starcom Worldwide (Aust) Pty Ltd	3,148	Tender for industry survey and market research
Starcom Worldwide (Aust) Pty Ltd	860	Advertising for tender
Starcom Worldwide (Aust) Pty Ltd	1,071	Advertising for live explosive ordinance firing in The Advertiser, Balaklava and York Peninsula Times newspapers
Starcom Worldwide (Aust) Pty Ltd	1,731	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	903	Advertising tenders
Starcom Worldwide (Aust) Pty Ltd	1,781	Advertising - Defence information management
Starcom Worldwide (Aust) Pty Ltd	1,781	Advertising - Defence procurement conference 2001
Starcom Worldwide (Aust) Pty Ltd	1,781	Advertising - Defence export outlook seminar
Starcom Worldwide (Aust) Pty Ltd	4,510	Advertising - Defence and Industry Conference
Starcom Worldwide (Aust) Pty Ltd	860	Expert advice for Defence export solutions
Starcom Worldwide (Aust) Pty Ltd	5,521	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	1,044	Advertising for tenders
Starcom Worldwide (Aust) Pty Ltd	62,332	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	5,756	Invitation to industry to participate in a market survey
Vice Chief of the Defence Force		
Advertising Agencies		
Starcom Worldwide (Aust) Pty Ltd	2,363	Advertising AIR 6000 force-mix options
Media Advertising Organisations		
ACT Council of Social Services	114	Recruitment - civilian
Artemis Publishing and Marketing	450	Advertising Reserve initiatives
Australasian Trade and Industry	4,990	Advertising Reserve initiatives
Borderline Publishing	1,159	Advertising Reserve initiatives
C&G Advertising Services	4,990	Advertising Reserve initiatives
Davies Brothers Ltd	568	Advertising Reserve initiatives



Payee	Amount \$	Purpose
Digital Print Tasmania	354	Advertising Defence Reserves Support Council Tasmania
Ideas and Directions	6,675	Production of occupational health and safety awareness material to the ADF Cadets
Jaymac Promotional Advertising	24,965	Advertising Reserve initiatives
Norforce News	500	Advertising ADF Reserves Employer Support Payment Scheme
Northern Defence Magazine	3,000	Advertising ADF Reserves Employer Support Payment Scheme
Northern Defence Magazine	1,364	Advertising Reserve initiatives
Northern Warrior Magazine	550	Advertising Reserve initiatives
Public Information Services	650	Advertising Reserve initiatives
Starcom Worldwide (Aust) Pty Ltd	1,775	Advertising - simulation conference
Starcom Worldwide (Aust) Pty Ltd	1,154	Advertising - space seminar
Starcom Worldwide (Aust) Pty Ltd	1,346,410	Advertising Reserve initiatives
Starcom Worldwide (Aust) Pty Ltd	7,048	Recruitment - civilian
Starcom Worldwide (Aust) Pty Ltd	719	Advertising for tender
Starcom Worldwide (Aust) Pty Ltd	648	Advertising for tender
Starcom Worldwide (Aust) Pty Ltd	648	Advertising for tender
The Advocate Newspaper Pty Ltd	345	Advertising Reserve initiatives

CHAPTER FIVE

PEOPLE MATTER

PEOPLE

**PERFORMANCE AGAINST PEOPLE MATTER
PRIORITIES FOR 2001-02**

ADF FAMILY SUPPORT INITIATIVES

WORKPLACE RELATIONS

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

STAFFING OVERVIEW

The permanent force average strength achieved for 2001-02 was 50,932, a variation of 21 above the revised estimate of 50,911. The achieved figure included an average of 1,043 Reservists (277 in the Navy, 551 in the Army and 215 in the Air Force) undertaking full-time service, employed predominantly within other ranks.

Table 5.1: ADF Permanent Force Staffing

Permanent Force	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual	Variation (2001-02 Actual vs Revised Estimate)	
Personnel Numbers – Average Strength					%
Navy	12,690	12,570	12,598	28	0.2
Army	24,902	25,152	25,012	-140	-0.6
Air Force	13,189	13,189	13,322	133	1.0
Total Permanent Force	50,781	50,911	50,932	21	0.0

The reserve force figures represent General or Active Reservists who rendered paid service during the financial year. The 2001-02 Reserves' actual numbers were 18,868, a decrease of 1,480 from the revised estimate of 20,348. This figure excludes the average number of Reserves on full-time service in the permanent force during 2001-02.

Table 5.2: ADF Reserve Staffing

Reserve Forces	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual	Variation (2001-02 Actual vs Revised Estimate)	
Personnel Numbers – Paid Strength					%
Navy	2,173	2,100	1,544	-556	-26.5
Army	15,929	16,228	15,669	-559	-3.4
Air Force	2,020	2,020	1,655	-365	-18.1
Total Reserve Force	20,122	20,348	18,868	-1,480	-7.3

The civilian average strength for 2001-02 was 16,819, a variation of 196 below the revised estimate of 17,015.

Table 5.3: Civilian Staffing

Civilian	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual	Variation (2001-02 Actual vs Revised Estimate)	
Personnel Numbers – Average Strength					%
Civilian	15,901	17,015	16,819	-196	-1.2
Total Civilian	15,901	17,015	16,819	-196	-1.2

Table 5.4: Breakdown of Personnel Numbers by Service and Rank⁽¹⁾

	2001-02 Budget Estimate	2001-02 Revised Estimate	2001-02 Actual
Navy			
1 Star Officers and above	33	34	34
Senior Officers ⁽²⁾	338	394	403
Officers	2,567	2,342	2,349
Other Ranks	9,752	9,800	9,812
Reserves	2,173	2,100	1,544
Total Navy	14,863	14,670	14,142
Army			
1 Star Officers and above	45	50	49
Senior Officers ⁽²⁾	558	548	561
Officers	4,543	4,425	4,431
Other Ranks	19,756	20,129	19,971
Reserves	15,929	16,228	15,669
Total Army	40,831	41,380	40,681
Air Force			
1 Star Officers and above	36	36	36
Senior Officers ⁽²⁾	471	453	503
Officers	3,662	3,322	3,364
Other Ranks	9,020	9,378	9,419
Reserves	2,020	2,020	1,655
Total Air Force	15,209	15,209	14,977
Civilians			
Senior Executives	106	113	117
Senior Officers ⁽²⁾	3,261	3,382	3,554
Others	12,534	13,520	13,148
Total Civilians	15,901	17,015	16,819

Notes

1. Permanent Force figures are average funded strengths which include Reservists undertaking full-time service. Civilian figures are average funded strength. The Reserve strengths represent Reservists who undertook paid service.
2. Military Senior Officers are at the Lieutenant Colonel and Colonel equivalents while civilian senior officers are Executive Levels 1 and 2.

STAFFING STATISTICS

The actual strength of the permanent component of the ADF at 30 June 2002 was 51,365 as shown in Table 5.5. The ADF enlisted 6,583 additional permanent members, made up of 5,623 men and 960 women, for the twelve months to 30 June 2002, as shown in Table 5.11. This was 658 or 11 per cent more than for 2000-01. This reflects a 12 per cent increase for male and a 5 per cent increase for female recruits. The actual strengths reflect the transition toward the Government's funded strength increase (3,000 Army and 555 Air Force) for ongoing operations in East Timor and growth towards the White Paper force size of about 54,000 by 2010. There were 5,713 separations from the permanent ADF for the twelve months to 30 June 2002 as shown in Table 5.15. This reflects a decrease of 1,254 when compared with 2000-01.

The improved enlistments and reduced separations of the permanent component of the ADF are reducing workforce gaps. Although there is an improvement against individual Services' recruiting targets, there are still shortages within critical ranks and trades that are yet to be fully addressed.

The actual strength and location of the Reserve component of the ADF with training obligations was 21,001 as at 30 June 2002, as shown at Table 5.5. This reflects a growth of 667 in the Reserve numbers from 30 June 2001.

There were 2,870 Reserve enlistments during 2001-02, as shown in Table 5.13. This was an improvement of 304 above the 2,566 recruited in 2000-01 which, together with slightly improved retention, has produced an overall increase in the Reserve. The Army experienced a slight decrease in participation. The number of male reservists has improved and is back to around 1999-2000 levels, but the number of female reservists has continued at around the same level for the last three years.

At 30 June 2002, there were 18,370 Defence civilian personnel, as shown in Table 5.5. This is an increase of 1,364 compared against 30 June 2001 figures, for an overall increase of 8 per cent. There was increased participation by females in the workforce with 723 more than 30 June 2001 levels or an increase of 13 per cent. The increase in male participation was 641 above the previous year or an increase of 6 per cent. The increase in civilian employees is due to continuing civilianisation of a number of functions in Defence and expanded intelligence, science and technology and project activities.

Table 5.5: Distribution by Employment Location of ADF Permanent and Reserve Forces and Civilian Employees, as at 30 June 2002⁽¹⁾

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT ⁽²⁾	O/S ⁽³⁾	Total
Permanent Forces⁽⁴⁾										
Navy ⁽⁵⁾	5,158	2,117	788	122	2,448	22	519	1,248	183	12,605
Army	5,096	3,347	9,475	564	820	89	3,497	1,955	327	25,170
Air Force	4,853	1,328	2,387	1,766	383	6	1,103	1,565	199	13,590
Sub Total	15,107	6,792	12,650	2,452	3,651	117	5,119	4,768	709	51,365
Reserve Forces⁽⁶⁾										
Navy	455	121	138	67	178	62	55	157	4	1,237
Army	4,948	3,170	4,211	1,365	1,716	730	645	360	11	17,156
Air Force	533	362	741	340	183	19	83	346	1	2,608
Sub Total	5,936	3,653	5,090	1,772	2,077	811	783	863	16	21,001
Total	21,043	10,445	17,740	4,224	5,728	928	5,902	5631	725	72,366
Civilians	3,716	3,940	1,504	1,946	535	99	383	6,132	115	18,370
GRAND TOTAL	24,759	14,385	19,244	6,170	6,263	1,027	6,285	11,763	840	90,736

Notes

1. Figures in this table show actual staff numbers as at 30 June 2002 and are not the average funded strengths.
2. ACT includes personnel located at Jervis Bay, HMAS Harman, RAAF Fairbairn and other Defence units within the legally defined boundaries of the Australian Capital Territory.
3. Permanent Forces and Reserves overseas represent personnel posted for long-term duty.
4. Permanent Forces figures include paid and unpaid members.
5. Personnel serving in ships are included against the state or territory in which the ship is home-ported.
6. Figures are Reserves with training obligations.

Table 5.6: Distribution of Civilian Personnel by Employment Location and Classification Group, as at 30 June 2002⁽¹⁾

Occupational Group ⁽²⁾	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	O/S ⁽⁶⁾	Total
Secretary								1		1
SES ⁽³⁾		5	1	12				101	4	123
Executive Levels ⁽⁴⁾	299	676	71	688	50	5	17	1,842	79	3,727
APS Levels ⁽⁵⁾	3,417	3,259	1,432	1,246	485	94	366	4,188	32	14,519
Total	3,716	3,940	1,504	1,946	535	99	383	6,132	115	18,370

Notes

1. Figures in the table show actual staff numbers as at 30 June 2002, not average funded strengths.
2. The Groups in the table have been presented in the format of the current Defence Employees Certified Agreement structure.
3. Senior Executive Service (SES) includes Under Secretary, Deputy Secretary, First Assistant Secretary, Assistant Secretary, Chief of Division (COD) and Medical Officer 4 and 6 classifications.
4. Executive Levels include Levels 1 and 2 and Senior Principal Research Scientists.
5. APS levels include Australian Public Service levels 1 to 6, information technology, professional, technical, and trade/physical officers.
6. Overseas figures represent staff posted for long-term and short-term duty as at 30 June 2002.

Table 5.7: ADF Permanent and Reserve Forces, and Civilian Employees by Gender and Employment Category⁽¹⁾

	As at 30 June 2001				As at 30 June 2002			
	Men	%	Women	%	Men	%	Women	%
Navy								
<i>Trained Force</i>								
Officers	1,935	15.8	408	3.3	1,687	13.4	309	2.5
Other Ranks	7,435	60.6	1,187	9.7	7,269	57.7	1,297	10.3
<i>Training Force</i>								
Officers	249	2.0	66	0.5	534	4.2	191	1.5
Other Ranks	744	6.1	239	1.9	1,047	8.3	271	2.1
Total	10,363	84.5	1,900	15.5	10,537	83.6	2,068	16.4
Army								
<i>Trained Force</i>								
Officers	3,758	15.4	576	2.4	3,769	15.0	583	2.3
Other Ranks	15,808	64.9	1,704	7.0	16,498	65.5	1,663	6.6
<i>Training Force</i>								
Officers	521	2.1	122	0.5	499	2.0	125	0.5
Other Ranks	1,749	7.2	122	0.5	1,893	7.5	140	0.6
Total	21,836	89.6	2,524	10.4	22,659	90.0	2,511	10.0
Air Force								
<i>Trained Force</i>								
Officers	2,875	21.9	495	3.8	2,859	21.0	491	3.6
Other Ranks	7,225	55.0	1,347	10.3	7,225	53.2	1,274	9.4
<i>Training Force</i>								
Officers	372	2.8	59	0.4	530	3.9	107	0.8
Other Ranks	704	5.4	63	0.5	971	7.1	133	1.0
Total	11,176	85.1	1,964	14.9	11,585	85.2	2,005	14.8
ADF Permanent								
<i>Trained Force</i>								
Officers	8,568	17.2	1,479	3.0	8,315	16.2	1,383	2.7
Other Ranks	30,468	61.2	4,238	8.5	30,992	60.3	4,234	8.2
<i>Training Force</i>								
Officers	1,142	2.3	247	0.5	1,563	3.1	423	0.8
Other Ranks	3,197	6.4	424	0.9	3,911	7.6	544	1.1
Total	43,375	87.2	6,388	12.8	44,781	87.2%	6,584	12.8
ADF Reserves⁽²⁾								
Navy	888	4.4	206	1.0	1,006	4.8	231	1.1
Army	14,266	70.1	2,961	14.6	14,301	68.1	2,855	13.6
Air Force	1,626	8.0	387	1.9	2,114	10.1	494	2.3
Total	16,780	82.5	3,554	17.5	17,421	83.0	3,580	17.0
Civilians⁽³⁾								
Secretary	1				1			
SES	89	0.5	13	0.1	101	0.5	22	0.1
Other Staff	11,296	66.4	5,607	33.0	11,925	64.9	6,321	34.4
Total	11,386	66.9	5,620	33.1	12,027	65.5	6,343	34.5

Notes

1. Figures in the table are actual staff numbers as at 30 June 2001 and 30 June 2002.
2. Figures are Reserves with training obligations.
3. Figures exclude locally-engaged civilians overseas.

Table 5.8: Civilian Employees as at 30 June 2002 ⁽¹⁾⁽²⁾

Category		Full-Time	Part-Time	Total
Ongoing employees	Male	11,261	53	11,311
	Female	5,282	268	5,553
Non-ongoing employees	Male	694	22	716
	Female	740	50	790
Total	Male	11,952	75	12,027
	Female	6,025	318	6,343
Total Civilian Personnel		17,977	393	18,370

Notes

- Figures in this table show actual numbers of staff.
- Figures exclude locally-engaged civilians overseas.

Table 5.9: Senior Executive Staff as at 30 June 2002 ⁽¹⁾⁽²⁾

	Total SES			2001-02 Engagements			2001-02 Separations		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Senior Executive Band 1	58	19	77	6	4	10	10	1	11
Senior Executive Band 2	18	3	21	5	0	5	4	0	4
Senior Executive Band 3	8	0	8	3	0	3	6	0	6
Chief of Division Grade 2	14	0	14	1	0	1	3	0	3
Chief of Division Grade 3	3	0	3	0	0	0	1	0	1
Total	101	22	123	15	4	19	24	1	25

Notes

- Numbers reflect officers at their substantive level and officers on higher duties pending permanent filling action.
- Engagements and separations do not reflect the movement of officers between levels in each of the Senior Executive Service and Chief of Division streams, or movements associated with temporary acting arrangements.

Table 5.10: Star Ranked Officers as at 30 June 2002 ⁽¹⁾⁽²⁾⁽³⁾

	Total Star Rank			2001-02 Promotions			2001-02 Separations		
	Men	Women	Total	Men	Women	Total	Men	Women	Total
Four Star									
Navy	1	0	1	0	0	0	0	0	0
Three Star									
Navy	1	0	1	0	0	0	0	0	0
Army	3	0	3	1	0	1	0	0	0
Air Force	1	0	1	0	0	0	0	0	0
Two Star									
Navy	9	0	9	3	0	3	1	0	1
Army	10	0	10	1	0	1	2	0	2
Air Force	7	0	7	0	0	0	3	0	3
One Star									
Navy	25	0	25	5	0	5	3	0	3
Army	39	0	39	10	0	10	7	0	7
Air Force	25	1	26	5	0	5	4	0	4
Total	121	1	122	25	0	25	20	0	20

Notes

- Promotions included those officers promoted between levels.
- Officers acting on higher duties are not included.

Table 5.11: ADF – Permanent Force Enlistments 2000-01 and 2001-02⁽¹⁾⁽²⁾⁽³⁾

	Navy		Army		Air Force ⁽⁴⁾		ADF	
	Men	Women	Men	Women	Men	Women	Men	Women
2000-01								
Trained Force								
Officers	39	3	41	20	-	-	80	23
Other Ranks	69	11	338	65	-	-	407	76
Training Force								
Officers	127	52	241	49	198	46	566	147
Other Ranks	811	344	2,275	157	871	168	3,957	669
Total	1,046	410	2,895	291	1069	214	5,010	915
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

Notes

1. Figures in this table show actual numbers of staff.
2. Enlistments exclude Reserves commencing periods of full-time duty.
3. Figures include inter- / and intra-Service transfers processed by the Service Offices and, therefore, do not correlate with the recruiting activity shown in Table 5.12.
4. All Air Force recruits are enlisted into the Training Force.

Table 5.12: ADF – Permanent Force Recruiting Activity 2000-01 and 2001-02

	Navy	Army	Air Force	ADF
2000-01				
Total Inquiries	21,011	56,921	38,514	121,710 ⁽¹⁾
Formal Applications	4,932	10,889	7,731	23,552
Applicants Enlisted	1,241	2,785	1,105	5,131
Target	1,666	3,519	1,252	6,437
Percentage Achieved	74%	79%	88%	80%
2001-02				
Total Inquiries	22,165	61,432	42,449	127,290 ⁽²⁾
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%

Notes

1. This figure includes 5,264 full-time tri-Service inquiries that relate to inquirers who were undecided on which Service they wished to join.
2. This figure includes 1,244 full-time tri-Service inquiries that relate to inquirers who were undecided on which Service they wished to join.

Chart 5.1: ADF Permanent Force Target versus Achievement

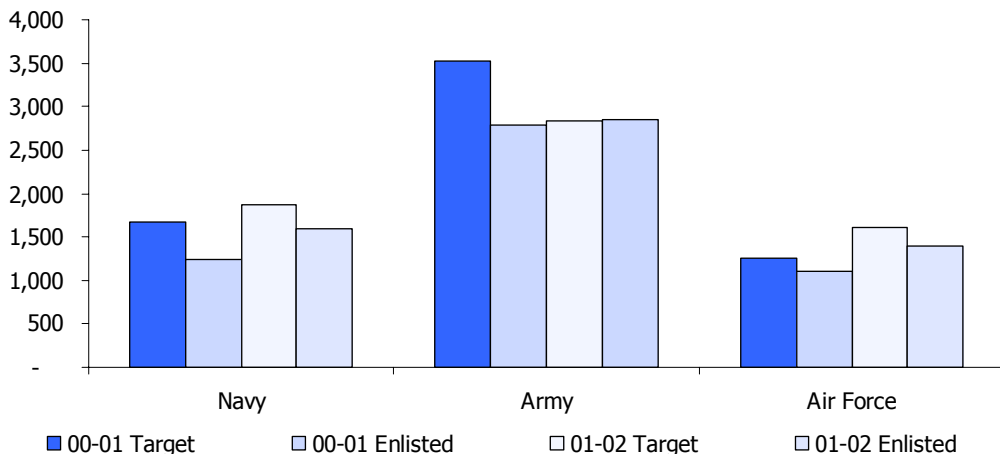


Table 5.13: ADF – Reserve Force Enlistments 2000-01 and 2001-02

	Navy	Army	Air Force	ADF
2000-01				
Total Inquiries	1,035	24,319	1,782	27,136
Formal Applications	195	7,051	461	7,707
Applicants Enlisted	47	2,396	123	2,566
Target	139	4,921	277	5,337
Percentage Achieved	34%	49%	44%	48%
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%

Chart 5.2: ADF – Reserve Force Target versus Achievement

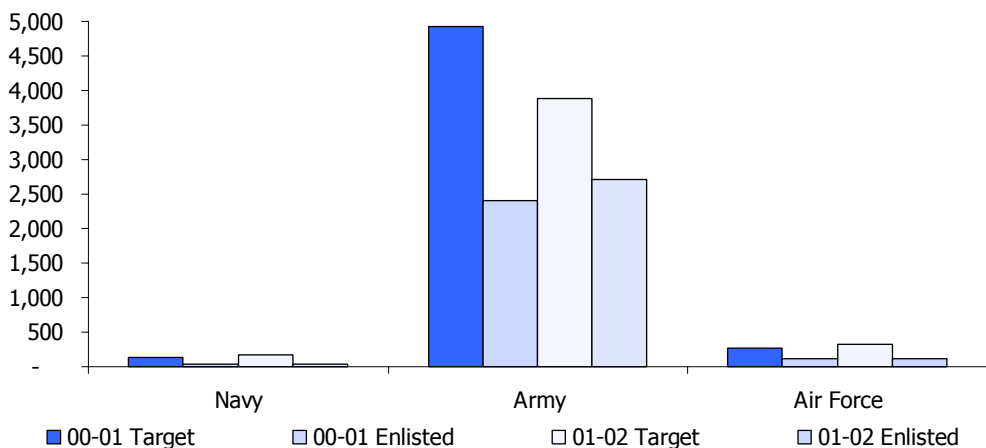


Table 5.14: Total Advertising and Market Research Expenditure – Defence Force Recruiting Organisation

Defence Force Recruiting Organisation Purpose of Advertising Expenditure	Expenditure in 2001-02 \$
Advertising agencies (retainer)	3,222,621
Advertising agencies (production)	1,971,850
Media advertising organisations (media placement)	27,147,495
Market research organisations (research)	668,050
Total	33,010,016

Table 5.15: ADF – Permanent Force Separations 2000-01 and 2001-02⁽¹⁾⁽²⁾

		Voluntary	Involuntary ⁽³⁾	Age Retirement	Cadets and Trainees	Total
2000-01						
Navy	Officers	212	1	0	64	277
	Other Ranks	1,045	153	0	157	1,355
Army	Officers	409	42	23	104	578
	Other Ranks	1,848	471	9	333	2,661
Air Force	Officers	299	28	24	52	403
	Other Ranks	1,503	73	19	98	1,693
TOTAL ADF	Officers	920	71	47	220	1,258
	Other Ranks	4,396	697	28	588	5,709
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

Notes

1. Figures in this table show actual numbers of staff.
2. Non-effective staff (personnel on maternity leave and leave without pay) and Reserves completing periods of full-time duty are not included.
3. Involuntary separations primarily comprise staff who were medically unfit or unsuitable for further training.

PERFORMANCE AGAINST PEOPLE MATTER PRIORITIES FOR 2001-02

This section reports on performance against the priorities listed in the People Matter sections of the *Portfolio Budget Statements 2001-02* and, as amended, in the *Portfolio Additional Estimates Statements 2001-02*.

Releasing the Defence People Plan.

Partly Achieved

The Defence People Plan was considered by the Defence People Committee and endorsed as a working level document within the Defence Personnel Executive Group. The document will continue to evolve to take into account changes to the internal and external personnel environment and remains subject to Defence People Committee consideration and approval.

Replacing the Defence Employees Certified Agreement 2000-01, which expires in December 2001.

Achieved

The replacement for the Defence Employees Certified Agreement 2000-01, the *Defence Employees Certified Agreement 2002-2003*, was certified by the Australian Industrial Relations Commission on 24 April 2002. The agreement seeks to 'set the standard', both in terms of how it was developed, the provisions it contains and how it is implemented. Implementation is progressing smoothly. The strategic decision to make agreement making an ongoing process will ensure Defence is well placed to develop a replacement agreement before the expiry of the current agreement on 31 December 2003.

Developing a Defence Workforce Plan, which is aimed at linking total workforce requirements across Defence to capability.

Partially Achieved

Against the background of ongoing difficulties with recruitment and retention, and increasing competition for people as the Australian population ages, the Secretary and the Chief of the Defence Force established, in December 2001, a strategic workforce planning review. The review is to devise a workforce planning strategy to ensure that Defence has the operational, and operational support, capabilities to deliver the Government's desired outcome. This involves placing people at the heart of the capability development process and providing a long-term perspective over the next two decades. Future Defence workforce plans will be prepared as part of the capability development process.

The review team has been reporting progressively to the Defence Committee and the report is due with the Secretary and Chief of the Defence Force by the end of October 2002.

Producing a Defence guide to employment in the Australian Public Service of non-ongoing employees.

Partially Achieved

A Defence policy on the use of non-ongoing Australian Public Service employment in Defence has been drafted. Guidance on the use of the non-ongoing employment category will be included in an expanded *Defence Guide to APS Recruitment* which will be prepared towards the end of 2002.

Producing an integrated, improved manual on pay and conditions of service for ADF members.

Achieved

The new *ADF Pay and Conditions Manual* was launched by the Chief of the Defence Force in July 2001. It provides administrators and ADF members with a single, concise reference source on current entitlements to pay, pay-related allowances and other conditions of service both within Australia and overseas. The manual is widely available on-line and in hard copy. It has been the basis for several other significant initiatives including the *Member's Guide to ADF Pay and Conditions of Service* booklet, which was launched in March 2002. Eighty thousand copies of the booklet have been distributed throughout Defence. It has been sent to all recruit training centres and ADF units, and has particular focus on the information needs of recruits and junior members.

Both these publications have achieved their main aim of promoting accurate, timely advice to ADF members about their entitlements.

Implementing the recommendations of the Zimmer review into postgraduate education and education services provided at the Australian Defence Force Academy.

Partially Achieved

In October 2001, the then Minister for Defence endorsed the recommendations from the Zimmer Review into educational services delivered at the Australian Defence Force Academy. The recommendations are being implemented progressively, with the majority scheduled for finalisation by the end of 2002.

Renegotiating the current Australian Defence Force Academy Agreement between Defence and the University of NSW for the provision of academic services.

Partially Achieved

A major recommendation from the Zimmer Review was that a new agreement should be negotiated between Defence and the University of NSW for a period of up to ten years for educational service delivery at the Australian Defence Force Academy. A Defence project team was subsequently established to scope, develop, negotiate and implement the new agreement, which will provide greater cost transparency and accountability for an enhanced range of educational programs within a contemporary and flexible business framework. The new agreement is expected to be in place for the commencement of academic year 2003.

Accrediting Defence vocational education and training within the national training framework.

Substantially Achieved

Defence has an active policy of seeking accreditation for its vocational education and training within the national training framework as part of its people recruitment, retention and transition strategies. Where appropriate, Defence vocational education and training providers are accredited as registered training organisations within the national training framework. The four major Defence registered training organisations have achieved Quality Endorsed Training Organisation status. Where possible, Defence vocational education and training is drawn from or aligned with national training packages, with the qualifications awarded being those from the training packages. A database of Defence's nationally accredited vocational education and training has been developed. This database was made available in August 2001 to current and former Defence people, employers, potential employers and education and training providers online at <http://www.defence.gov.au/dpe/civilquals>.

Ongoing evaluation of a Victorian trial of private sector provision of recruitment services.

Ongoing

The evaluation of the southern region trial of private sector provision of ADF recruitment services was completed in August 2002. A submission seeking endorsement of the preferred way ahead was put to the Minister for Defence in September 2002.

Implementing a 'capstone program' for Defence's senior leaders, including 360-degree feedback.

Achieved

A 'capstone' program, including 360-degree feedback, has been successfully implemented for Defence senior leaders. Six programs have been conducted covering 70 personnel at the SES Band 1/Military one star rank and a further five programs are scheduled for 2002-03. Each Capstone program is of 12 months duration and participants are required to participate in 360-degree feedback during the program. In addition, the Capstone program incorporates the use of mentors, guest speakers, a residential component framed around the Defence leadership capabilities, and an integrated workplace project, with the objective of creating long-lasting change.

Establishing a Defence Family Financial Emergency Fund to provide immediate welfare relief and support to families while ADF members are on deployment, or absent from their normal place of residence, for extended periods.

Achieved

The Defence Family Financial Emergency Fund was introduced in December 2001 to provide support to ADF families affected by the mobility, deployment or separation of an ADF member. The fund provides interest-free loans which are capped at \$1,000 and are repayable over 12 months. There was a low response rate initially to the

initiative, which prompted a review and subsequent expansion of the eligibility criteria in May 2002. The scope of the loan has now been expanded to include medical expenses, emergency accommodation, utilities, food, clothing and general counselling. Since 1 July 2002, after the guidelines were changed, an average of three loans per month have been approved.

Establishing more child care centres in areas of high Defence need within Australia to enhance the current Defence employer-sponsored Child Care Program.

Achieved

During 2000-01, funding was set aside for a five-year program of expansion to the Defence Child Care Program. All objectives identified in the five-year plan for 2001-02 were achieved. These included the leasing from the private sector of a new 60 place long day care centre which was opened in Palmerston (Darwin) in February 2002 and the opening of a new 85 place long day care centre at Russell (ACT), also in February 2002. The opening of these two centres increased the total number of long day care centre-based care from 1,065 to 1,210 places. In addition to the new centre-based care, Defence has also expanded the number of family day-care places in registered private homes by 58, which includes 40 in Darwin, 5 in Toowoomba (Qld) and 13 in Sydney. This brings the total number of family day-care places now offered by Defence from 97 to 155. Defence also increased the provision of before- and after-school care and vacation care by 20 places, from 216 to 236 places, at Kapooka in Wagga (NSW).

Preparatory work commenced on three centres to be built in 2002-03. These centres include new expanded and relocated centres at RAAF Williamtown (NSW) and at RAAF East Sale (Vic) and a new multi-function centre at Puckapunyal (Vic), which is to include long day care, before- and after-school care, vacation care, and occasional care.

Defence is exploring all possible avenues for the provision of child care for Defence families. These include partnering (joint ventures) with corporate entities in the private sector to share costs in the provision of child care, and a tender process calling for innovative ways to offer more child care to Defence families at a reduced or shared costs basis to Defence.

Developing a Welcome to the ADF Family – Partners in Defence program to provide new recruits and their spouses and partners with the tools and knowledge to better understand and deal with military life and culture.

Substantially Achieved

The *Welcome to the ADF Family – Partners in Defence* program aims to:

- give members and their families a good understanding of life in the ADF;
- provide families with the tools and knowledge to successfully transition to military life and adapt to the military culture;
- build and motivate peer support networks; and
- promote a level of pride and ownership in the ADF, by making families feel more included and recognised for their contribution to the Defence community.

The program consists of four inter-related components – a face-to-face course (1 day) program, an *Addresses and Essential Services* book for participants, a take home CD-ROM and an enhanced web site for families to access.

A pilot program in Brisbane in February 2002 was successful. Feedback from the participants was that the face-to-face course was very useful and there were friendships and networks formed. The group consisted mainly of partners of newly-recruited, newly-posted ADF members. The national roll-out of courses will commence early in September 2002.

Developing and implementing an 'e-learning' strategy for Defence.

Partially Achieved

The Defence People Committee agreed an e-learning strategy for Defence in February 2002. A dedicated team has been established and work has commenced on defining functional requirements of a Defence learning management system, producing a draft e-learning standards and style guide, developing course materials addressing legislated learning requirements, and creating awareness of the potential of e-learning. The major implementation of the e-learning strategy will occur in the 2002-03 and 2003-04 financial years. The e-learning gateway was launched in September 2002 and the tender process for the management system will be completed early in 2003. These actions complement e-learning activities already in progress within each of the Services, some of which pre-date the development of the Defence e-learning strategy.

Developing an injury prevention program aimed at making people more effective by reducing injury rates in Defence.

Partially Achieved

The Defence Injury Prevention Program has been established as a pilot program and currently covers 10 per cent of the ADF. The pilot program has been well received to date, with reductions in injury rates in pilot sites in the order of 20-40 per cent annually, and 70 per cent in some sites. A business case has been developed to extend the program to the remainder of the ADF.

Implementing a new Public Services Training Package designed to support workplace learning and development in the public sector.

Substantially Achieved

The Public Services Training Package was implemented progressively during 2001-02. Defence has been the lead agency in a consortium of Commonwealth agencies managing a contract with Open Learning Australia to develop 50 modules of training under the nationally-recognised Public Services Training Package. The development and piloting process will be completed by the end of December 2002. Following an evaluation process, the materials review and update process, which incorporates subject matter expert panels, will commence.

Further development work is scheduled for 2002-03, including a supported distance-delivery program for modules and a simple on-line registration system, which will interface with the Defence personnel system, PMKeys. Modules are planned for delivery in e-learning mode, and materials against the human resource

management competencies in the Public Services Training Package will be further progressed.

Revising accommodation policy for single ADF members.

Achieved

The first phase of the policy revision resulted in the introduction of revised rent allowance arrangements for single members in October 2001, which provided greater choice for single members to elect to live off-base and receive an allowance to rent private accommodation in the community. By the end of June 2002, more than 2,000 additional members had accessed the allowance under the new arrangements.

The second phase involves a long-term, strategic assessment of single members' accommodation needs and preferences, which will inform innovative options for future provisioning, including identification of immediate remedial and refurbishment works required to on-base accommodation. Planning for this is under way, with the initial accommodation requirement expected to be defined by the end of October 2002.

Finalising, with the Defence Housing Authority, the 'one-stop shop' for ADF housing and relocations.

Substantially Achieved

Negotiation of an agreement with the Defence Housing Authority for the delivery of relocations services (the *Relocations Agreement*) is all but completed, with signature expected by November 2002. In the meantime, a 'one-stop shop' for provision of relocations and housing services has effectively been achieved through the transfer in 2001 of relocations activities to the authority ahead of finalising the agreement. The Defence Housing Authority now provides all housing and relocation services through its regional Housing Management Centres. Every relocation is now appointed an Authority case manager to oversee the entire process, providing a personalised service and a single point of contact for members and their families.

Assisting the external review of ADF personnel remuneration arrangements.

Achieved

The *Review of Australian Defence Force Remuneration 2001* was delivered to the Ministers for Defence and Finance and Administration at the end of August 2001. Consultation on the review between the Chief of the Defence Force, the Service Chiefs and serving and former Defence personnel was completed in February 2002. A submission setting out Defence's response to the review recommendations was forwarded to the Minister for Defence on 30 April 2002. The Government's response to the review's recommendations is under consideration.

ADF FAMILY SUPPORT INITIATIVES

Defence is cognisant of the impact that the military lifestyle has on Defence families. A range of additional assistance measures were introduced in 2001-02 to help families overcome the disadvantages of mobility and the stresses associated with deployment. In addition to an expansion of the Defence Child Care program, emergency financial assistance to ADF families and the *Welcome to the ADF Family – Partners in Defence* program covered in the People Matters Priorities section, a number of other initiatives were undertaken in 2001-02. The major ones are detailed below.

Defence recognises the challenges faced by ADF spouses in gaining employment and maintaining their careers through the Spouse Employment Assistance Program. Defence has targeted assistance to meet specific needs of ADF spouses in seeking employment. A new initiative, Professional Registration Expense Payments, was introduced on 1 July 2001. This provides assistance with the payment of re-registration fees and short upgrade or pre-registration courses for the non-serving spouse/partner of an ADF member who, as a result of a posting to a different state or territory, incurs a professional registration cost.

During 2001-02, 63 spouses have been assisted with reimbursement of registration fees. The requests for reimbursement have covered a number of professions, with the largest groups receiving assistance being teachers, nurses and general health professionals.

The Spouse Employment Assistance Program also utilises job network members to provide work readiness training to assist Defence spouses seeking employment. This training has proved useful, with most spouses obtaining employment within a short period after completing the course.

The final report on the review of the Defence Spouse Employment Assistance Program that was commissioned by Defence was delivered in August 2002. The review found that the current program was limited in its effectiveness. The review established a strong link between the provision of an effective employment assistance program and managing mobility and improving retention. Defence is currently examining the recommendations from the review and the options for a redevelopment program.

The Defence Family Support Funding Program provides grants to groups of Defence families and community organisations to allow them to undertake self-help projects that will assist in overcoming some of the impacts of mobility. The funds provide a valuable financial resource in allowing groups and organisations to undertake initiatives to meet specific local needs.

During 2001-02, this program provided grants to 130 organisations totalling \$1.134m. Full details of the grants are provided in the Discretionary Grants section in Chapter 3. The types of project/organisation receiving grants included:

- Defence community centres and neighbourhood houses. These organisations provide a friendly meeting place and usually run a variety of activities such as playgroups, craft sessions and information activities, to help ADF families establish themselves in a new community.

- Defence newsletters. Volunteer groups produce and publish local newsletters containing information pertinent to the local Defence community.
- Family welcome groups. Volunteers meet and greet Defence families newly arrived in the area and provide welcome packs with relevant information to assist the families settle in. Some groups provide a 'picnic pack' on the day of arrival in the new house.

In January 2002, approval was given by the Defence People Committee to develop a new initiative involving Defence School Transition Aides. These aides will provide on-site, direct and flexible assistance to ADF children and parents and teachers. The aim of this program is to assist families to settle more quickly into their local school community. Sixty-eight aides have been employed in a part-time capacity Australia-wide in schools with high numbers of Defence families enrolled. This program is being implemented throughout Australia during 2002.

A research project into mobility and its impact on educational outcomes commenced during 2001-02. Defence has partnered the Department of Education, Science and Training in engaging a consultant to undertake this study. A report is due in the second half of 2002 and will provide a platform for future initiatives to assist ADF families as they move across state and territory educational jurisdictions.

HOUSING

Housing assistance is being reassessed to give ADF members and their families more choice with a revised, more equitable system to encourage home ownership. A tripartite working group, consisting of Defence, the Defence Housing Authority and member/family representative organisations the National Consultative Group of Service Families¹ and the Armed Forces Federation of Australia, was formed in December 2001 and meets monthly to examine Defence housing policies for the future.

Enhancements to members' housing choices have been agreed by the working group, with the introduction of the concept of Defence choice housing scheduled for implementation in October 2002, ahead of the 2002 peak posting cycle. Defence choice housing will provide homes that do not fully meet Defence housing classification requirements, but are nonetheless well appointed and located. The homes will provide a trade-off of one amenity for locality, another amenity or perhaps size. Acceptance of the homes will be voluntary. In the initial stages, the homes will be in limited supply to enable demand trends to be determined and to keep vacancy costs to a minimum.

The accommodation of single members is to be improved by the extension of rental assistance provisions, the refurbishment of current accommodation and the construction of new accommodation which is more in line with member's expectations. The first phase of revised accommodation arrangements for single members was introduced in October 2001, which provided greater choice for single members to elect to live off-base and receive rent allowance to rent private accommodation in the community. At the end of June 2002, more than 2000 additional

1. Renamed Defence Families of Australia in August 2002.

members had accessed the allowance under the new arrangements. The second phase involves a long-term, strategic assessment of single members' accommodation needs and preferences, which will inform innovative options for future provisioning, including identification of immediate remedial and refurbishment works required to on-base accommodation. Planning for this is under-way with the initial accommodation requirement expected to be defined by the end of October 2002.

Defence members are highly mobile and this can create a disincentive to purchase a home or to maintain an own-home life style and can lead to retention issues. While assistance with the purchase of a home was available through the former initial purchase element of the Home Purchase or Sale Expenses allowance, this generally resulted in outcomes that were inequitable and inconsistent with the principles of the allowance. As a result, the Home Purchase Assistance Scheme was introduced in July 2000 to provide more equitable assistance to those members wishing to purchase their own home. For the year ending June 2002, the scheme provided assistance to 3,278 Defence members to purchase their own home.

WORKPLACE RELATIONS

CIVILIAN

The *Defence Employees Certified Agreement 2002-2003* is a principles-based agreement which has been developed to support organisational renewal. The agreement was built on broad-based consultation within Defence and external environmental scanning. This was to ensure that the agreement was not only contemporary and innovative in terms of the employment arrangements it provides to Defence civilian employees, but to ensure that Defence becomes an employer of choice. Importantly, the agreement provides increased linkages between an individual's performance and Defence business planning, yet provides greater flexibility for executives and employees to develop mutually agreeable working arrangements suitable for their work area. A program of intensive implementation has commenced and will remain ongoing for the life of the agreement. Implementation is focusing, in particular, on educating both military and civilian executives on applying principles-based decision making to civilian employment arrangements.

MILITARY

During 2001-02, most of the major ADF environmental allowances in the nature of pay were reviewed, their structures made more logical, and their amount of payment increased. These included the Seagoing and Submarine Service Allowance (which were linked for the first time), the Field Allowance and the Special Action Forces Allowance. A new allowance structure was also struck, entitled Specialist Operations Allowance, which made provision for additional special forces activities in the ADF, as well as rationalising a number of allowances already in existence.

The long-standing pay structure review, which had been on hold for most of calendar year 2001 (while the ADF review of remuneration was being conducted), was revitalised in early 2002 and carries a fresh commitment to introduce a system that recognises the work of officer corps, and can react quickly and flexibly to market force pressures on any particular sector of the workforce. The intent is to introduce this system in a phased approach, with the first phase due in the latter part of 2002-03 and the final stage in 2004-05.

The *ADF Enterprise Productivity Arrangement* is due to expire on 11 November 2002, after running successfully for three years. The current arrangement should be replaced by a new arrangement that is being developed during the first months of 2002-03. Like the civilian agreement, the new arrangement looks to keep ADF pay highly competitive, as well as linking pay increases to a commitment to continue the organisational renewal process that has been a feature of Defence for some time.

NON-OPERATIONAL TRAINING

Education and training focused particularly on Defence's business and management skilling requirements, with a number of major initiatives being undertaken across a wide spectrum of needs. These included proposals to strengthen the management and delivery of Defence-wide business and management skills and a significant commitment to improving training programs supporting Defence's business systems.

In July 2001, the People Development Agency was reformed under three directorates: Leadership Development and Renewal, Public Sector and People Skills Development and Business Education and Skills Development.

The Leadership Development and Renewal Directorate was established to provide programs at the corporate level for staff across Defence. The major focus is on corporate leadership through the Capstone Program for new entrants to the Senior Executive Service, the Results Through People Workshops at executive levels, career development and the Putting You in the Picture orientation sessions for all new starters to Defence. Leadership Development and Renewal also manages the Graduate Development Program.

Table 5.16: Graduate Intake Figures

Program	1998-99	1999-00	2000-01	2001-02
Graduate Development Program				
Generalists	50	56	45	50
People Strategists	-	-	-	8
Business Analysts	-	-	5	10
Defence Materiel Graduate Scheme	66	80	29 ⁽¹⁾	43
Corporate Service and Infrastructure Scheme	-	-	-	6
Defence Science and Technology Scheme	51	24	10	51
Defence Signals Directorate Scheme	25	37	36	31
TOTAL	192	197	125	199

Note

1. The figure reported in the 2000-01 Defence Annual Report for the Defence Materiel Graduate Scheme was incorrect.

Defence draws heavily on universities to support its needs for skilled people. The wide range of Defence interests in the university sector, and the significant role the universities play in supporting Australia's security, was outlined in Defence evidence in August 2001 (written submission made in March 2001) to the Senate Employment, Workplace Relations and Education References Committee (formally included Small Business) inquiry into Australia's higher education needs. Defence also made a written submission to the Senate Finance and Public Administration References Committee inquiry into recruitment and training in the Australian Public Service in July 2002 and provided evidence on 14 August 2002. For the details of the inquiries, see the External Scrutiny section in Chapter One.

The Public Sector and People Skills Development Directorate is responsible for the development and review of courses supporting the Public Services Training Package and other associated administrative and governance topics. It coordinates the delivery of these courses through 11 education, training and development units located in all Defence regions. During 2001-02, 50 modules of training were developed. The development and piloting process should be completed by the end of December 2002.

An extensive review of the program to ensure currency and accuracy of all materials will be undertaken in 2002-03. Distance learning and e-learning capabilities are being developed to provide blended solutions for Defence employees and to ensure access to training is consistent in all regions.

Where possible, Defence vocational education and training is drawn from, or aligned with, national training packages, with the qualifications awarded being those from the training packages. The Defence registered training organisations, between them, are accredited to issue 125 national qualifications from 13 training packages (as at 30 April 2002). Where a Defence program of vocational education and training does not lead to a training package qualification, Defence seeks accreditation of the program as an 'accredited course' within the national training framework. Through this process, Defence vocational education and training has gained 428 nationally-recognised awards as 'accredited courses' from Certificate One to Advanced Diploma, 20 Graduate Certificates and 23 Graduate Diplomas (as at 30 June 2002). These awards cover almost all Defence vocational education and training. Those pockets of education and training not yet nationally accredited have been identified and a program to address their accreditation has been instituted. A database of Defence's nationally accredited vocational education and training has been developed. This database was made available in August 2001 to current and former Defence employees, employers, potential employers and education and training providers, online, at <http://www.defence.gov.au/dpe/civilquals>.

The Business Education Skills Development Directorate provides a suite of financial, contract management and procurement courses to Defence employees. The directorate, as part of the Defence Learning Services Network, achieved quality endorsed training organisation certification in June 2002.

Results for 2001-02 were pleasing. Twenty-six Defence staff were awarded the Graduate Certificate in Professional Management (Finance) by Southern Cross University. The program was tailored to Defence needs. It focused on applying management concepts to Defence processes and the Defence financial management environment. The Graduate Certificate program is now offered on an annual basis.

The directorate also provides a 44-week Diploma in Government Financial Management program on an ongoing basis, in both face-to-face and online tuition. The current 'face-to-face' course commenced in mid-May 2002, with 34 people enrolled. The program is seen as a logical stepping stone towards the Graduate Certificate in Professional Management (Finance) program. The program is designed to provide participants with the comprehensive financial skills necessary to operate in the reformed Commonwealth public sector.

A 10-week accrual accounting course, face-to-face and online, is provided for personnel without formal accounting qualifications. This course is a prerequisite for the diploma program mentioned above, and is also provided as a 'stand-alone' course for people who do not wish to undertake the full diploma program. Thirty-three Defence staff members recently successfully completed the face-to-face accrual accounting program. Seventy-four Defence personnel enrolled in the online accrual accounting course sat for their end of course examination on 1 July 2002.

Major improvements were made in the latter part of 2001-02 to the procurement courses provided by the directorate. All curriculum and learning materials have been updated in order to comply with the new Defence Procurement Policy Manual, the new Chief Executive Instructions and to stringently align with the Public Services Training Package. This work will continue into 2002-03.

Changes to Defence procurement training also included the reorganisation of the Procurement Training Advisory Group into two functional groups – an executive/strategic body (the Procurement and Project Management Training Committee) and a working-level body (the Procurement and Project Management Training Advisory Group), which will play a major role in providing advice to the Business Education Skills Development Directorate on stakeholder and client requirements.

Non-operational training and development provided by the major internal training providers comprised the following student days and numbers.

Table 5.17: Non-operational Training in 2001-02

	Total Student Days	Number of Students
Public Sector and People Skills Development	2,172	2,052
Leadership Development and Renewal	245	490
Results Through People Workshop	1,296	432
Project Management and Procurement training	4,654	2,409
Business Education and Skills Development (ROMAN and Financial Management training)	11,919	8,647
Accrual Accounting	740	74
Diploma Government Financial Management	322	47
Graduate Certificate Professional Management (Finance)	873	51
Defence Safety Management Agency	5,001	1,588
Regional Education Training and Development Units	13,031	11,418
Joint Ammunition Logistics Organisation	1,670	1,396
Defence Security Authority	80	60
Australian Defence College	240,115	1,056
TOTAL	282,118	29,720

WORKPLACE EQUITY AND DIVERSITY

Defence is committed to embedding the principles and practices of equity and diversity into the workplace. To achieve this, the Defence Equity Organisation has put in place numerous policies, programs and procedures that reflect the ethos of fairness and inclusiveness. During the past year, Defence's commitment to equity and diversity has been recognised by a number of external bodies.

In April 2002, Defence was awarded the Australian Public Sector Diversity Award for 2001. The workplace diversity awards highlight the successful programs agencies have implemented, not only to eliminate discrimination but also to gain the real benefit that a diverse workforce can bring in terms of agency performance. In selecting winners for the awards, judges consider innovation, the extent to which initiatives have the potential to contribute to agency and service-wide diversity objectives, lasting impact, and transferability to other agencies. Defence won the open category against 22 other agencies and departments for its comprehensive equity and diversity program.

In 2001, the Human Rights and Equal Opportunity Commission awarded a Certificate of Recognition to the Department of Defence in acknowledgment of its *Disability Action Plan 1999-2003*. Defence recognises that the diversity of its Australian Public Service staff is one of its greatest strengths, and views people with disabilities as an inseparable and integral part of its workforce. The Disability Action Plan seeks to ensure that any staff member who has a disability is treated on their merits and in accordance with their different circumstances and needs.

In March 2002, Defence celebrated Harmony Day, an element of the Commonwealth Government's 'Living in Harmony' initiative, which takes a stand against racism and celebrates Australia's achievements as a multicultural society. Defence's contribution to the success of Harmony Day 2002 was recognised by the awarding of a Certificate of Appreciation by the Minister for Citizenship and Multicultural Affairs, Mr Gary Hardgrave, MP, and the Chairman of the Council for Multicultural Australia.

Further achievements for Defence during 2001-02 included the release of the Defence Multicultural Policy and Department of Defence Access and Disability Policy, and revision of its Women in the Australian Defence Force, Religious Practices, Equity and Diversity in the Australian Defence Force, Indigenous Cadetships in the Department of Defence, and Defence Indigenous Study Award instructions. In addition, in October 2001, Defence published a brochure titled *Equity and Diversity on Deployment* that is distributed to all personnel embarking on overseas deployment.

To ensure that Defence remained a leading force in embedding equity and diversity in the workplace during 2001-02, it continued to report and manage incidents of unacceptable behaviour; increased the number of trained equity advisers from 2,300 to approximately 2,800; and maintained the freecall Defence Equity Advice Lines which provide advice and assistance to individuals, managers and commanding officers.

The *Workplace Equity and Diversity Plan 2001-2003*, which takes into account Defence's values and corporate goals as well as the broader Commonwealth legal policy and framework, commenced in July 2001. An initial evaluation of the first year of the plan has

indicated a more thorough awareness of the principles, and adherence to the practices, of equity and diversity throughout Defence. A detailed analysis of Defence's performance will be provided in the *Workplace Equity and Diversity Annual Report 2001-2002*, which will be published in the second half of 2002 and subsequently made available on the Defence Equity Organisation Internet site at www.defence.gov.au/equity.

EDUCATION AND TRAINING

Attendance at mandatory equity and diversity awareness sessions was very high, with the majority of Defence personnel participating during the year. Seven 'Fair Go' anti-discrimination training courses were conducted by the Defence Equity Organisation in 2001-02 for a total of 103 staff of the ADF career management agencies.

The Defence Equity Organisation developed additional awareness training during the year, namely understanding homosexuality and cultural diversity awareness. The understanding homosexuality awareness session is now available as an on-line package accessible through the Defence Intranet, while a copy of the cultural diversity awareness CD-ROM is currently being distributed to all Defence units and directorates.

2001-02 saw an increase of some 500 trained equity advisers in Defence as a result of the equity adviser workshops delivered across Australia by Defence equity coordinators and the Navy Equity and Diversity Unit at Maritime Headquarters. In addition, refresher courses conducted throughout the year for current equity advisers enhanced their skills and knowledge base.

DIVERSITY

Defence operates in a multicultural work environment and remains committed to its multicultural workforce. It strives to become an employer of choice by being seen as an open, inclusive organisation that is able to harness the attributes brought by more diversified skill sets to enhance its performance and productivity.

Information pertaining to the diversity of Defence personnel is gathered from a form that is used on recruitment (bearing in mind that personnel can choose not to provide diversity details). The following tables show the diversified nature of Defence. The data relating to people with a disability (PWD), non-English speaking background (NESB) and Aboriginal and Torres Strait Islanders (ATSI) has been collected through voluntary disclosure. It should be noted that NESB 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.

Table 5.18: Diversity of All Defence Personnel as at 30 June 2002

	Male %	Female %	NESB %	ATSI %	PWD %
Navy	83.6	16.4	0.7	0.05	0
Army ⁽¹⁾	89.7	10.3	Unknown	Unknown	0
Air Force	85.2	14.8	4.1	0.15	0
Defence APS	65.5	34.5	13.3	0.53	2.8

Note

1. Data relating to ATSI and NESB for Army was not captured prior to Army's migration to PMKeyS in August 2002.

Table 5.19: Diversity of Defence APS staff as at 30 of June 2002

Defence APS	Male	Female	NESB	ATSI	PWD
SES, COD,SEC	101	22	10	1	7
EL1, EL2 & equivalent	3,051	677	563	4	91
APS & equivalent	8,485	5,513	1,772	89	396
Professional	90	66	43	1	1
Technical	265	42	39	0	12
Miscellaneous	35	23	9	2	1
TOTAL	12,027	6,343	2,436	97	508

INDIGENOUS AUSTRALIANS

Defence continued participation in the National Indigenous Cadetship Program, with two cadetships successfully completed and five new cadets sponsored in 2002. One recipient of the Defence Indigenous Study Award successfully completed undergraduate studies during 2002. Indigenous cultural awareness training was conducted during 2001-02, and Defence will continue to develop programs that equip personnel to negotiate cultural diversity in the workplace.

Defence exercised its ongoing commitment to the ATSI/Army Community Assistance Program during the year, assisting with the provision of infrastructure improvements. Currently, projects involving housing, roads, an airfield, and maintenance and upgrade of access roads are under way in two indigenous communities in the Kimberley region (WA).

As part of a wider program to enhance the ADF Cadets, an indigenous recruitment and participation action plan has been endorsed. An indigenous awareness training program has been trialed with cadet staff, and Norforce has conducted a training program for potential indigenous cadet leaders.

WOMEN

In 2001-02, Defence remained committed to policies and practices that allow all members to participate fully in the workplace. Men and women competed equally for all employment in the ADF, except for certain employment categories classed as involving combat duties.

The following tables show the positions and employment categories available to women in the ADF as at 30 June 2001 and 30 June 2002.

Table 5.20: Comparison of ADF Positions Available to Women at 30 June 2001 and 2002

Positions	Navy		Army		Air Force		ADF	
	2001	2002	2001	2002	2001	2002	2001	2002
Available to women	10786	10372	14534	14375	14282	11686	39602	36907
Total	10965	10555	27894	28209	14657	12095	53516	50859
% Available	98.4	98.3	52.1	51.0	97.4	96.6	74.0	72.6

Table 5.21: Comparison of ADF Employment Categories Available to Women 2001-02

CATEGORIES	Navy		Army ⁽¹⁾		Air force		ADF	
	2001	2002	2001	2002	2001	2002	2001	2002
Officer	27	30	26	26	25	25	78	81
Other Ranks	36	32	176	145	53	52	265	229
Total	63	62	202	171	78	77	343	310
Not available	1	1	47	43	3	2	51	46
% Available	98.4	98.4	76.7	74.9	96.0	97.4	85.0	85.2

Note

1. For Army Officers the Corps is used, not employment category.

As demonstrated by the tables above, little change has occurred in the numbers of positions and employment categories available to women in the ADF since 2001. Statistically, the number of ADF employment categories available to women has increased very slightly, but this is more a result of change in the overall number of employment categories rather than more categories being open to women. Currently, women are excluded from employment categories involving direct combat. The Chiefs of Service Committee directed in November 2001 that ergonomic studies proceed to enable physical employment standards to be developed for all combat arms. Data collected from the ADF physical employment standards project will be used to determine whether women are physically able to undertake the duties in the combat arms.

A project team from the Australian Graduate School of Management was contracted to conduct a research project into gender diversity in Defence. The project stemmed from the then Public Service and Merit Protection Commissioner's direction that Commonwealth agencies develop and implement policies and strategies with appropriate evaluation mechanisms to eliminate employment-related disadvantage and discrimination on the basis of gender. The team's research and report provided strategies to address the promotion and operational imperatives of equity and diversity, and will form the beginning of Defence's gender diversity program.

DISABILITY

Defence has developed specific measures to ensure that the needs of all people with disabilities are adequately met to facilitate their maximum participation in the workplace. These measures are detailed in the *Disability Action Plan 1999-2003*, which covers Australian Public Service staff in Defence who have a disability. The aim of the plan is to ensure that people with disabilities receive fair treatment, are not unfairly disadvantaged in any aspect of their employment with the department, and unlawful disability discrimination is removed from the administration of policies and procedures and from the work environment. Defence has developed the plan in the knowledge that staff with disabilities have the same fundamental rights as other Australians and should have equal opportunities at all times.

In accordance with requirements of the *Disability Action Plan 1999-2003*, the Defence Disability Staff Network was established in all states. Regional networks have been firmly established, with the NSW network particularly active. Representatives of the Defence Disability Staff Network were appointed as members of disability workgroups to contribute to policy development. The Defence disability and access

policy was released on 16 May 2002. The policy aims to ensure that people with disabilities are not unlawfully discriminated against in relation to employment, and have access to programs, services, building and facilities necessary for them to undertake their tasks, taking into consideration 'reasonable adjustment'.

The *International Day of People with a DisAbility 2001* was widely celebrated across Defence in December 2001. The Defence regions observed the day with a variety of celebrations including displays of resources and promotional material, guest speakers, photographic displays, and morning and afternoon teas.

The Defence-sponsored Technical Equipment for Disabled Commonwealth Employees Program exists to ensure that APS staff with disabilities are provided with the technical equipment that would assist them in the performance of their current duties, or facilitate advancement of their careers as opportunities occur. During 2001-02, Defence expended \$27,716 under the program.

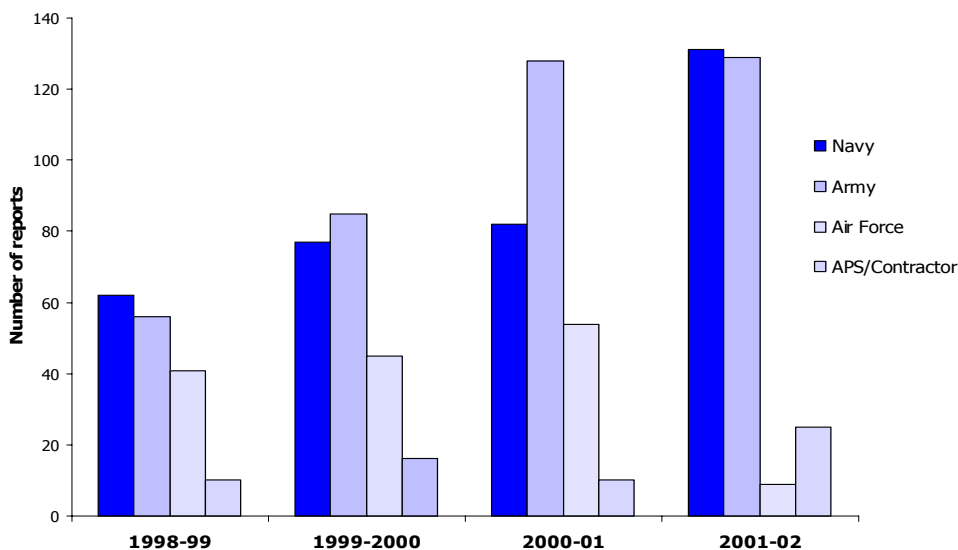
UNACCEPTABLE BEHAVIOUR

Defence has a policy of zero tolerance of all forms of harassment, discrimination, sexual offence and any other unacceptable behaviour, and takes all necessary measures to eliminate and prevent such behaviour for ADF, APS and contract personnel. Defence aims to manage complaints of unacceptable behaviour sensitively and effectively, with the responsibility for meeting this goal lying primarily with supervisors, commanders and managers.

A database of reported incidents of unacceptable behaviour is maintained by Defence and a detailed analysis of statistics is conducted at the end of each financial year. A limited analysis of statistics for the period 1 July 2001 to 30 June 2002 has shown that the overall number of reported incidents increased in comparison to 2000-01. This may be as a result of increased awareness of Defence's strong position in relation to incidents of unacceptable behaviour. It should be noted that an increase in reported complaints does not necessarily reflect an increase in incidents.

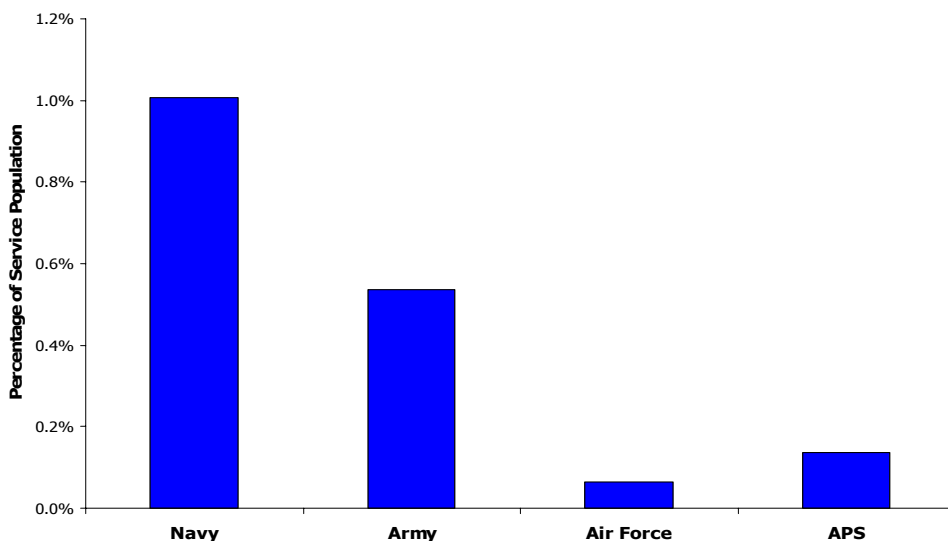
The following graph shows the number of reported unacceptable behaviour complaints over the last four years. Proscribed unacceptable behaviour includes general harassment, sexual harassment, fraternisation, sexual offences, workplace bullying and abuse of power.

Chart 5.3: Comparison of Reported Unacceptable Behaviour 1998-2002



The graph below illustrates the number of complaints of unacceptable behaviour per head of Defence population for 2001-02. The figures are composed of the number of members in each Service divided by the number of complaints for that Service.

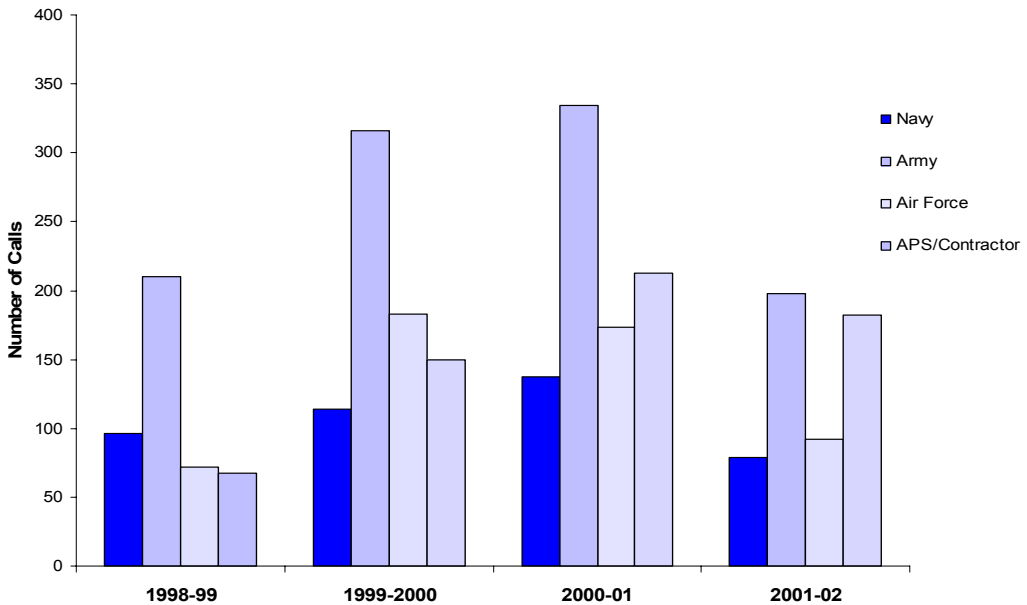
Chart 5.4: Percentage of Unacceptable Behaviour Reported by the Defence Population - by Service for 2001-02



The number of calls received on the free call Defence Equity Advice Lines has decreased compared to the reporting period of the previous year. The graph below shows the number of calls made during the last four years. It should be noted that calls do not necessarily translate into complaints, and due to the confidential nature of the service, it is not possible to trace particular complaints back to their respective calls.

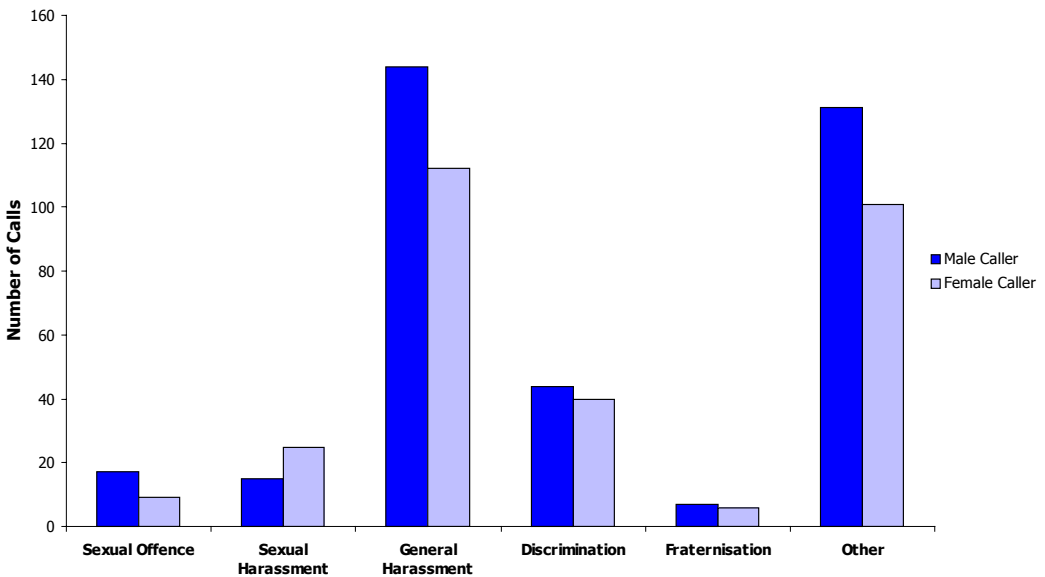
The decreasing trend may indicate a greater level of familiarity by Defence personnel with current regulations and requirements and more confidence in reporting incidents of unacceptable behaviour to line managers.

Chart 5.5: Comparison of Defence Equity Advice Line Calls 1998-2002



The following graph shows the calls made to the Defence Equity Advice Lines during 2001-02 by gender and type of query.

Chart 5.6: Comparison of Defence Equity Advice Line Calls by Gender and Type 2001-02



OCCUPATIONAL HEALTH AND SAFETY

The Defence Safety Management Agency has continued to focus on the development of a Defence-wide safety management system. The agency has strengthened close working relationships across Defence and, in particular, has fostered strong ties with the Defence Health Service, the Defence Workplace Safety Project and the Directorate of Navy Safety Systems.

DEVELOPMENT OF A CORPORATE SAFETY GOVERNANCE SYSTEM

The major result for 2001-02 was the formulation of a corporate safety governance system for Defence. The Defence Committee agreed to its structure, and reporting requirements, in June 2002. The system will be implemented over a period of three years. The report on implementation progress from each Group within Defence is due in February 2003 and will focus on:

- leadership, commitment and resources;
- hazard and risk management;
- communication and consultation;
- training and supervision;
- procurement/acquisition control;
- contractor control;
- modification to equipment/facilities;
- systems of work/procedural instructions;
- emergency preparedness;
- environmental protection;
- treatment, rehabilitation and workers' compensation management;
- performance and incident reporting; and
- auditing.

A fourteenth element, organisational learning, is still under discussion for inclusion in the reporting elements.

Further results from initiatives begun in previous years included:

- the release of the new occupational health and safety policy guidelines in the Defence Safety Manual (*SafetyMan*) launched in May 2002;
- the release of two new specialist training courses – radiation frequency radiation safety and occupational noise and vibration safety - in conjunction with the University of NSW (Australian Defence Force Academy). These courses are now run bi-annually or on demand if sufficient numbers are available;
- close liaison and assistance to the Defence Workplace Safety Project set up to implement the outcomes of the board of inquiry into the F-111 'Deseal/Reseal' issue; and
- the development of 'Simply Safety' as the interface with the Defence Safety Management Agency's website and tools to make this more accessible to all Defence Groups.

Key projects completed on the accident and injury database, Defcare, included:

- the release of version 2.1 of the Defcare corporate system and the redesigning of Defcare reporting;
- the establishment of a hazardous substances management database;
- an 'Incident to Compensation Workplace Safety Management' incident reporting module;
- the development and implementation of safety training competencies for occupational health and safety training at all levels of Defence;
- the release of the safety risk management model at the annual Defence National Safety Management Conference held in May 2002; and
- the completion of the cadet safety review and audit, the recommendations of which are currently being implemented under the auspices of the Vice Chief of the Defence Force.

NEW INITIATIVES

In conjunction with Defence Groups, the Defence Safety Management Agency has instigated the following new initiatives:

- the development of a corporate safety governance system (see previous page);
- the development of a radiation safety policy to ensure Defence is able to adhere to the licence obtained from the Australian Radiation and Nuclear Safety Agency. A unit has been staffed to develop the policy; and
- a formal framework of dealing with regulators, unions and internal occupational health and safety practitioners and Groups. This includes scheduled meetings with Comcare, the Australian Radiation and Nuclear Safety Agency, unions, regional occupational health and safety contact officers, and Group occupational health and safety contacts.

GROUP INITIATIVES

Each Group within Defence has undertaken important steps towards a safer working environment. The key initiatives are listed below:

- All Groups have supported Defence's workplace safety, the safety risk management and safety training projects.
- The Navy has introduced a comprehensive examination of safety into the Navy performance management system. This includes the incorporation of safety issues into 'Plan Green', the Navy's ten-year strategic direction document.
- The Navy has introduced a Navy balanced scorecard theme of 'Keep Navy Safe'. The three strategic initiatives of the scorecard are:
 - to ensure equipment, platforms and people are fit for purpose and meet safety standards;
 - to instil a strong organisational safety culture; and

- to improve the Navy's safety system.
- The Army Safety Board had its inaugural meeting on 13 June 2002. The board has been established to examine strategic-level occupational health and safety issues and to retain oversight of Army occupational health and safety performance.
- All Groups are currently developing and implementing a Group safety system, with the introduction of Group safety coordinators and Group-specific safety orientation packages. Performance measures and audit processes are being developed as part of the corporate safety governance requirements.
- The Defence Personnel Executive has formulated and promulgated a manager's kit which was made available electronically and in hard copy in September 2001.
- The Air Force Ground Safety Agency is investigating occupational exposure levels of hazardous substances such as aviation fuels and solvents, in conjunction with Defence Health Services. Particular attention is being paid to female members working with these substances.

NOTIFICATION AND REPORTING OF INCIDENTS

In accordance with the *Occupational Health and Safety (Commonwealth Employment) Act 1991*, Defence is required to notify Comcare, within specified times, of specific accidents and incidents. In 2001-02, the Defence Safety Management Agency received 12,264 incident reports. From these reports, Defence was required to advise Comcare of three categories of incidents: dangerous occurrences, incidents resulting in incapacity and incidents resulting in serious personal injury. A breakdown of these is provided in the table below. The large increase in incident reporting to Comcover is assessed to be the result of an improved incident reporting system.

The Defence Safety Management Agency, in conjunction with Defence Groups, has worked to communicate the need for improved accident and incident reporting. As a result, the number of reports has increased by 76 per cent in 2001-02 compared with the previous year. It is expected that these numbers will continue to rise as reporting continues to improve.

Previous incident reports have included two categories of 'Dangerous Occurrences'. These have now been rolled into one category, as they have the same definition – both identify incidents where there was only potential injury. Additionally, the increase in incidents identified as 'Dangerous Occurrences' is due to the reporting of asbestos exposure by troops in East Timor.

Table 5.22: Incident Reporting

Reports	1999-2000	2000-01	2001-02
Defence Safety Management Agency			
Incident reports ⁽¹⁾	8,729	6,966	12,264
Comcare			
Dangerous occurrences ⁽²⁾	237	1,483	3,187
Incidents resulting in incapacity ⁽³⁾	453	52	659
Incidents resulting in serious personal injury ⁽⁴⁾	1,665	1,425	1,109

Notes

1. Incident reports are any or all significant incident or accidents caused by work-related employment within Defence or as a result of a Defence undertaking.
2. Dangerous occurrences are near miss incidents that could have, but did not, result in a fatality, incapacity or serious personal injury.
3. Incapacity is when an employee is unable to perform work for 30 or more consecutive days or shifts.
4. Incidents resulting in serious personal injury are where emergency treatment is provided by a medical practitioner at a hospital or requires hospitalisation.

INVESTIGATIONS BY COMCARE

Comcare conducted three planned investigations of the safety systems within Defence units or establishments, as well as 26 reactive investigations as a result of incidents. Two whole-of-agency investigations were undertaken into the Army and the Royal Australian Air Force.

Table 5.23: Investigations by Comcare⁽¹⁾

Reports	1999-2000	2000-01	2001-02
Planned Investigations	19	10	3
Reactive Investigations	53	48	26
Whole of Agency Investigations	1	2	2
Total	73	60	31

Note

1. Investigations are determined by Comcare on an annual basis without Defence consultation.

Notices Issued by Comcare Investigators

There were four improvement notices issued by Comcare and one prohibition notice with direction to 'remove an immediate threat' to Defence employees. Of the four improvement notices, two have been resolved and two are being reviewed monthly in conjunction with Comcare and the affected areas. The one prohibition notice remains in effect and work is being undertaken by the affected area to satisfy the Comcare investigator that the threat can be removed.

Table 5.24: Notices Issued by Comcare

Reports	1999-2000	2000-01	2001-02
Comcare			
Improvement Notices	6	6	4
Prohibition Notices	2	3	1
Total	8	9	5

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

Defence HomeOwner is a Commonwealth scheme which provides a subsidy on the interest payable on a home loan for members of the ADF. The scheme is open to permanent ADF members who enlisted on or after 15 May 1985 and to those permanent ADF 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 effective 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

Generally, the subsidy entitlement period is calculated on the number of completed years of effective full-time service after the completion of a five-year qualifying period. The qualifying period for Active Reservists is eight continuous years of effective service.

For members with operational or warlike 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/widowers of deceased 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 employment.

Program Evaluation Against Objectives

The objectives of the Defence HomeOwner Scheme are achieved through:

- the provision of 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
- the provision of a subsidised loan once within two years of separation from the ADF.

After ten years of operation, indications are that the scheme is generally meeting its objectives. Certainly, over the past two years, the take-up rate has improved and is almost double that of 1998-99. Feedback on the \$80,000 ceiling indicates that it is considered a limitation.

A formal survey was conducted in October and November 2001 of approximately 1,400 clients who had been issued an entitlement certificate during the previous 12 months. The results presented 88 per cent of respondents as being satisfied with the scheme.

Attracting and Retaining ADF Personnel

The scheme is one of a number of Defence initiatives designed to influence the attraction and retention rate of ADF personnel. The survey, referred to above, showed that customers neither agreed nor disagreed that the scheme would help retain personnel. However, the results from previous surveys indicated that the client perception of the scheme's ability to retain personnel was declining.

Encouraging Home Ownership as a Cost Effective Alternative to Rental Assistance

The take-up rate has remained high. Much of the increase is a direct result of the significant rise in eligibility numbers from personnel serving in Timor. 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 alternative to renting.

Assisting in the Re-integration of ADF Personnel into the Community on Return to Civilian Employment

Of new subsidy applications, 30 per cent were from members either discharging or transferring to the Reserves. Of HomeOwner clients surveyed, 60 per cent of those who have left the Services during the period covered by the survey did not transfer to the Reserves.

PROCESSING ACTIVITY

During 2001-02, there were 2,451 applications for entitlement certificates and 1,648 applications for loan subsidies processed. The total number of approved loans current as at 30 June 2002 was 5,816.

PERFORMANCE EVALUATION OF THE ADMINISTRATION OF THE SCHEME

Defence continues to be 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 Commonwealth under the Act and has generally provided support to the scheme. The bank and the Defence Housing Authority have made considerable effort to streamline the administration process involved in obtaining the subsidy.

Table 5.25: Applications - by Type of Assistance⁽¹⁾

Activity	1997-98	1998-99	1999-2000	2000-01	2001-02
Buy a home	1,157	1,011	709	1332	1,042
Re-finance a loan	492	333	322	350	321
Enlarge a home	12	12	11	8	11
Build a home	250	193	150	139	220
Renovate a home	28	26	30	34	54

Note

- Prior to 1999-2000, the above figures were taken from the entitlement certificate applications. From 1999-2000, the figures are taken from the subsidy application.

Table 5.26: Comparison of Activities

Activity	1997-98	1998-99	1999-2000	2000-01	2001-02
Applications for entitlement certificate received	1,938	1,575	2,122	2,959	2,451
Entitlement certificate issued ⁽¹⁾	1,809	1,474	2,006	2,829	2,342
Applications for entitlement certificate declined/withdrawn	155	106	116	130	109
Applications for payment of subsidy received	1,415	941	1,222	1,863	1,648
Applications for payment of subsidy approved	1,390	938	1,194	1,845	1,634
Applications for payment of subsidy declined/withdrawn	17	13	3	18	14
Amount of Commonwealth subsidy paid	\$2.970m	\$3.693m	\$4.405m	\$6.614m	\$6.453m
Number of subsidy payees as at 30 June	3,132	3,519	3,970	5,051	5,816

Note

- Entitlement certificates are valid for 12 months.

OPERATIONAL COSTS 2001-02

An annual management fee of \$0.478m was paid to the Defence Housing Authority by the Department of Defence. The authority was also paid a fee in respect to each application for entitlement certificate lodged. These fees totalled \$0.181m.

The total cost of the scheme in 2001-02 was \$7.112m, consisting of the subsidy (\$6.453m), management fee (\$0.478m) and entitlement certificate application fee (\$0.181m).

APPENDIX

ADF UNITS AND ESTABLISHMENTS

GLOSSARY

ACRONYMS AND ABBREVIATIONS

LIST OF TABLES AND CHARTS

ALPHABETICAL INDEX

ADF UNITS AND ESTABLISHMENTS

Australian Defence Force units and establishments are shown below. The information is correct as at 30 June 2002.

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
Joint Ammunition Logistics Organisation Depot HMAS Stirling	Garden Island, WA
Torpedo Maintenance Facility	Garden Island, WA
Joint Ammunition Logistics Organisation Orchard Hills	Kingswood, NSW

ROYAL AUSTRALIAN NAVY

Navy Headquarters – Canberra, ACT
 Maritime Command – Sydney, NSW
 Navy Systems Command – Canberra, ACT

Surface Combatants

Type of vessel	Name	Base
6 Guided missile frigates (FFG)	HMAS Adelaide	Garden Island, WA
	HMAS Canberra	Garden Island, WA
	HMAS Darwin	Garden Island, WA
	HMAS Melbourne	Sydney, NSW
	HMAS Newcastle	Sydney, NSW
	HMAS Sydney	Sydney, NSW
3 Anzac-class frigates (FFH)	HMAS Anzac	Garden Island, WA
	HMAS Arunta	Garden Island, WA
	HMAS Warramunga	Garden Island, WA

Mine Countermeasures

Type of vessel	Name	Base
5 Minehunter coastal (MHC)	HMAS Diamantina	Sydney, NSW
	HMAS Gascoyne	Sydney, NSW
	HMAS Hawkesbury	Sydney, NSW
	HMAS Huon	Sydney, NSW
	HMAS Norman	Sydney, NSW
	AUST CDT 1	Sydney, NSW
2 Clearance diving teams	AUST CDT 4	Garden Island, WA
	MSA Bandicoot	Sydney, NSW
3 Minesweepers auxiliary large (MSA(L))	MSA Broilga	Sydney, NSW
	MSA Wallaroo	Sydney, NSW

Amphibious and Afloat Support

Type of vessel	Name	Base
1 Fleet oiler (AOR)	HMAS Success	Sydney, NSW
1 Auxiliary tanker (AO)	HMAS Westralia	Garden Island, WA
1 Amphibious heavy lift ship (LSH)	HMAS Tobruk	Sydney, NSW
2 Amphibious transport (LPA)	HMAS Kanimbla	Sydney, NSW
	HMAS Manoora	Sydney, NSW
6 Heavy landing craft (LCH)	HMAS Balikpapan	Darwin, NT
	HMAS Betano	Cairns, Qld
	HMAS Brunei	Cairns, Qld
	HMAS Labuan	Cairns, Qld
	HMAS Tarakan	Cairns, Qld
	HMAS Wewak	Cairns, Qld

Patrol Boat

Type of vessel	Name	Base
15 Fremantle-class patrol boats (FCPB)	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	Cairns, Qld Garden Island, WA Darwin, NT Darwin, NT Sydney, NSW Darwin, NT Darwin, NT Garden Island, WA Cairns, Qld Cairns, Qld Darwin, NT Cairns, Qld Sydney, NSW Cairns, Qld Darwin, NT

Submarine

Type of vessel	Name	Base
5 Collins-class submarines (SSG)	HMAS Collins HMAS Dechaineaux HMAS Farncomb HMAS Sheean HMAS Waller	Garden Island, WA Garden Island, WA Garden Island, WA Garden Island, WA Garden Island, WA

Hydrographic

Type of vessel	Name	Base
2 Hydrographic survey ships (HS)	HMAS Leeuwin HMAS Melville	Cairns, Qld Cairns, Qld
4 Survey motor launches (SML)	HMAS Benalla HMAS Mermaid HMAS Paluma HMAS Shepparton	Cairns, Qld Cairns, Qld Cairns, Qld Cairns, Qld
1 Laser airborne depth sounder (LADS)	LADS Unit	Cairns, Qld

Aviation

Squadron	Aircraft	Base
723 SQN helicopter training, electronic warfare and utility squadron	12 AS 350B Squirrel	Nowra, NSW
805 SQN operational fleet utility Anzac ship helicopter squadron	Yet to be accepted into service	Nowra, NSW
816 SQN anti-submarine helicopter squadron	16 S-70B2 Seahawk	Nowra, NSW
817 SQN operational fleet utility support helicopter squadron	7 Sea King Mk 50A/B	Nowra, NSW

Non-Defence Administered Activity

Type of vessel	Name	Base
1 Youth sail training ship	STS Young Endeavour	Sydney, NSW

Commissioned Establishments

Description	Name	Location
Headquarters/area administration	HMAS Kuttabul	Sydney, NSW
Naval air station	HMAS Albatross	Nowra, NSW
Ship and submarine base (Fleet Base West)	HMAS Stirling	Garden Island, WA
Patrol boat base and marine science	HMAS Cairns	Cairns, Qld
Patrol boat base and communications station	HMAS Coonawarra	Darwin, NT
Mine warfare	HMAS Waterhen	Sydney, NSW
Training establishments	HMAS Cerberus	Western Port, Vic
	HMAS Creswell	Jervis Bay, ACT
	HMAS Penguin	Middle Head, NSW
	HMAS Watson	Watsons Bay, NSW
Communications station/area administration	HMAS Harman	Canberra, ACT

Non-Commissioned Establishments

Facility/unit	Location
Fleet Base East	Garden Island, NSW
Jervis Bay Range Facility	Jervis Bay, ACT
East Coast Armaments Complex	Point Wilson, Vic
Naval communications stations	Canberra, ACT
	Darwin, NT
	Exmouth, WA
	Canberra, ACT
Naval Communications Area Master Station Australia	
Naval communications area local stations	Cairns, Qld
	Fremantle, WA
	Sale, Victoria
	Sydney, NSW
Naval Headquarters Southern Queensland	Brisbane, Qld
Naval Headquarters South Australia	Adelaide, SA
Naval Headquarters Tasmania	Hobart, Tas
Naval fuel installation	Chowder Bay, NSW
Naval accommodation, Lady Gowrie House	Bondi, NSW
Port Adelaide shipyard and boatsheds	Birkenhead, SA
West Head Gunnery Range	Flinders, Vic

AUSTRALIAN ARMY

Army Headquarters – Canberra, ACT

Formation/unit	Designation	Location
1 Army Headquarters AHQ	AHQ	Canberra, ACT
1 Aviation Support Group Workshop	Avn Spt Gp Wksp	Oakey, Qld
1 Land Warfare Studies Centre (integrated)	LWSC	Dunroon, ACT
1 Army History Unit	AHU	Campbell, ACT
1 Army Financial Services Unit (General Reserve)	AFSU	Campbell, ACT
1 Australia's Federation Guard	AFG	Campbell, ACT
Safety Management (Land)	DSM(L)	Defence Plaza, Melbourne
1 Directorate of Officer Career Management – Army	DOCM-A	Campbell, ACT
1 Soldier Career Management Agency	SCMA	Melbourne, Vic
1 Directorate of Reserve Career Management – Army	DRCM-A	Campbell, ACT
1 Combat Training Centre	CTC	Lavarack, Qld

Combat Forces

Formation/unit	Designation	Location
1 Land Headquarters	LHQ	Paddington, NSW
1 Deployable Joint Force Headquarters (Integrated)	DJFHQ	Enoggera, Qld
1 Divisional Headquarters (General Reserve)	HQ 2 Div	Randwick, NSW
9 Brigade Headquarters (6 General Reserve, 1 Integrated)	HQ 1 Bde	Palmerston, NT
	HQ 3 Bde	Townsville, Qld
	HQ 4 Bde	Macleod, Vic
	HQ 5 Bde	Liverpool, NSW
	HQ 7 Bde	Enoggera, Qld
	HQ 8 Bde	Dundas, NSW
	HQ 9 Bde	Keswick, SA
	HQ 11 Bde	Townsville, Qld
	HQ 13 Bde	Karrakatta, WA
1 Special Operations Headquarters	HQ SO	Garden Island, NSW
1 Commando Signal Squadron (Integrated)	126 Cdo Sig Sqn	Holsworthy, NSW
2 Commando Battalions	1 Cdo Regt	Randwick, NSW
	4 RAR (Cdo)	Holsworthy, NSW
1 Special Air Service Regiment	SASR	Swanbourne, WA
1 Logistic Support Force Headquarters (Integrated)	HQ LSF	Randwick, NSW
1 Ground Liaison Group (Integrated)	1 GL GP	Glenbrook, NSW

Formation/unit	Designation	Location
1 Battle School	LCBS	Townsville, Qld
1 Armoured Regiment (Integrated)	1 Armd Regt	Palmerston, NT
4 Reconnaissance Regiments (2 General Reserve, 1 Integrated)	2 Cav Regt 1/15 RNSWL (Recon) 4/19 PWLH (Recon) 2/14 LHR (QMI)(Recon)	Palmerston, NT Parramatta, NSW Macleod, Vic Enoggera, Qld
1 Armoured Personnel Carrier Regiment (General Reserve)	12/16 HRL (APC)	Tamworth, NSW
1 Independent Reconnaissance Squadron (General Reserve)	A Sqn 10 LH (Recon)	Karrakatta, WA
2 Independent Armoured Personnel Carrier Squadrons (1 Integrated)	B Sqn 3/4 Cav Regt (APC) 3/9 LH (SAMR) (APC)	Townsville, Qld Smithfield, SA
2 Medium Artillery Regiments (1 General Reserve)	8/12 Mdm Regt 2/10 Mdm Regt East	Palmerston, NT St Kilda, Vic
5 Field Artillery Regiments (2 General Reserve, 1 Integrated)	1 Fd Regt 4 Fd Regt 7 Fd Regt 23 Fd Regt 6th/13th Fd Regt	Enoggera, Qld Townsville, Qld Pymble, NSW Kogarah, NSW Keswick, SA
1 Air Defence Regiment (Integrated)	16 AD Regt	Woodside, SA
4 Independent Field Artillery Batteries (3 General Reserve)	7 Fd Bty 3 Fd Regt 16 Fd Bty 48 Fd Bty A Fd Bty	Karrakatta, WA Launceston, Tas Keswick, SA Holsworthy, NSW
1 Locating Battery (Integrated)	131 Loc Bty	Enoggera, Qld
6 Combat Engineer Regiments (3 General Reserve, 1 Integrated)	1 CER 2 CER 3 CER 4 CER 5 CER 8 CER	Palmerston, NT Enoggera, Qld Townsville, Qld Ringwood East, Vic Penrith, NSW Adamstown, NSW
9 Command Support Regiments	1 CSR 3 CSR 4 CSR 5 CSR 7 CSR 8 CSR 9 CSR 11 CSR 13 CSR	Palmerston, NT Lavarack, Qld Macleod, Vic Liverpool, NSW Enoggera, Qld Dundas, NSW Keswick, SA Townsville, Qld Karrakatta, WA
1 Command Support Unit (Integrated)	7 CSU	Enoggera, Qld
2 Construction Regiments (2 General Reserve)	21 Const Regt 22 Const Regt	Haberfield, NSW Oakleigh South, Vic
3 Field Engineer Squadrons—Combat Engineer Regiments (3 General Reserve)	3Fd Sqn –9 CER 13 Fd Sqn –13 CER 35 Fd Sqn – 11 CER	Warradale, SA Karrakatta, WA Mount Isa, Qld
2 Construction Squadrons	17 Const Sqn	Holsworthy, NSW
1 Chief Engineer Works (Integrated)	19 CE Wks	Randwick, NSW
1 Topographic Survey Squadron (Integrated)	1 Topo Svy Sqn	Enoggera, Qld
1 Emergency Response Squadron	ERS	Liverpool, NSW
1 Joint Support Unit (Integrated)	1 JSU	Enoggera, Qld
2 Signal Regiments (1 General Reserve)	7 Sig Regt (EW) 8 Sig Regt	Cabarlah, Qld Randwick, NSW
2 Independent Signal Squadrons	110 Sig Sqn 145 Sig Sqn	Paddington, NSW Liverpool, NSW
19 Infantry Battalions (13 General Reserve, 1 Integrated)	1 RAR 2 RAR 3 RAR	Townsville, Qld Townsville, Qld Holsworthy, NSW

Formation/unit	Designation	Location
	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 General Reserve)	Norforce	Larrakeyah, NT
	Pilbara Regt	Karratha, WA
	51 FNQR	Cairns, Qld
1 Aviation Brigade	HQ16 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
1 Chemical, Biological, Radiological Response Squadron	CBRR Sqn	Holsworthy, NSW
9 Combat Service Support Battalions (5 Integrated, 2 General Reserve)	1 CSSB	Palmerston, NT
	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
1 Force Logistic Squadron	AS FLS-EM	East Timor
3 Ships Army Detachment	SAD HMAS Tobruk	Garden Island, NSW
	SAD HMAS Manoora	Garden Island, NSW
	SAD HMAS Kanimbla	Newcastle, NSW
3 Health Support Battalions (1 Integrated) (2 General Reserve)	1 HSB	Holsworthy, NSW
	2 HSB	Enoggera, Qld
	3 HSB	Keswick, SA
1 Petroleum Company (General Reserve)	1 Petr Coy	Oakleigh South, Vic
1 Recovery Company (General 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
1 Australia Contingent Multinational Force and Observers Sinai	ASC MFO	Sinai, Egypt
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

Appendix

Parachute Training School	PTS	Nowra, NSW
Army Combined Arms Training Centre	CATC	Puckapunyal, Vic
Army School of Signals		Macleod, 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
Defence Force School of Music	DFS of Music	Macleod, Vic
Joint Telecommunications School (Integrated)	JTS	Cabarlah, Qld
Land Warfare Development Centre	LWDC	Puckapunyal, Vic
Headquarters Regional Training Centres	HQ RTC	Canungra, Qld.
8 Regional Training Centres	RTC (NSW)	Liverpool, NSW
(7 General Reserve, 1 Integrated)	RTC (Vic)	Macleod, Vic
	RTC (SA)	Greenacres, SA
	RTC (WA)	East Fremantle, WA
	RTC (Tas)	Brighton, Tas
	RTC (NT)	Palmerston, NT
	RTC (SQ)	Wacol, Qld
	RTC (NQ)	Townsville, Qld
	QUR	Lucia, Qld
7 Tertiary Institution Training Units	SUR	Darlington, NSW
(7 General Reserve)	UNSWR	Kensington, NSW
	MUR	Carlton, Vic
	MON UR	Mt Waverley, Vic
	AUR	Adelaide, SA
	WAUR	Fremantle, WA.
12 Army Bands	AAB (B)	Enoggera, Qld
(7 General Reserve)	AAB (S)	Paddington, NSW
	AAB (N)	Adamstown, NSW
	RACT Pipes & Drums	Adamstown, NSW
	AAB (K)	Kapooka, NSW
	AAB (M)	Macleod, Vic
	AAB (A)	Warradale, SA
	AAB (P)	Karrakatta, WA
	AAB (T)	Hobart, Tas
	AAPD (P)	Karrakatta, WA
	AAB (D)	Larrakeyah, NT
	RMC Band	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	Williamstown, 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	Williamstown, NSW
1 Combat Support Unit	CSU AMB	Amberley, Qld
Headquarters No 81 Wing	HQ81 Wing	Williamstown, NSW
3 Tactical fighter squadrons	3 Sqn	Williamstown, NSW
	75 Sqn	Tindal, NT
	77 Sqn	Williamstown, NSW
Headquarters No 78 Wing	HQ78 Wing	Williamstown, NSW
1 Tactical fighter operational conversion unit	20CU	Williamstown, NSW
1 Lead-in fighter training squadron	76 Sqn	Williamstown, NSW
No 79 Squadron	79 Sqn	Pearce, WA
1 Combat Support Unit	CSU WIL	Williamstown, NSW
Headquarters Surveillance and Control Group	HQSCG	Williamstown, NSW
Support Flight	ADGE + ATC	Williamstown, NSW
1 Surveillance and control squadron	2 Sqn	Williamstown, NSW
Information Operations Squadron	IOSQN	Canberra, ACT
Headquarters No 44 Wing	HQ44 Wing	Williamstown, 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	Williamstown, NSW
Headquarters No 41 Wing	HQ41 Wing	Williamstown, NSW
1 Radar surveillance unit	1RSU	Edinburgh, SA
1 Mobile control and reporting unit	114MCRU	Darwin, NT
2 Control and reporting units	2 CRU	Darwin, NT
	3 CRU	Williamstown, NSW
1 Surveillance and control training unit	SACTU	Williamstown, NSW
Headquarters Maritime and Patrol Group	HQMPPG	Edinburgh, SA
Headquarters No 92 Wing	HQ92 Wing	Edinburgh, SA
2 Maritime patrol squadrons	10 Sqn	Edinburgh, SA
	11 Sqn	Edinburgh, SA

Formation/unit	Designation	Location
1 Operational conversion squadron	292 Sqn	Edinburgh, SA
No 92 Wing Detachment A	92WG Det A	Butterworth
1 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
1 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
3 Military airfields (bare bases)	RAAF Learmonth	Learmonth, WA
	RAAF Curtin	Curtin, WA
	RAAF Scherger	Scherger, Qld
Headquarters No 322 Combat Support Wing	HQ322CSW	Tindal, NT
1 Combat support squadron	322CSS	Tindal, NT
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
3 Military airfields (bare bases)	RAAF Learmonth	Learmonth, WA
	RAAF Curtin	Curtin, WA
	RAAF Scherger	Scherger, Qld
Headquarters No 322 Combat Support Wing	HQ322CSW	Tindal, NT
1 Combat support squadron	322CSS	Tindal, NT
	23 Sqn	Amberley, Qld
	24 Sqn	Edinburgh, SA
	25 Sqn	Pearce, WA
	26 Sqn	Williamtown, NSW
	27 Sqn	Townsville, Qld
	28 Sqn	Fairbairn, ACT
	29 Sqn	Hobart, Tas

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
1 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
4 Combat Support Units	CSUFBN	Fairbairn, ACT
	CSUWAG	Wagga Wagga, NSW
	CSUPEA	Pearce, WA
	CSUWIL	Laverton, Vic
Health Services Training Flight		Laverton, Vic
1 Band	RAAFBAND	Laverton, Vic
1 Museum	RAAF Museum	Point Cook, Vic

GLOSSARY

Accrual Accounting: is 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.

Administered Items: are resources administered on behalf of the Commonwealth, including grants, subsidies and benefits. Such resources may be used by third party organisations.

Appropriation: is an authorisation by Parliament to spend money from the Consolidated Revenue Fund.

Assets: are future economic benefits controlled by Defence as a result of past transactions or other past events. Assets are initially recognised at the cost of acquisition. All classes of property, plant and equipment with values greater than established revaluation thresholds are progressively revalued in accordance with the 'deprival' 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 1999 ended on 30 June 2002.

Balanced Scorecard: is an approach to performance measurement that translates an organisation's strategic objectives into a useful set of performance measurements. It typically supplements 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*.

Capital Use Charge: represents the Government's required return, or dividend, on its capital investment. This charge helps to 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 (currently 11 per cent).

Chief of the Defence Force's Preparedness Directive: *see* Preparedness Concepts and Planning.

Combined Exercise: is an exercise involving one or more Services of the ADF with the forces of other countries.

Customer-Supplier Arrangement: is 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 Plan: is Defence's overarching corporate plan, derived from government policy, that sets out the purpose, future direction, priorities and values for Defence. It links performance targets and resource allocations to the Government's strategic direction.

Departmental Items: are resources controlled directly by Defence including salaries, allowances, military equipment and costs used in delivering Defence's outputs.

Equity Injection: represents an additional contribution, over and above the price of outputs to the Government as customer, to Defence by the Commonwealth as owner.

Expenses: are 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.

Force Element: is a component of a unit, a unit or an association of units having common prime objectives and activities.

Force Element Group: is 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.

Interoperability: is 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: is an exercise involving two or more Services of the ADF.

Liabilities: are sacrifices of future economic benefits that Defence is obliged presently to make to other entities as a result of past transactions or other past events.

Military Capability: *see* Preparedness Concepts and Planning.

Outcome: is the results, impacts or consequences of actions by the Commonwealth for the Australian community.

Outputs: are the agreed goods and services produced by Defence.

Preparedness Concepts and Planning: Military capability is achieved by developing a force structure appropriately prepared for operations. Preparedness is, therefore, 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): is 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: relates to the type of force required – personnel, equipment, facilities and military doctrine – to achieve the 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 and ensuring 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.

However, 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.

Preparedness: is a measurement of how ready (readiness) and how sustainable (sustainability) the whole, or part, of the ADF is to undertake military operations.

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 is dependent on the availability and proficiency of personnel, equipment, facilities and consumables.

Sustainability: is measured in terms of 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: this principal strategic-level directive contains strategic planning guidance, 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.

Readiness: *see* Preparedness Concepts and Planning.

Revenues: are 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: 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.

Sustainability: *see* Preparedness Concepts and Planning.

Theatre: is the area in which military operations/activities take place.

ACRONYMS AND ABBREVIATIONS

A

ACT	Australian Capital Territory
ADF	Australian Defence Force
ADM	Admiral
AEW&C	Airborne Early Warning and Control
AIRMSHL	Air Marshal
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
ATSIC	Australian and Torres Strait Islander Commission
AUC	Assets Under Construction
AUD	Australian dollar
AVM	Air Vice Marshal

C

CDF	Chief of the Defence Force
CEO	Chief Executive Officer
COD	Chief of Division
COMSARM	Computer Aided Armament System
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

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
-----	------------------------

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

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	Queens Counsel
Qld	Queensland

R

RAAF	Royal Australian Air Force
RADM	Rear Admiral
RAN	Royal Australian Navy
ROMAN	Resource and Output Management Accounting Network

S

SA	South Australia
SEC	Secretary, Department of Defence
SES	Senior Executive Service
SIEV	Suspected Illegal Entry Vessel
SPP	Special Purpose Payment

T

Tas	Tasmania
-----	----------

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

V

VADM	Vice Admiral
VCDF	Vice Chief of the Defence Force
Vic	Victoria

W

WA	Western Australia
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