CHAPTER ONE

OVERVIEW

YEAR IN REVIEW

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

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’, 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.
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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’. 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.

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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 $28bn 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:
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- 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
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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, i.e. ‘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

RESULTS THROUGH PEOPLE

CREATING THE CLIMATE WHERE PEOPLE DO THEIR BEST
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

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⁵. Australian Institute of Management/ Monash University study.
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)**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civilian</td>
<td>60.5%</td>
<td>50.7%</td>
</tr>
<tr>
<td>RAAF</td>
<td>69.7%</td>
<td>60.0%</td>
</tr>
<tr>
<td>Army</td>
<td>70.5%</td>
<td>63.3%</td>
</tr>
<tr>
<td>Navy</td>
<td>65.9%</td>
<td>60.2%</td>
</tr>
</tbody>
</table>

**Chart 1.2: Trust - manager (80% benchmark)**

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civilian</td>
<td>76.8%</td>
<td>71.9%</td>
</tr>
<tr>
<td>RAAF</td>
<td>75.8%</td>
<td>70.8%</td>
</tr>
<tr>
<td>Army</td>
<td>76.7%</td>
<td>70.9%</td>
</tr>
<tr>
<td>Navy</td>
<td>75.6%</td>
<td>69.4%</td>
</tr>
</tbody>
</table>
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 contributes:

- 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 capabilities. 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.
Overview

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
Overview

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.
Overview

**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 $435m\(^{10}\), 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

<table>
<thead>
<tr>
<th>2000-01 Result</th>
<th>2001-02 Budget Estimate $’000</th>
<th>Revised Estimate $’000</th>
<th>Result $’000</th>
<th>Variation $’000</th>
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<tbody>
<tr>
<td>Appropriation from Government for Outputs</td>
<td>17,515,619</td>
<td>17,859,244</td>
<td>17,843,477</td>
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<tr>
<td>Add Other Revenues(^{1})</td>
<td>324,568</td>
<td>277,591</td>
<td>435,174</td>
<td>157,583</td>
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<tr>
<td>Total Revenue for Outputs</td>
<td>17,840,187</td>
<td>18,136,835</td>
<td>18,278,651</td>
<td>141,816</td>
</tr>
<tr>
<td>Add Administered Revenues from Government</td>
<td>1,800,548</td>
<td>2,300,179</td>
<td>2,289,635</td>
<td>-10,514</td>
</tr>
<tr>
<td>Total Defence Revenue</td>
<td>18,805,567</td>
<td>20,437,014</td>
<td>20,568,286</td>
<td>131,272</td>
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#### Add Capital Funding:

<table>
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</thead>
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<tr>
<td>Equity Injection</td>
<td>10,564</td>
</tr>
<tr>
<td>Capital Receipts</td>
<td>1,099,047</td>
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<tr>
<td>Total Defence Resourcing</td>
<td>20,750,346</td>
</tr>
</tbody>
</table>

#### Note

1. 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.
**Overview**

**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

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

### 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

<table>
<thead>
<tr>
<th>Output</th>
<th>2000-01</th>
<th></th>
<th>2001-02</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Result</td>
<td>Budget Estimate</td>
<td>Revised Estimate</td>
<td>Result</td>
</tr>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>815,153(1) Total Resourcing of Operations</td>
<td>650,971</td>
<td>657,000</td>
<td>664,851</td>
<td>7,851</td>
</tr>
</tbody>
</table>

Note
1. 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

<table>
<thead>
<tr>
<th>Result</th>
<th>2000-01</th>
<th>2001-02</th>
<th>Variation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Budget</td>
<td>Revised</td>
<td>Result</td>
</tr>
<tr>
<td></td>
<td>$'000</td>
<td>$'000</td>
<td>$'000</td>
</tr>
<tr>
<td>CAPITAL INVESTMENT</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of Land and Buildings</td>
<td>341,388</td>
<td>206,599</td>
<td>206,599</td>
</tr>
<tr>
<td>Purchase of Specialist Military Equipment</td>
<td>2,702,214</td>
<td>2,803,648</td>
<td>2,979,417</td>
</tr>
<tr>
<td>Purchase of Property, Plant and Equipment</td>
<td>369,569</td>
<td>283,139</td>
<td>283,139</td>
</tr>
<tr>
<td>Total Capital Investment</td>
<td>3,413,171</td>
<td>3,293,386</td>
<td>3,469,155</td>
</tr>
<tr>
<td>FINANCING OF CAPITAL INVESTMENTS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retained Capital Receipts</td>
<td>87,142</td>
<td>465,547</td>
<td>127,124</td>
</tr>
<tr>
<td>Self Funding</td>
<td>3,232,507</td>
<td>2,817,275</td>
<td>2,587,766</td>
</tr>
<tr>
<td>Equity Injection</td>
<td>93,522</td>
<td>10,564</td>
<td>754,175</td>
</tr>
<tr>
<td>Total Financing for Capital Payments</td>
<td>3,413,171</td>
<td>3,293,386</td>
<td>3,469,155</td>
</tr>
<tr>
<td>CAPITAL RECEIPTS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds on Asset Disposal</td>
<td>87,142</td>
<td>1,022,514</td>
<td>198,914</td>
</tr>
<tr>
<td>Less: Capital Withdrawal</td>
<td>-633,500</td>
<td>-71,700</td>
<td>-97,884</td>
</tr>
<tr>
<td>Retained Capital Receipts</td>
<td>87,142</td>
<td>465,547</td>
<td>127,214</td>
</tr>
</tbody>
</table>

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

MINISTER FOR DEFENCE
Senator the Honourable Robert Hill

MINISTER ASSISTING
THE MINISTER FOR DEFENCE
The Honourable Danna Vale MP

CHIEF OF THE DEFENCE FORCE
Admiral Chris Barrie

SECRETARY
Dr Allan Hawke

OUTPUT EXECUTIVES

CHIEF OF NAVY
VADM D Shackleton

CHIEF OF ARMY
LTGEN P Leahy

DEPUTY SECRETARY STRATEGIC POLICY
Dr R Brabin-Smith

VICE CHIEF OF THE DEFENCE FORCE
LTGEN D Mueller

CHIEF FINANCE OFFICER
Mr L Bennett

HEAD DEFENCE PERSONNEL EXECUTIVE
RADM R Shalders

HEAD PUBLIC AFFAIRS AND CORPORATE COMMUNICATION
Ms J McKenry

INSPECTOR GENERAL (2)
Mr C Neumann

OWNER SUPPORT EXECUTIVES

SECRETARY
Dr Allan Hawke

SECRETARY
Dr Allan Hawke

DEPUTY SECRETARY CORPORATE SERVICES
Mr S Carmody

UNDER SECRETARY DEFENCE MATERIAL
Mr M Roche

CHIEF OF THE AUSTRALIAN THEATRE (1)
RADM M Bonser

CHIEF OF AIR FORCE
AIRMSHL A Houston

VICE CHIEF OF THE DEFENCE FORCE
LTGEN D Mueller

SECRETARY
Dr Allan Hawke

ENABLING EXECUTIVES

(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
SERIES 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 Bonighton 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.

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

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:

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

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:

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

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

**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:

<table>
<thead>
<tr>
<th>Position and Name</th>
<th>Meetings Held</th>
<th>Meetings Attended</th>
</tr>
</thead>
</table>
| Deputy Secretary Corporate Services  
(Mr Jeff Whalan - until 13 Feb 2002)  
(Mr Shane Carmody - from 18 Feb 2002) | 7 | 5/2/2 |
| 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  
(Major General Simon Willis - until 7 Aug 2001)  
(Rear Admiral Russ Shalders - from 8 August 2001) | 7 | 1/5/1(1) |
| Deputy Head Defence Personnel Executive  
Mr Brendan Sergeant (until 15 May 2002)  
Mr Felix Blesser (acting from 16 May 2002) | 7 | 6/1(1) |
| 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:

<table>
<thead>
<tr>
<th>Name</th>
<th>Meetings Held</th>
<th>Meetings Attended</th>
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<tbody>
<tr>
<td>Mr Paul McGrath</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Mr Will Laurie</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Major General Peter Dunn</td>
<td>15</td>
<td>13</td>
</tr>
<tr>
<td>Mr Frank Lewincamp</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>Mr Rod Corey (to 31 Dec 2001)</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Ms Shireane McKinnie (from 2 Jan 2002)</td>
<td>8</td>
<td>6</td>
</tr>
</tbody>
</table>
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.
- 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 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’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.
- 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
Accountability Arrangements

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 calender 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.
Overview

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.
Overview

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.


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


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.
Overview


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:
Overview

- 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.
Overview

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.


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.


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.
Accountability Arrangements

Cross-Portfolio Reports

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


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. 25, 11 December 2001 – Accounts Receivable


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


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


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.
Overview

**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 deseal/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”.

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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>
<thead>
<tr>
<th>Table 1.5: Complaints Made to Defence 1998-99 – 2001-02</th>
</tr>
</thead>
<tbody>
<tr>
<td>--------------------------</td>
</tr>
<tr>
<td>Number of complaints</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Number of Letters Received</th>
<th>Average Per Cent of Responses That Met 15 Working Day Standard Requirement (1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-98</td>
<td>8,867</td>
<td>54</td>
</tr>
<tr>
<td>1998-99</td>
<td>8,428</td>
<td>50</td>
</tr>
<tr>
<td>1999-2000</td>
<td>9,421</td>
<td>75</td>
</tr>
<tr>
<td>2000-01</td>
<td>9,657</td>
<td>86</td>
</tr>
<tr>
<td>2001-02</td>
<td>9,580</td>
<td>76</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Number of Accounts Paid</th>
<th>Accounts Paid by Due Date</th>
<th>Percentage of Accounts Paid by Due Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>1,122,962</td>
<td>928,843</td>
<td>82.7</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,068,434</td>
<td>837,360</td>
<td>78.4</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1,126,057</td>
<td>924,579</td>
<td>82.1</td>
</tr>
</tbody>
</table>