

CHAPTER 1

OVERVIEW

REVIEW BY THE SECRETARY AND CHIEF OF THE DEFENCE FORCE

OVERVIEW

In 2000-01, Defence experienced a level of operational activity without precedent in peacetime, including the East Timor deployment and support to the Sydney Olympic and Paralympic Games. The Olympics represented Australia's biggest ever security operation, with over 4,000 ADF regulars and reservists involved. All operational commitments were met, in spite of the ongoing challenges of recruiting and retaining sufficient personnel to meet all skills needs and some equipment deficiencies.

The year also spanned a period of significant policy development by the Government: an unprecedented public consultation process about the way ahead for Defence; the publication of a new strategic direction in the subsequent White Paper, *Defence 2000 – Our Future Defence Force* (the White Paper); and a Defence Capability Plan that detailed specific investment priorities backed by a ten-year funding commitment.

For its part, Defence had to demonstrate that it had the management framework and drive necessary to deliver on the strategic objectives and tasks set by Government. With this in mind, the year began with the launch of our organisational renewal agenda, which focused on strengthening organisational capability in three ways:

- building alignment with Government direction;
- building accountability for performance; and
- building trust within and towards the senior leadership of Defence through the creation of a shared values base.

These three renewal themes were aimed at making Defence a results-focused, values-based organisation – in line with Government's broader public sector reform agenda – and shaped much of the senior level effort in 2000-01.

The renewal agenda built on the savings made through the Defence Reform Program (DRP), which was finalised on 30 June 2000. From its start in 1997, the reform program yielded a significant redistribution of resources to combat capability. As at 30 June 2001, a total of \$1,657m had been redirected to current and future capability from cumulative reform program savings of \$2,010m (the remainder, \$353m, being spent on transition costs, mostly involving market-testing activities).

For many people inside Defence, the DRP wrought fundamental change to entrenched ways of doing business – new approaches that laid the way for a

deeper and longer-term program of cultural change, involving a review of organisational settings commencing with our mission, vision and values.

In 2000-01, we worked closely with Defence's senior leaders (star rank and Senior Executive Service officers) to define Defence's enduring purpose in a way that would ensure its continuing relevance in the 21st century. The Minister for Defence, the Hon. Peter Reith, obtained Government approval during the 2001-02 Budget process for this outcome: **"to defend Australia and its national interests"**.

The previous statement of the outcome "The prevention or defeat of armed force against Australia or its interests" served Defence well during the 20th century.

Our renewed statement of purpose reflects the fact that, while defending Australia remains the primary priority for the Australian Defence Force (ADF), there is more for Defence to do in furthering Australia's national interests in the 21st century. It recognises that we face a range of threats inimical to our security beyond the remote possibility of armed attack – it covers things like cyber warfare, terrorism and other forms of attack. And it embraces the good work we do in Australia's interests on things like national emergencies, illegal fishing, people smuggling, humanitarian assistance, medical evacuations and peacekeeping.

To complement our new mission, we also developed a statement of our view of Defence now and into the mid-term future, which we captured in a three-part vision:

A force for good • a force to be reckoned with • a force to win

'A force for good' comprises all elements of Defence: the Navy, the Army, the Air Force and our fourth service, the civilians of the Australian Public Service. Our vision is of a Defence organisation that thinks beyond jointness and embraces a culture of real integration.

Our first attempt at spelling out a vision for Defence was about 'joint warfighting'. While it is true that Australia is among the best in the world at bringing together the three military services into a single force (and in coalition with forces from other nations), we felt that this formulation did not do justice to what is special about how Australians get things done.

The concept of 'a force' (in other words, a single, integrated force) embraces all those who contribute to making Defence such a highly respected national institution. This includes the important contribution of our reserve forces, industry and embedded contractors.

We believe that this statement captures the way in which Defence relies so heavily, as a relatively small fighting force defending a tenth of the earth's surface, on deterrence. It also captures the sheer drive to be the best – to set the standard – that makes our soldiers, sailors, airmen and women and civilians so effective in achieving our purpose.

RENEWAL IN DEFENCE

ALIGNMENT WITH GOVERNMENT DIRECTION

Alignment with government direction was the most pressing imperative at the start of 2000-01, a year in which the Government was committed to producing a White Paper that put in place new strategic settings.

Defence began the year with steps to establish a new, integrated performance framework - a framework that, over time, will position Defence to link capability and resource information, using a balanced scorecard adaptation based on the recognition that the Government expects two types of Defence 'results':

- In its 'customer' role, it expects delivery of the Defence outputs within the price specified in the Minister's Portfolio Budget Statements.
- In its 'owner' role, it expects sound stewardship of financial and other resources, and of people, in order to ensure long-term sustainable delivery of the Defence outputs.

In other words, delivering capability is not in and of itself sufficient. Improved stewardship was critical to fixing the financial management problems we faced – problems which were undermining Defence's credibility with the Government. The need for alignment towards these two types of results sought by the Government was emphasised through a new organisational structure that clearly distinguished between three different roles inside Defence:

- Output Executives – who are responsible for the majority of direct effort within Defence to allow us to deliver the outputs expected by the Government.
- Owner-Support Executives – who are responsible for independently providing advice and assurance to us in relation to goods and services required within Defence and in relation to organisational performance and sustainability over the longer term.
- Enabling Executives – who are responsible for providing services, including the majority of assets, to the Services and other Groups to assist them in meeting their responsibilities to us.

The concept of striking a balance between results for the Government in its customer role and the longer-term stewardship role embodied by ownership concerns was a new one to Defence, and we are using a balanced scorecard approach as a tool to start communicating this aspect of our internal business strategy.

It was an important concept to communicate because the Government signalled its intent, via the White Paper, to balance the two most powerful imperatives on government – national security and fiscal responsibility.¹

Here the Government was implicitly recognising that, at a time of rising costs for public services like health and social security, the Australian people had a right to expect their elected leaders to balance Defence spending and other competing demands on the public purse.

The challenge for Defence, therefore, was to provide the Government with the information needed to make decisions that effectively balance current and future capability – with the latter costed in whole-of-capability, whole-of-life terms.

This was a significant management challenge. Defence, in some respects, had been insulated (because of its size and the nature of its business) from much of the public sector reform that has seen Commonwealth agencies link their resource allocations increasingly transparently to the Government's policy directions.

In tabling the White Paper in the Parliament on 6 December 2000, the Prime Minister said:

“Over the past few years, the Government has given high priority to reforming the Defence organisation and we have regarded this as an essential precondition for serious consideration of our long-term defence and funding needs.

“Important reforms have begun. Management practice has improved, waste and inefficiency cut, and responsibility and accountability tightened.”

The White Paper provides the strategy and the money. It's our job now to deliver – to execute and implement that White Paper – and Defence's track record suggests that that will not be an easy task.

So, 2000-01 was the year when we emphasised to the people who report directly to us that Defence had to face up to the very significant task of updating its performance framework in order to link, in a more transparent fashion, whole-of-Defence resourcing decisions to output performance.

In this context, the *Defence Matters* balanced scorecard – with its focus on financial and non-financial performance – was developed as a management tool to drive the business strategy. It enabled us to launch, at the beginning of 2001-02, a Defence Plan based on our first attempt at a whole-of-Defence 'strategy map'. The 'map' is a simple means of relating the factors that drive success to a number of 'strategic themes' which should be advanced at every opportunity.

¹ *Defence 2000 – Our Future Defence Force* p V11

In essence:

- the strategy map communicates 'what matters and why' to people at all levels, and is a means of providing assurance of Defence's ability to deliver, in a sustainable way, the results directed by the Government; while
- the *Defence Matters* scorecard tracks progress towards objectives on the strategy map and provides the focus for performance evaluation.

The Defence Committee, comprising ourselves, our three-star military officers, the Under Secretary and deputy secretaries identified Defence's strategic themes as:

- Developing the capability to fight and win today and tomorrow.
- Creating the climate where people can do their best.
- Promoting quality advice and decision-making.
- Getting best value from the Defence dollar.
- Strengthening international relationships for Australia's security.
- Making best use of science and technology and Australian industry.

In its mature state, the *Defence Matters* scorecard will provide a comprehensive measurement and reporting tool in relation to Defence's capacity to achieve the five strategic objectives outlined in the White Paper, namely:

- Ensure the defence of Australia and its direct approaches.
- Foster the security of our immediate neighbourhood.
- Promote stability and cooperation in South East Asia.
- Support strategic stability in the wider Asia Pacific region.
- Support global security.

ACCOUNTABILITY FOR PERFORMANCE

Accountability for performance is being strengthened through the charters we issue to the people who report directly to us. These charters have links to a new Ministerial Directive to us that distinguishes 'ends' and 'means', thereby facilitating delegation of authority for achieving specified results within the bounds of explicitly stated 'unacceptable means'. This 'ends/means' approach is also the basis for a new governance framework addressing the operation of the senior-level committees.

Preparations began in 2000-01 for implementation of Defence's 'customer-supplier agreements' between output and enabling executives. For the first time, the output executives were provided with the price of their respective outputs and were directed by us to strike internal business relationships as purchasers of goods and services from the enabling Groups.

The charters state the results to be achieved by individuals, in general terms. The customer-supplier agreements specify the levels of performance to be achieved, at a price.

In combination, these elements – a results-focused balanced scorecard, a new organisational structure featuring clearer internal business relationships, and a new business cycle that links reviews of the strategic environment and the preparation of budget allocations – comprise Defence's new business model.

Further implementation of the model will take place during 2001-02, at the end of which we anticipate that the alignment and accountability phases of the renewal agenda will largely have been completed. A major challenge will be to ensure that decision makers can be held properly to account – a difficult task in the absence of good quality management information.

Although Defence's financial reporting for 2000-01 was arguably better than it has ever been, production of demonstrably materially-accurate financial statements for the fiscal year required inordinate effort and complex treatment of recorded data. Our considerable difficulties in this regard related largely to accounting for military assets.

A first step towards integration of Defence's management information systems was taken during 2000-01, when the three key management systems (finance, personnel and inventory management) were for the first time aligned around a coherent chart of accounts. But the fact remains that it will still be some time before we have quality information on which to base decision making and the level of confidence we require in our logistics, personnel and financial data. Together, these aspects represent our biggest management risk – it's essential we fix them to underpin our organisational renewal agenda. (These challenges are also faced by our defence allies.)

Two other issues require mention under this heading.

The first is the military stand-down, which occurred on 5 February 2001 – a clear indication of the Chief of the Defence Force's and the Service Chiefs' commitment to stamp out unacceptable behaviour in the ADF. The two-hour awareness program, attended by all military personnel, was aimed at rebuilding the confidence of our uniformed colleagues in the military justice system. It demonstrated to the Australian public the resolve of the ADF leadership to provide a safe and fair workplace for all ADF personnel.

Further indication of Defence's commitment to the principles of equity and diversity flowed from the investigation of reports of harassment and bullying in the 3rd Battalion, Royal Australian Regiment. The Chief of Army instigated and promulgated the Army's *Plan for a Fair Go* which involves a multi-faceted approach aimed at eliminating unacceptable behaviour as well as encouraging diversity within the Army.

The second issue concerns Defence's occupational health and safety policy, which rests on the foundation that the safety of people in the workplace is a core responsibility of commanders and executives. Improvement in safety performance and the development of a safety culture, particularly in the ADF, are a major priority. The cost and consequences of poor performance in this area

continue to be unacceptable to both Defence and the community. We have increased our leadership focus on safety accordingly. Reform is directed at supporting the capacity of commanders and executives to create safe work environments. Specific improvement strategies have focused on the development of safety standards and supporting information and reporting systems, as well as improvement in the level and coverage of safety training.

SENIOR LEADERSHIP

Senior leadership was strengthened during 2000-01 through development activities aimed at meeting the Government's White Paper imperative of transforming Defence from 'a bureaucratic culture' to a 'leadership culture'. The White Paper noted that 'improving leadership will remain one of Defence's highest priorities', and said:

'The day-to-day behaviour of senior leaders, both civilian and military, can either support or undermine attempts to make Defence a more rewarding place to work. The ADF has consistently demonstrated the quality of its leadership in military operations, particularly at the tactical level. However, new leadership challenges have emerged. These include a mixed military, civilian and commercial workforce and a greater emphasis on ensuring Defence resources are used efficiently, as well as effectively.'²

Here, the Government called on Defence to tackle an issue that large, knowledge-based organisations around the world are wrestling with. Our twice-yearly gatherings of senior leaders foster cross-functional communication and a shared sense of purpose.

During the initial period of work with our top tier of senior leaders, they identified a shared set of 'unbreakable rules' and senior leadership values:

- Unbreakable rules: never mislead, never abuse power, never leak information, and never condone poor performance.
- Senior leadership values: professionalism, loyalty, innovation, courage, integrity, and teamwork.

These represent the 'ground rules' for our senior leadership - the way in which we expect people to behave if they are at, or aspire to, star rank and senior executive service levels in Defence. They do not, of course, replace the values of the Navy, Army, Air Force or Australian Public Service.

We have also introduced a new joint military-civilian 'Capstone Leadership Program' to induct new entrants into the senior leadership. The program revolves around our 'Results through People' leadership philosophy, particularly the people leadership model which was produced collectively by Defence's senior leadership and features a 360-degree feedback instrument.

² *Defence 2000 – Our Future Defence Force (the White Paper)*, page 63.

The April 2001 staff attitude survey highlighted indicative evidence of a turnaround in the way our people view the organisation when compared with the survey conducted in August 1999. The results relating to commitment, trust, pride and job satisfaction were very pleasing.

The survey also provides a very clear indication of the areas requiring further attention by the Services and Groups. For example, there are still concerns about the quality of senior leadership. Communication – the vital precursor to trust-based working relationships – remains a key issue. Pay and conditions of service, family issues, locational stability and change also need attention.

The survey results reveal that people are increasingly feeling the pinch on resourcing, their overall workload and working hours. ADF staffing levels are being addressed, but these findings underline the importance of deciding what to stop doing – to cut our work cloth to suit our resource wallet – in a strategic way that doesn't compromise capability.

The April 2001 staff attitude survey results do also indicate, however, consolidation of the improvements, and affirm the strategies adopted to drive the changes we are seeking.

Defence's internal approach to implementing the Government's strategic direction rests on our leadership philosophy – Results through People. Results – because that is what the Government pays us to deliver. People – because results are achieved through people, and because we believe that getting the people side of things right is the best way to ensure sustainable delivery of results.

During 2000-01, we started building the high-performance management vehicle needed to drive Defence out of an essentially 1970s budgeting and management era and into the 21st century.

Ensuring that the new performance framework is underpinned by a leadership culture has been the focus of our leadership development endeavours during the year. Leaders are responsible for creating the climate for high performance. Our 'Results through People' approach will extend beyond the senior leadership of Defence to embrace leaders at all levels during 2001-02.

YEAR IN REVIEW: REPORT AGAINST KEY PRIORITIES

This section of the annual report describes the level of achievement attained in relation to the key priorities listed at pages 5 to 9 of the *Portfolio Additional Estimates Statements 2000-01*. They have been re-arranged to align with the *Defence Matters* balanced scorecard perspectives.

GOVERNMENT AS CUSTOMER – DELIVERING OUTPUTS TO THE GOVERNMENT

Maintain the level of operations required by the Government, particularly in East Timor and Bougainville and by providing security and general support for the Sydney Olympic and Paralympic Games.

Achieved

A high level of operational activity was maintained successfully and all operational requirements set by the Government were met. Operations continued in East Timor, maintaining a commitment of about 1,500 ADF personnel, and in Bougainville, with the number of ADF personnel reducing from about 240 early in 2000-01 to about 180 personnel by June 2001 (in conjunction with civilian Peace Monitoring Group personnel). Security and general support was provided to the Sydney Olympic and Paralympic Games, involving some 4,000 ADF personnel.

Continue to monitor closely the strategic outlook and provide advice on the implications for Australia of significant developments, including by establishing the Australian Strategic Policy Institute.

Substantially Achieved

Australia's strategic outlook was monitored closely during 2000-01. A year-long review into the present and future Defence needs of Australia was completed in November 2000 to inform the White Paper. That review examined in detail Australia's strategic outlook, and the White Paper addressed in detail Australia's strategic environment, its national defence and strategic interests, and important strategic relationships. In addition, regular joint reviews of current strategic circumstances, objectives and options have been undertaken as part of the Quarterly Strategic Review process. This process provides advice to the Government on the evolving security situation, potential for employment of the ADF, and the options available to the Government for military responses.

Australia's Military Strategy is undergoing a major rewrite, to reflect Government strategic guidance as outlined in the White Paper. *Australia's Military Strategy* is

a classified document which summarises those national objectives that the Government may wish to achieve through the use of Defence capabilities. It provides military strategic objectives and military response options as a basis for Defence planning.

A number of important milestones were achieved in the establishment of the Australian Strategic Policy Institute in 2000-01. The Government agreed to establish the institute as a company limited by guarantee, managed by a governing council. By the end of 2000-01, the Government had considered the appointment of council members [the appointments were announced in early July 2001]. The institute commenced operations at the time of its first board meeting, which took place in August 2001.

Prepare the Defence White Paper.

Achieved

The White Paper was completed on schedule and launched by the Government in December 2000. The nine-week public consultation process that preceded it was highly successful, engaging a wide cross-section of the community, and assisting in the development of the White Paper. There was also a parallel process to obtain the views of people within Defence. Comprehensive post-White Paper briefings were provided to Australia's international defence partners, regional countries, and major domestic stakeholders. The White Paper received a high level of bi-partisan support and public endorsement.

Support the Government's consideration of future Defence funding in the context of the White Paper.

Achieved

The White Paper addresses Australia's defence requirements with a defined set of capability enhancements. In providing Defence with a plan for the development of Australia's armed forces over the next decade, the Government provided the most specific long-term Defence funding commitment in over 25 years. In addition, the White Paper provided the foundation for the development and consideration during the year of Defence's Budget estimates for 2001-02 and the following years.

Improve support to Ministers, the Parliamentary Secretary and the Government by focusing on the quality of advice and responsiveness of the organisation.

Substantially Achieved

Several initiatives were taken in 2000-01 to improve the quality of advice and support. Key improvements are:

- A quarterly report to the Minister for Defence was initiated on progress in implementing the White Paper; this complemented existing regular reports on implementation of the Government's defence policy platforms.

- An evaluation matrix was introduced to enable the Ministers and the Parliamentary Secretary to comment on the quality and timeliness of advice provided to them. Broad summary data have been available since May 2001, and more detailed information will be included in 2001-02 in the *Defence Matters* Scorecard for consideration by the Defence Committee.
- Information sessions on the requirements of the Ministers and the Parliamentary Secretary for quality advice were conducted for Canberra-based Senior Executive Service/star-ranked officers in April-May 2001.

GOVERNMENT AS OWNER – RESOURCING DEFENCE

Pursue an affordable force structure, consistent with the White Paper through:

Preparing for decisions on major capital equipment platforms, including combat aircraft and the surface combatant force.

Achieved

During 2000-01, Defence supported the development of the *Defence Capability Plan 2001-10* that provides a detailed costed plan for the Government's ten-year program for investment in major capital equipment. The projects in the plan have been incorporated into a balanced and affordable major capital investment program. The Defence Capability and Investment Committee and its subordinate committees subsequently prepared a package of 55 major capital equipment proposals worth around \$8.5 billion for Government consideration in the 2001-02 Budget. Of these, 45 were submitted for approval in the Budget and 10 were foreshadowed for approval later in 2001-02. Eight facilities projects were also submitted and approved.

Adopting a whole-of-capability/whole-of-life perspective in developing ADF capabilities.

Substantially Achieved

The *Defence Capability Plan* established a comprehensive ten-year program for developing ADF capabilities. It was developed on the basis of whole-of-capability considerations, and costed on a whole-of-life basis. The Defence Capability and Investment Committee has adopted this perspective in reviewing individual proposals from the plan, prior to seeking final Government approval. A new Defence Instruction, *Defence Capability Life Cycle Management*, which has been drafted and will be released in final form by the end of 2001, details the processes and the requirements encompassed in whole-of-capability/whole-of-life capability development.

Integrating ADF workforce planning into whole-of-capability considerations.

Partially Achieved

Defence is redeveloping the *Defence Workforce Plan* in order to link capability, personnel and funding more effectively. This plan will detail the personnel resources to provide the Government with the required capability, outline the strategies to provide Defence with its workforce, and foreshadow an ongoing review of the personnel requirement to produce capability outputs within budget.

Ensuring that the Reserves can be used effectively.

Substantially Achieved

In April 2001, the *Defence Legislation Amendment (Enhancement of the Reserves and Modernisation) Act 2001* and the *Defence Reserve Service (Protection) Act 2001* came into effect. This legislation allows the Defence Force to access a greater range of capability to fulfil its operational commitments.

The Amendment Act enables the Government to call out the Reserves for a wide range of operations, including combat, defence emergency, peacekeeping, civil and humanitarian aid, and disaster relief. It also provides the authority for Service Chiefs to restructure their Reserve components so that Reservists can be utilised across all levels of readiness. To this end, new categories of Reserve service and associated conditions of service packages will be introduced by March 2002.

The Protection Act provides protection measures for Reservists, their dependants and employers of Reserve members.

Improving preparedness planning and integrating it into the budget process.

Partially Achieved

A preparedness task force was established in June 2000, which aimed to refine the preparedness management system by 31 December 2000. The task force made a number of recommendations for refining the existing system and making stronger linkages between preparedness levels and resource allocation. The Chiefs of Staff Committee has endorsed the majority of the recommendations. A key improvement is the incorporation of Directed Levels of Capability in organisational agreements between the Secretary/Chief of the Defence Force and the Output Executives. These agreements define the level of preparedness that is required and allocate resources to sub-output level against these requirements. Initial agreements have been developed for 2001-02. They provide a key plank of the output budgetary framework, and Output Executives report monthly to the Defence Committee on achievement against these agreements.

Addressing the sustainability of combat capability.

Partially Achieved

Another result of the preparedness task force deliberations is that an ADF preparedness planning guide will be developed. The guide will contain information and data on a range of preparedness planning issues, such as the likely levels of activity and consumption rates in various operational circumstances. The planning guide will be the primary source for endorsed sustainability planning of combat capability.

Developing a strategy to deal with the funding pressures in the medium and longer term, which includes the rising per capita cost of personnel and increasing equipment costs.

Achieved

As a result of a joint review by the Department of Defence and the Department of Finance and Administration (completed in August 2000), the Government directed Defence to submit a financial and management plan as part of its budget submission each year. Preparation of the first plan (covering the 2001-11 period) coincided with preparation of the White Paper, and consequently the first plan focused primarily on the White Paper and its implementation. The plan was a major step forward in integrating Defence's financial and non-financial performance planning and the development of strategic initiatives. The plan formed the basis of Defence's 2001-02 budget and forward estimates. The plan ensures the integration of major investment decisions with targeted operating performance and financial constraints.

Ensuring effective reinvestment of efficiency savings into ADF capability.

Substantially Achieved

Defence Reform Program redirection of \$810m was focused firmly upon the maintenance of the ADF full-time strength at no lower than 50,000, new capital investment, capability-related logistics, and net personnel and operating costs for new capabilities.

Continuing research into Revolution in Military Affairs-related technologies to help the ADF exploit information superiority and to enhance command support and intelligence, including by establishing a Military Systems Experimentation Branch to conduct research into key experimental processes necessary to exploit the Revolution in Military Affairs.

Achieved

DSTO continued to pursue a wide-ranging program of research into Revolution in Military Affairs-related technologies, focused on how they may be exploited to achieve information superiority and enhance command support and intelligence. The Military Systems Experimentation Branch was established to explore and

develop innovative joint warfighting concepts and capabilities, within a collaborative Defence experimentation framework. The exploitation and impact of Revolution in Military Affairs-related technologies on joint military operations will be a key element of this experimentation.

Strengthen corporate governance by:

Preparing an overarching corporate plan derived from Government policy – to be released in tandem with the White Paper – and a business plan for each functional unit derived from and clearly linked to the corporate plan.

Partially achieved

Following the presentation to the Government of a comprehensive management and financial plan, the 2001-11 Defence Plan was prepared. It provides an overarching foundation for Defence management and financial decision making and for further improvement in Defence's strategic planning framework. The Defence Plan, released in July 2001, contains a whole-of-Defence picture, or 'strategy map', of how the Government's direction, given in the White Paper, will be implemented.

Introducing clearer purchaser/provider relationships to ensure efficient delivery of internal services.

Substantially Achieved

An internal customer-supplier model has been developed for implementation across Defence from 2001-02.

The model will provide an improved framework for establishing expected and achievable performance levels, promote accountability and performance review across the organisation, and aid future decision making within Defence.

Ensuring the effective management and reporting of financial resources and plans to meet agreed Defence output performance levels; and

Improving performance reporting and evaluation, using a balanced scorecard.

Substantially Achieved

Defence has implemented a more active and informed approach to executive review and decision making. Each month, the Defence Committee considers the *Defence Matters* scorecard as the basis for evaluating Defence's organisational performance and emerging issues.

The steps taken during 2000-01 will provide a sound basis for continued improvement in Defence decision making and development of required initiatives. Further major improvements in integrating Defence's performance planning and review as a strategy-focused organisation are a priority. *Defence Matters* will become the performance reporting view of the new Defence Plan,

including the strategy map, and will be populated with the measures, targets and initiatives that will drive the required Defence performance.

Adopting best practice in asset management.

Partially Achieved

In February 2001, the Defence Committee adopted revised asset management arrangements consistent with the best practice principles developed by the Australian National Audit Office.

The Chief Finance Officer is charged with responsibility for the Defence asset and liability policy framework and the integration of asset planning and management decisions into Defence's corporate processes. The Defence Capability and Investment Committee is to play a larger role in informing the management of key assets, and a revised accountability structure for asset management and accounting responsibilities is being implemented.

For further information, refer to the Asset Management section in Chapter Three.

Refining corporate management information, financial and non-financial, so that leaders are better able to take critical decisions; and

Embedding accrual management to support effective decision making and to enable Defence to provide informed advice to the Government.

Partially Achieved

Considerable effort has been applied to improving the integrity and timeliness of data maintained in Defence's reporting systems. To this end, congruent charts of accounts have been implemented in the key accounting systems, and Executives are required to sign off in relation to data for which they are responsible.

In relation to Defence's three key corporate management information systems, there is now an embedded accrual interface between the Personnel Management Key Solution (PMKeyS) and the Resource and Output Management Accounting Network (ROMAN) systems, and work is under way to develop a similar interface between the Standard Defence Supply System (SDSS) and ROMAN in 2001-02.

Notwithstanding this progress, the inordinate effort required to produce the 2000-01 financial statements has highlighted the urgent need to dramatically improve Defence's management information systems, particularly in respect of accounting for military assets.

Ensuring that appropriate security and audit arrangements are in place for the protection of Defence information and assets.

Defence has recently completed a review of its security arrangements, with the Secretary announcing the formation, from 1 July 2001, of a Defence Security

Authority. The focus of the Defence Security Authority will be on the security policy, standards, training, evaluation and monitoring, and the investigation of serious security incidents. The Defence Security Authority comes under the leadership of the Deputy Secretary Intelligence and Security. From 2001-02, it will draw on an increased level of resourcing to better enable Defence to provide Government with a high level of security assurance.

Providing clearer responsibilities and better alignment between outputs and organisational structures with an appropriate accountability and responsibility chain; and

Introducing a comprehensive performance framework to ensure that what people do is firmly linked to organisational goals.

Substantially Achieved

A new organisational structure was implemented on 1 July 2000 to recognise the primary focus and roles of the single Services and Groups. Charters were also implemented between Secretary/Chief of the Defence Force and the head of each of the Services and Groups to establish clear responsibilities and organisational alignment. For further information, see the Corporate Governance section later in this chapter.

This approach provides a sound basis for cascading business planning throughout Defence, down to the individual. Personal 'Plans on a Page' under Defence's existing civilian performance framework, along with the military equivalents, will eventually be prepared in such a way as to link clearly with Defence's overall objectives.

Under Defence's existing certified agreement for civilian employees, individual 'Plans on a Page' are formally recognised in performance review and salary progression.

Undertaking a review of the Defence Science and Technology Organisation's priority setting processes and framework to improve the allocation of resources to meet customers' needs.

Achieved

As part of the Defence Science and Technology Organisation's organisational renewal program, a number of initiatives were implemented to improve the priority setting processes and management framework for the allocation of resources to meet customers' needs. These included implementation of a new, more customer-focused, planning and management framework; refinement of the client program structure to align with Defence outputs through the creation of six client Force Research Areas; and new funding and review arrangements to provide greater transparency and alignment of research activities.

Improve communications, including through producing an overarching communication strategy for Defence, covering both internal and external communications.

Substantially Achieved

The Public Affairs and Corporate Communication Division has produced a comprehensive communication strategy – the Defence Organisational Communication Strategy. This strategy provides Defence with the potential for enhancing community awareness of Government defence policy and activities; improved interaction between Defence, the Government and other major stakeholders; and better organisational performance through enhanced internal communication. The strategy commenced in April 2001, shortly after its endorsement by the Secretary and the Chief of the Defence Force. It is a four-year strategy requiring incremental implementation.

Continue the rationalisation and consolidation of Defence estate, including through:

The disposal of Defence properties that are surplus to requirements and the transfer of properties to the Sydney Harbour Federation Trust.

Partially Achieved

The rationalisation of the Defence estate is continuing in line with strategic planning for the estate to meet Defence capability requirements and to ensure the most effective use of Commonwealth property assets. Sixteen surplus properties or portions of properties were sold during 2000-01. A number of properties were not sold as planned because of delays associated with re-zonings or other activities in preparing properties for sale.

While the legislation for the Sydney Harbour Federation Trust was passed in February 2001, the Trust will not be formally established until September 2001. Accordingly, Cockatoo Island, Middle Head, North Head and Woolwich will now transfer to the Trust in the first half of 2001-02. The Georges Heights property is still required for Defence purposes until August 2002.

Continue the development and implementation of a standardised Defence-wide approach to environmental management, consistent with Commonwealth environmental legislation, including by reducing Defence's annual energy consumption by at least 200 terajoules by June 30 2001, in accordance with the Government's greenhouse emissions strategy.

Partially Achieved

During 2000-01, Defence established an energy efficiency program. Under this, corrective works are being rolled out, with completion expected by the end of June 2002. These works will realise a 25 per cent reduction in Defence's energy consumption by the end of June 2003, a target agreed with the Department of

Industry, Science and Resources and the Australian Greenhouse Office. An accelerated implementation of energy reduction works during 2001-02 has been programmed to realise the target.

Implement arrangements in Defence for the goods and services tax.

Achieved

The implementation of arrangements for the goods and services tax in Defence was achieved on time and in accordance with the requirements specified by the Department of Finance and Administration. Defence achieved compliance through adapting its corporate financial management system; changing business processes; managing contractual obligations, cash flow and funding commitments; and delivering a comprehensive communication and education program.

Defence commenced a post-implementation review in July 2001. The review will assist Defence to further improve its management of the new tax system.

INTERNAL BUSINESS PROCESSES

Implement a comprehensive acquisition and logistic support reform program through:

Developing a more streamlined acquisition decision-making process.

Partially Achieved

A new Defence capability life-cycle management model has been developed that:

- takes a whole-of-life approach to capability development, acquisition and support;
- provides for up-front risk reduction in the capability development process before committing to procurement; and
- provides for a 'two-pass' Government approval process in which the first pass seeks Government involvement in defining capability options, followed by Government approval in the second pass to procure a preferred option based on a sound business case.

Adopting best commercial business practices in acquisition and improve project management.

Partially Achieved

Commercial business practices have been adopted through:

- introducing a new tendering and contracting template that reflects commercial realities and reduces the cost of tendering;
- using industry standards in preference to military standards wherever possible and adopting function and performance specifications;

- consulting industry in the development of tender requirements and maximising the potential for innovation by reducing unnecessarily prescriptive specifications;
- the previous contract performance of companies being assessed through a Company Score Card system, which now features strongly as a source selection factor;
- further reducing the cost of tendering through earlier short listing in tender evaluation and reducing the time from source selection to contract award;
- forming new project governance boards that apply the principles of private sector company boards in the review of major projects;
- adopting a corporate governance framework in which the senior executives of the Defence Materiel Organisation take a whole-of-enterprise business approach rather than the previous functional management approach to executive management; and
- piloting alliance contracting and private financing initiatives.

A standard project management method has been introduced to facilitate more consistent approaches to the management of acquisition projects – approximately 50 per cent of all major acquisition projects currently use this method. The method is being improved to inject the benefits of contemporary best practice.

Managing the acquisition of a new patrol vessel, to replace the Fremantle class, as a pilot for streamlined acquisition.

Substantially Achieved

The acquisition strategy has been well developed reflecting a new tendering process that is streamlined, industry-focused, and results-, rather than process-, driven. This includes:

- early involvement of industry in commenting on draft requirement documents;
- a two-stage tendering process, that aims to minimise industry's tendering costs;
- stating requirements in functional and performance terms, thus allowing innovative solutions reflecting commercial expertise in the delivery of not only the capital equipment but also a full through-life support package under a single contract; and
- encouraging industry to put forward private financing proposals capturing all the advantages that this approach may provide.

A draft request for tender was issued to industry for comment prior to formal release in September 2001.

This approach is already demonstrating the value of industry and Defence working together, and the industry response has been positive.

Fixing the problem equipment projects

Partially Achieved

Regular reporting to the Defence Committee on the top 20 projects and other projects with significant issues has been implemented. A culture of frank reporting and early highlighting of issues for senior management attention is being fostered. A reform that has been achieved is the introduction of a more rigorous approach to major capital equipment project reviews that adopts the principles of private sector company boards. New project governance board arrangements provide for regular independent, objective and expert review of commercial, financial, technical, contractual and legal aspects of projects and contracts.

This regime is being extended to a broader range of the Defence Materiel Organisation's projects.

Continuing to rationalise and integrate the provision of materiel support to the ADF, particularly the integration of acquisition and through-life support functions and processes.

Partially Achieved

The Defence Materiel Organisation has focused its logistic support enhancements in two key areas: improved support to operations and deployed forces and increased efficiency in logistic support. The Joint Logistics Command has been created with a clear mandate to coordinate and provide logistic support to the Commander Australian Theatre. Joint Logistics Command has responsibility to manage the supply chain for support to operations; this has been implemented for support to East Timor, Bougainville and other operations.

The Defence Materiel Organisation continues to pursue commercial best practice in increasing efficiency in logistic support through outsourcing. The ADF explosive ordnance project has now moved to contract signature with Australian Defence Industries, and the Defence Integrated Distribution System project has recently received guidance from the Government to allow it to proceed to re-tender. Internally, the Defence Materiel Organisation is moving to assign all its warehouses under the command and control of Joint Logistics Command; this will provide the framework for better integration of the supply chain to support the ADF.

Work continues on improving the alignment of logistic processes with logistic systems. This not only focuses on management of the Defence inventory but also covers Defence's corporate financial accounting requirements.

Enhancing the delivery of logistic support and improving inventory management, including further reduction in the size of the inventory.

Partially Achieved

A system is in place to identify and manage the sale and disposal of obsolete or surplus inventory. The provision for inventory obsolescence has been reduced from \$693m as at 1 July 2000 to \$491m at 30 June 2001.

Significant enhancements to the Standard Defence Supply System were implemented through an upgrade project. This project is designed to improve end-to-end supply chain management, asset and consignment visibility, inventory management capability and warehousing practices, and enable e-business and financial and performance management and reporting.

Continue to build on defence industry strategic policy initiatives in areas such as a better-targeted industry program and strategic relationships with industry by:

Pursuing a strategy to engage Australia's national defence support base.

Achieved

Defence continued its engagement with industry in the critical areas of air, land and sea transport with the aim of improving ADF preparedness. Strategic-level partnering charters were signed with both Qantas and Ansett. Deeds have been signed with port authorities in Darwin and Townsville to facilitate Defence priority access to key port infrastructure during contingencies. Negotiations continued with the South Australian Government to finalise Defence access arrangements for the soon-to-be-privatised ports of South Australia.

Defence maintained its engagement with the National Transport Secretariat. A significant result has been an instrument (issued by the Minister for Transport and Regional Services in October 2000) recognising Defence's unique road transport requirements and exempting the ADF from specified provisions of uniform road transport legislation.

Defence continues to engage with state and territory governments to ensure that Defence interests are taken into account at an early stage in infrastructure planning cycles. A key result for 2000-01 has been the inclusion of a Defence objective in the Queensland state infrastructure plan.

Extending the use of Australian Industry Involvement targets to ensure that contractors consider local industry and use it more effectively and to provide broader opportunities for innovative industry solutions.

Achieved

The Australian Industry Involvement program was expanded to provide greater focus on the involvement of Australian industry and overseas-based companies

in research and development and exports. Through the Strategic Materiel Acquisition Request for Tender 2000 tendering process, all Defence projects have the potential to identify in their requirements the nature and level of industry activity expected.

Implementing the provision of integrated travel services under a new contract with Qantas.

Substantially Achieved

Development of the integrated travel service, utilising e-business technology, was substantially completed during 2000-01, with rollout expected to commence by December 2001. The aim of this new service is to enable Defence personnel to organise their domestic travel requirements from their desktop, leading to a reduction in administrative costs and time.

Vigorously pursue efficiency measures, with continuous improvement as an important agent for long-term organisational and cultural change within Defence, including by:

Continuing, with the assistance of industry, the market testing program and implementing the results of completed market-testing activities, including clerical and administrative services and publishing services.

Achieved

During 2000-01, twelve market-testing activity decisions were announced. Completed market tests, including clerical and administrative support, were implemented. In addition, fourteen activities were under active consideration for progression during 2001-02.

Continuing the rationalisation of the provision of facilities maintenance by implementing comprehensive contracts with industry throughout Australia.

Achieved

There are currently seventeen comprehensive maintenance contracts in place and one to be let. These have replaced over 300 individual contracts. The tender process for the remaining contract, in the Central Northern NSW Region (including Williamstown and Singleton), has commenced and is scheduled to be completed by July 2002.

Implementing, in August 2000, the decision to establish a Defence Service Centre in Cooma NSW. The service centre will utilise the latest technology to provide a free national inquiry service to Defence personnel and their families on a range of personnel and administrative matters.

Substantially Achieved

The Defence Service Centre was opened in Cooma in December 2000 and provides a free national inquiry service to Defence civilian employees on a range of personnel and administrative matters. The centre also provides the first point of contact for members of the general public inquiring about a career in the ADF. The centre performs basic ADF recruiting screening by ensuring individuals meet basic requirements, forwarding information packages on how to enlist and, after 10 working days, initiating a follow-up call.

Managing a contract with the Defence Housing Authority to provide housing and relocation services to the ADF.

Achieved

A contract was established with the Defence Housing Authority in August 2000 to provide housing and relocation services. The authority was also contracted to administer Defence's removal services, with effect from 1 July 2001.

Continuing cooperation with the Department of Veterans' Affairs to improve services and support to serving and ex-Service personnel and to reduce the costs of services currently being provided by both it and Defence. Work in 2000-01 will focus on establishing a transition management service in Veterans' Affairs for ADF members who are discharging, as well as improving records and medals management for discharged ADF members.

Substantially Achieved

The Links Project Review Board, which is co-chaired at Deputy Secretary level, continued to pursue cooperative ventures between the Department of Defence and the Department of Veterans' Affairs. A transition management service was established within Veterans' Affairs to ensure that members discharged from the ADF on invalidity grounds are provided with additional services to assist them in assimilating back into the civilian community. Work is under way to transfer ex-Service health and personnel records management to Veterans' Affairs. The Links Project Review Board has agreed that the management of medals of ex-serving personnel should remain in Defence.

Achieve an improved Defence operational and business information environment by:

Improving Defence information technology and communications.

Achieved

Defence is improving its information technology and telecommunications environment through development of a reliable but flexible enterprise approach. Substantial improvement wide area communications, e-mail reliability and intranet connectivity on the Defence restricted network was achieved in 2000-01 through the installation of a national network of more capable e-mail computing equipment, the redesign of the logical e-mail network, and upgrades to communications and intranet infrastructure Australia-wide.

Improving the security, resilience and robustness of Defence information systems.

Achieved

Defence commenced implementation of new technologies and processes in 2000-01 to enhance its ability to safeguard data from unauthorised access and protect systems from computer virus and hacker attacks. These measures included the establishment of a Defence systems security incident response team, tasked with detecting intrusions on computer networks and responding to them to safeguard the integrity of systems and information. While numerous attempts were made, no successful unauthorised intrusions into the Defence network were detected in the reporting period.

Continuing the consolidation and rationalisation of Defence's disparate command support and administrative information technology networks.

Achieved

Connectivity between all users within each of the restricted and within the secret levels has now been achieved. Some 60 per cent of restricted users and 25 per cent of secret users have been migrated to a standard desktop. 'Global roaming' has been achieved for the majority of restricted users.

Negotiate enterprise agreements with major information technology suppliers to maximise value for money by taking advantage of market size.

Achieved

Defence established enterprise software agreements within Aprisma, Compuware, IBM, Microsoft, Trend Micro, Lotus, Tivoli and Veritas during 2000-01, and discussions with other vendors commenced regarding additional agreements. This enterprise-wide approach to software purchasing has allowed Defence to maximise its purchasing power, as well as ensuring that its software

purchases do not conflict with the Defence information technology operating environment or systems architecture.

Continuing the planning and implementation of enterprise systems to support the re-engineering of Defence's business processes including:

Phases two and three of the Personnel Management Key Solution project (PMKeyS).

Partially Achieved

The bulk of the development and testing work for phase 2 (ADF Human Resources) and phase 3 (ADF Payroll) of the project was completed. Refinement of existing functionality and some additional functionality required by the ADF delayed planned implementation dates. Implementation of the ADF human resources component of the project is now planned for late 2001. This will be followed by implementation of the ADF payroll in the first half of 2002.

Phase two of the Resource and Output Management Accounting Network (ROMAN) project.

Substantially Achieved

ROMAN has now been rolled out to all Australian sites as well as Washington and London. A 'store and forward' facility for use by ships at sea and other deployed units is currently under development to complete the implementation. Configuration of ROMAN has been confirmed as compliant with original specifications and ROMAN documentation has been reviewed for completeness and accuracy.

A review of procurement and payment transactions which are supported by ROMAN is under way to determine where re-engineering should be initiated to achieve more efficient processing.

The Standard Defence Supply System (SDSS).

Partially Achieved

Defence has funded and commenced a significant upgrade of the Standard Defence Supply System. The upgrade will provide a new version of the software, and implementation of an improved standardised supply chain. This version will allow for accrual reporting data generation, improve controls and item tracking and modernise accounting practices. The management of the project has been contracted to PricewaterhouseCoopers and design work is complete. Rollout is planned to commence mid-2002 and to be completed by early 2003.

The Document Records Management System.

Partially Achieved

Rollout of the system continued in 2000-01 on a 'user pays' basis, with Defence groups funding the cost of implementation from their respective operating budgets. Implementation was completed for Russell Offices and Navy Systems Command, and commenced for Army Land Headquarters. Smaller implementations were undertaken at the Navy Fleet Information System Support Office and the Anzac System Maintenance Office.

A new health information management system for ADF personnel.

Partially Achieved

The contract for the provision of software was signed in October 2000. The rollout of the system, called HealthkeyS, has been delayed as a result of delays in the rollout of the ADF elements of the PMKeyS personnel system, to which it is linked. Completion of all currently approved phases is still expected on schedule in 2004-05.

PEOPLE MATTER

Encourage the right people with the right skills and the right attitude in the right jobs at the right time, including through:

Ensuring that Defence is seen as an employer of choice.

Partially Achieved

Defence is conducting research to identify the key elements that contribute to an organisation being seen as an employer of choice. A Defence personnel environment scan has identified key trends in Australian society. The scan identified areas for future research to support personnel policies, for both military and civilian personnel, out to 2020. Concurrently, community attitudes survey work is being progressed, including an emphasis on developing the appropriate 'brand' for Defence to maximise competitiveness in the job market. Defence completed youth tracking research to identify the more specific barriers and 'pull' factors of current employment conditions and approaches to attracting Australian youth to a military career.

This research has led to changes in external promotion of Defence through the marketing process. Some policy changes have also been made, such as the return-of-service obligations for some ADF trades, to foster greater market competitiveness.

Some improvement against recruitment targets has been achieved, but further targeted research and benchmarking is required to ensure that the best policies are in place to ensure that the ADF is seen as an employer of choice.

Defence continued to implement the *ADF Enterprise Productivity Arrangement: 1999-2002* with trials of new consultative processes. In addition, an external review of all ADF remuneration policies, headed by Major General Barry Nunn (Retd), commenced in January 2001 and concluded on 31 August 2001. The results of this far-reaching review will inform Defence on specific future ADF pay proposals and processes. The Defence response to the Nunn review will be presented to the Government for consideration by the end of March 2002.

Defence is also preparing for the next *Defence Employees' Certified Agreement*. Defence has adopted an innovative approach, linking employee working arrangements with the organisational renewal agenda. This approach emphasises that workplace relations is a continuous process and not merely an episodic event linked only to agreement making.

Introducing strategies to address current recruitment and retention difficulties.

Partially Achieved

Defence is addressing recruitment and retention issues by pursuing a range of personnel initiatives across Defence. The Defence People Committee (formerly known as the Defence People Council) was established in February 2001 to ensure that a more focused and holistic approach is taken to people issues within Defence (see Accountability Arrangements later in this chapter for more details). Moreover, Defence has achieved improved recruiting results in encouraging the right people with the right skills to join the ADF. During 2000-01, 20 per cent more people were recruited than for the previous year. Details are shown in the Australian Defence Force Enlistment tables in Chapter Five of this report.

Continuing a study into posting turbulence in the ADF.

Achieved

The Posting Turbulence Review has been completed, with the recommendations providing the basis of the Defence People Plan. The findings of the study are being incorporated into personnel planning and into strategies addressing current recruitment and retention difficulties.

Improve Defence's ability to change and meet varying demands through a culture of continuous improvement, including through:

Enabling people to take greater responsibility for the work that they do and for their careers.

Substantially Achieved

The *Defence Employees' Certified Agreement 2000-01* introduced new individual performance arrangements via a 'Plan on a Page' to help people understand how their work contributes to the overall Defence effort. The agreement continued the devolution of certain personnel decision-making powers to managers in the workplace, thus enabling greater control over their work. A new agreement is

currently being negotiated. For the ADF, the three Services continued to develop initiatives tailored to their needs and those of individual personnel.

Focusing on people and performance, with a strong commitment to learning and development.

Substantially Achieved

Several key initiatives were achieved in 2000-01. The Australian Defence College, comprising the Centre for Defence and Strategic Studies, the Australian Defence Force Academy and the Australian Command and Staff College, was established to provide a centre of excellence for the delivery of joint and integrated (military and civilian) education. The Australian Command and Staff Course commenced, bringing together for the first time middle-level officers of the three Services, Defence civilians and foreign military officers in purpose-built facilities in Canberra. In addition, Defence developed a framework of career development and learning opportunities, the cornerstone of which is the public services training package.

Continuing the program afforded by the new Public Service Act 1999 to streamline and simplify personnel policies and practices to promote efficiencies, remove duplication and empower Defence's managers to operate in a culture based on values principles and performance.

Substantially Achieved

Civilian personnel policies and associated procedures, which were updated when the Act came into effect, did not require any major amendments during 2000-01. Feedback from line areas and developments elsewhere are regularly assessed, and policies and procedures will continue to be fine-tuned where necessary.

Implementing, by January 2001, strategies to improve relevance and access to learning and competency recognition processes aligned to the public services training package, in accordance with the Government's national training framework, with a focus on building core skills in generic APS management and leadership.

Partially Achieved

Defence developed, in partnership with a consortium of universities, learning materials against a range of key skills areas of the public services training package. Defence implemented the 'Capstone' program for Senior Executive Service Band 1 and one-star officers focusing on leadership and governance arrangements.

Implementing a framework for identifying and streamlining the development of high-performing executive-level staff as the feeder group to the senior executive level.

Partially Achieved

Defence participated in the Public Service and Merit Protection Commission's Career Development Assessment Centre and will increase its sponsorship in 2001-02. In addition, Defence intends to conduct a study to identify the development needs of executive-level staff as a high priority in 2001-02.

Consolidating and further developing the Defence Science and Technology Organisation's integrated approach to staff development, encompassing induction, research management, the Graduate Certificate in Scientific Leadership and the Executive Leadership Development Program.

Achieved

The Defence Science and Technology Organisation integrated its Leadership and Management Framework in order to assist staff in identifying and attaining their learning and development needs throughout their careers. The Defence Science and Technology Organisation developed and initiated a comprehensive recruitment communication plan aimed at attracting and recruiting the best graduates through formal marketing and networking.

Continuing the rationalisation of Defence schools, courses and related processes to enhance skills and knowledge development and to achieve savings in personnel, support and infrastructure costs.

Partially Achieved

Joint projects are under way into the rationalisation of training facilities for communications and information systems, explosive ordnance, Service police and security, chaplains, and health training. Other projects are focusing on areas where both military and civilian staff are involved, such as logistics and clerical and administrative functions.

Commencing the first Australian Command and Staff Course in January 2001, to replace the three single-Service staff colleges and the civilian Defence Management Diploma Program. The course is designed to improve the performance of joint command and staff functions in operational headquarters and elsewhere.

Achieved

The start of the first Australian Command and Staff Course at the Australian Defence College in January 2001 was the culmination of the project to bring together the three Service Staff College courses and the civilian Defence Management Diploma Program.

Provide a range of conditions and support services to personnel deployed in East Timor, and to their next of kin.

Achieved

Defence continued to provide a range of conditions of service tailored to meet the needs of personnel serving in East Timor and their families. The nature of service, levels of threat or disability and associated financial conditions of service were reviewed. The National Welfare Coordination Centre was established to develop and maintain a database of personal contacts of deploying ADF members, to provide a 24-hour point of contact for welfare issues that might develop in the area of operations or in Australia, and to provide information about the deployment to family members. The centre worked closely with the Defence Community Organisation service delivery network in providing a comprehensive range of services to support ADF families. Enhancements included a new approach to the notification of casualties, provision of pre-deployment briefings on family issues and regular information updates, sponsorship of self-help support groups, and post-deployment follow up for families.

FINANCIAL PERFORMANCE

OVERVIEW

The White Paper was the dominant financial highlight of the year for Defence.

The 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. The Government has funded, or committed to fund, Australia's future defence requirements through a defined set of military enhancements.

Organisational reform and the development and implementation of the White Paper characterised much of Defence's activities during the year. A number of Defence's existing projects and activities were reviewed as part of the White Paper's development, and some were put on hold pending confirmation of the Government's future direction and commitment.

Total resourcing for Defence in 2000-01 was \$18,986m. This comprised funding from the Government for outputs of \$17,114m, own-source revenue of \$409m³, an equity injection of \$94m and capital receipts of \$87m, as well as \$1,283m administered by Defence on behalf of the Government. The following table summarises the sources of total funding for Defence.

Table 1.1: Defence Resourcing Summary - 2000-01

1999-2000		2000-01			
Result		Budget	Revised	Result	Variation
\$'000		Estimate	Estimate	\$'000	\$'000
		\$'000	\$'000	\$'000	\$'000
15,812,526	Revenue from Government for Outputs	16,104,670	17,113,920	17,113,920	-
373,134	Add Other Revenues ⁽¹⁾	311,313	360,191	408,710	48,519
16,185,660	Total Revenue for Outputs	16,415,983	17,474,111	17,522,630	48,519
1,235,154	Add Total Administered Revenues from Government	1,760,364	2,205,130	1,282,937	-922,193
17,420,814	Total Defence Revenue	18,176,347	19,679,241	18,805,567	-873,674
	Add Capital Funding:				
687,170	Equity Injection	752,918	93,522	93,522	-
132,906	Capital Receipts	872,077	836,108	87,142	-748,966
18,240,890	Total Defence Funding	19,801,342	20,608,871	18,986,231	-1,622,640

Note

- To provide a better reflection of resourcing provided to Defence's activities in 2000-01, this calculation excludes revenues recognising adjustments to the value of existing non-financial assets. Gains from sales of assets have been excluded from Other Revenues as this amount is included in Capital Receipts.

³ See note to Table 1.1.

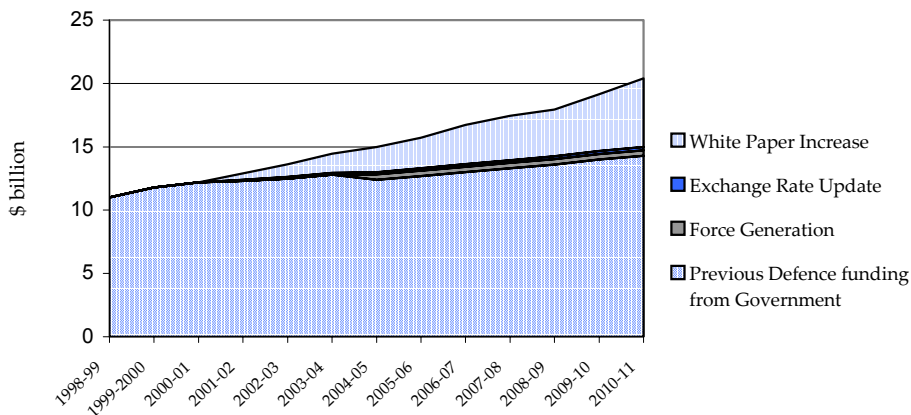
Overall, the Government will inject additional funding of \$27.6 billion (2001-02 Budget prices) to the Defence budget over the decade from 2001-02 (an additional \$507m was announced in the budget for White Paper-related enhancements in 2001-02). This is equivalent to an increase of, on average, more than three per cent per annum in real terms over that period.

The Government has also agreed to Defence’s retaining, from 2004-05, \$415m per annum currently used in generating and maintaining the existing force levels raised for the deployment to East Timor. This will ensure that Defence can fully establish and maintain the Government’s commitment to an Army with six full-time battalions.

Together with the White Paper initiatives, this represents a commitment to an increase in Defence funding, over the decade from July 2001, of more than \$32.4 billion. This amount is not based on an arbitrary funding formula but rather it represents the funds associated with specific capability commitments.

The following graph illustrates the movement in Defence’s funding from the Government since 1998-99, 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.)

Graph 1.1: Total Defence Funding - Actual and Projected (excluding estimated capital use charge)



Summary of Departmental 2000-01 Operating Performance

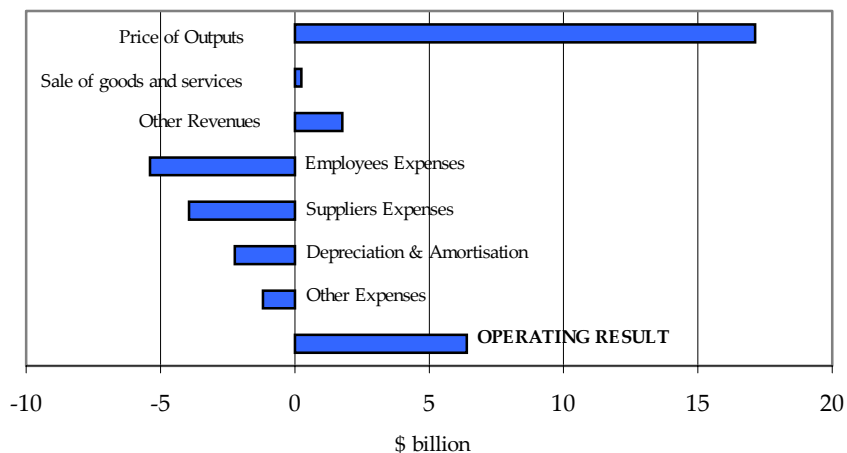
The operating surplus for 2000-01 was \$6,399m. This represented a \$1,082m increase from 1999-2000 and a \$1,395m increase on the revised budget for the year (as published in the *Portfolio Additional Estimates Statements 1999-2000*). The majority of the operating surplus has been returned to the Government through a capital use charge of \$4,982m. The remainder of the operating surplus is

largely the net result of adjustments (including as a result of accounting policy changes) to existing non-financial asset values (with no implications for cash resources).

A significant number of asset accounting and technical factors emerged during the year due to improved management information. A downwards revision of the asset recognition threshold resulted in the recognition of \$512m. A further \$1,103m of previously expensed items was brought back to account as assets – both additions to the asset base are recognised in the operating statement as revenue. 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 \$11,315m, compared to the Government's published budget of \$11,883m for these items and last year's result of \$10,383m.

The audited financial statements for the year ended 30 June 2001 are provided in Chapter Three of this document. The following graph illustrates Defence's financial performance for the year.

Graph 1.2: Operating Performance – 2000-01



Total operating revenue of \$19,138m increased by \$2,698m over the previous year's results and by \$1,631m over the revised budget for 2000-01. The significant revenue items contributing to this amount included the Government's appropriation of \$17,114m for delivery of outputs, as well as own-source revenues comprising \$243m of sales of goods and services and \$34m of interest and dividends. The technical requirement to recognise revenue of \$1,615m for adjustments to the value of existing non-financial assets was the main reason for the increase above both expectations for 2000-01 and the previous year's result. 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, the comparison of the Government's funding over time is more useful after including the Government's capital injection appropriation (ie the remainder of Defence's departmental funding requirement) and excluding the capital use charge (which has been budgeted for on a no-win, no-loss basis). This approach shows that Defence received some \$325m more in funding from the Government than in the previous year (\$12,225m in 2000-01 compared to \$11,900m in 1999-2000).

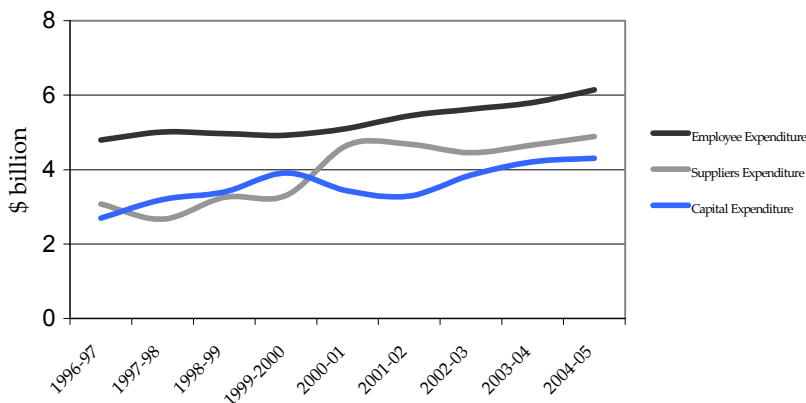
A significant pressure for 2000-01 was an increase in the costs of Defence personnel. Expenses were \$282m higher than expected and \$420m above the previous year's result. This was due primarily to improved management information leading to more accurate accounting for outstanding leave entitlements and workers' compensation risks. There was also a \$56m increase in fringe benefits tax over 1999-2000. Details on personnel matters can be found in Chapter Five of this document.

Defence's expenses for supplies during 2000-01 were equivalent to the previous year, but were significantly (\$918m) below the expected level. (Although Defence's cash outlays for supplies were in fact equivalent to its budget estimate, they included some \$700m for goods and services tax outlays not originally included in the budget - which was recovered as input-credits, except for approximately \$100m recovered in 2001-02 due to the one-off impact of the time lag in refunding the goods and services tax.)

The lower-than-expected supplier expenses were driven predominantly by approximately \$300m of inventory purchases during the year which were not consumed (inventory expenditure is not recorded as accrual suppliers expenses until the inventory is consumed), as well as constraints in cash resources available for further operating spending. These constraints included the one-off timing impact in recovering the goods and services tax (-\$100m), Defence's absorption of an \$80m reduction in cash sales receipts and diversion of \$600m more than expected to fund capital investment.

The trend in the major components of Defence's (cash) spending each year, in the past and projected for the future, is illustrated below.

Graph 1.3: Major Categories of Defence Spending (Actual and Projected)



The Government's capital use charge on Defence was \$4,982m for 2000-01. This represents a 12 per cent return to the Government on its investment in Defence (as represented by Defence's closing net assets balance). The required rate of return has been reduced to 11 per cent for 2001-02. The price of Defence's outputs has been reduced accordingly.

Cost of Defence's Outputs

The cost of Defence's five outputs during 2000-01 is summarised below. Further details relating to the outputs can be found in Chapter Two of this document.

Table 1.2: Cost of Defence's Outputs

1999-2000 Result	Output	2000-01		Result	Variation
		Budget Estimate	Revised Estimate		
\$m		\$m	\$m	\$m	\$m
1,102	1. Defence Operations	1,387	1,333	1,353	20
4,421	2. Navy Capabilities	4,789	5,246	5,216	-30
4,576	3. Army Capabilities	5,260	5,058	4,758	-300
4,551	4. Air Force Capabilities	4,335	5,130	5,676	546
564	5. Policy Advice	679	741	719	-22
15,215	Total	16,450	17,507	17,721	214

Cost of ADF Operations in East Timor

Funding for Australia's continuing deployment of troops to East Timor during 2000-01 was provided within Defence's single appropriation for delivery of its outputs to the Government. (A special appropriation was enacted during 1999-2000, the first year of the deployment, but funding has now been incorporated within Defence's general appropriations as more certainty has emerged in relation to the scope and costs of Australia's involvement.)

Spending over 2000-01 (\$799m) was lower than forecast due to continuing favourable conditions and refinement of cost estimates. As the Government funds Defence on a 'no-win, no-loss' basis for East Timor costs, \$150m of the appropriated funding was returned during the course of the year (this reduction in requirements against the authorised appropriation was, in effect, offset by funding brought forward from the following year to meet accelerated capital investment in 2000-01).

The following table outlines costs of the major components associated with the East Timor deployment.

Table 1.3: Appropriations for ADF Operations in East Timor

1999-2000 Result	Output	2000-01		Result	Variation
		Budget Estimate	Revised Estimate		
\$'000		\$'000	\$'000	\$'000	\$'000
429,717	Deployment	446,995	446,955	335,947	-111,008
97,994	Force Generation	474,571	474,571	339,024	-135,547
9,409	Capital Use Charge	27,371	27,371	16,610	-10,761
537,120	Price of ADF Operations	948,937	948,897	691,581	-257,316
70,428	New Capital Investment	-	-	123,572	123,572
607,548	Total Resourcing of ADF Operations	948,937	948,897	798,533	150,353

SUMMARY OF 2000-01 CAPITAL INVESTMENT AND SALES

An increase in capital spending, combined with lower than expected receipts from capital sales, resulted in net capital expenditure for the year of \$3,326m (new investments less sales of assets). This was \$1,070m higher than expected.

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

Table 1.4: Defence Capital Budget - 2000-01

1999-2000 Result		2000-01		Result	Variation
		Budget Estimate	Revised Estimate		
\$'000		\$'000	\$'000	\$'000	\$'000
	CAPITAL INVESTMENT				
	- Purchase of Land and Buildings	-	-	341,388	341,338
3,608,534	Purchase of Specialist Military Equipment	2,940,738	2,701,694	2,702,214	520
305,378	Purchase of Property, Plant and Equipment	386,298	390,552	369,569	-20,983
3,913,912	Total Capital Investment	3,327,036	3,092,246	3,413,171	320,875
	FINANCING OF CAPITAL INVESTMENTS				
132,906	Retained Capital Receipts	391,877	355,908	87,142	-268,766
3,093,836	Self Funding	2,182,241	2,642,816	3,232,507	589,691
687,170	Equity Injection	752,918	93,522	93,522	-
3,913,912	Total Financing for Capital Payments	3,327,036	3,092,246	3,413,171	320,925
	CAPITAL RECEIPTS				
132,906	Proceeds on Asset Disposal	820,400	811,925	87,142	-724,783
	- Other Capital Receipts	51,677	24,183	-	-24,183
	- Less: Capital Withdrawal	480,200	480,200	-	480,200
132,906	Retained Capital Receipts	391,877	355,908	87,142	-268,766

Payments for new specialist military equipment (\$2,702m) and other assets (\$711m) were \$1m and \$320m higher than their respective budgets. Late in the financial year, the Government accelerated \$190m of capital investment from the following year. Expected capital expenditure was also increased by the movement during the year of foreign currency exchange rates for the \$A.

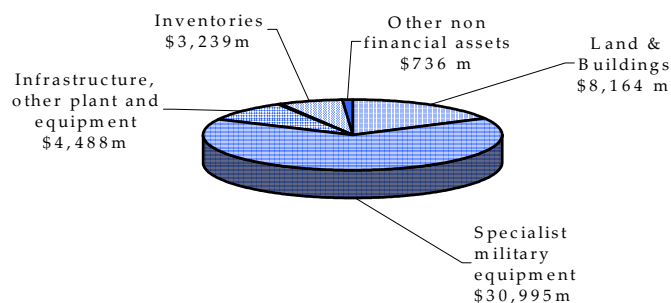
As well as providing a return to the Government (\$480m budgeted for 2000-01), Defence's budgeted asset sales program is a critical source (\$356m budgeted) for financing its own investment in new capital equipment and other assets.

Proceeds from sales of Defence's assets during 2000-01, mainly land and buildings, were \$749m less than expected. This was offset partly by a full reduction (\$480m) in the dividend paid to the Government in lieu of reduced assets sales (while \$46m of this reduction was due to an accounting adjustment to account for asset sales made directly by the Department of Finance and Administration, the majority of the sales, and the associated requirement to make a return to the Government, have been deferred until 2001-02).

Effectively, there was a shortfall of \$269m below the level expected for financing Defence's own capital investment program for the year. \$150m of this was from delays in selling Defence's information technology assets as part of an expected outsourcing program.

Defence's non-financial assets balances at the end of the year are illustrated as follows.

Graph 1.4: Defence's Non-Financial Assets as at 30 June 2001



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 related to ADF employee entitlements - their cost, outstanding liabilities and funding to meet them as they emerge.

In 2000-01, Defence recorded administered revenue of \$1,994m. Aside from administered revenue from the Government (\$1,283m), revenues were recognised for interest (\$25m) and from other non-taxation sources (\$686m). These other sources of non-taxation revenue included contributions for the Defence Forces Retirement and Death Benefits Scheme (\$155m) and the Military Superannuation and Benefits Scheme (\$403m), and \$127m from foreign governments and the United Nations as reimbursements for East Timor costs.

Administered expenses for 2000-01 were \$474m higher than expectations for personal benefits - actuarial advice resulted in a substantial increase in the provision for outstanding military superannuation. Including this adjustment, at the end of the financial year, the Government had an estimated liability of \$26,006m in personal benefits to current and former ADF members, up from \$24,605m the previous year.

ACCOUNTABILITY ARRANGEMENTS

CORPORATE GOVERNANCE

ORGANISATIONAL CHANGES

A new business model for Defence took effect from 1 July 2000. The business model, and consequent organisational restructuring, focused on the two key dimensions of Defence's relationship with the Government: the Government as the purchaser of our outputs – Defence's primary management focus is the delivery of outputs to Government, largely capabilities; and the Government as the owner of our business – stronger corporate governance arrangements have been introduced, including clearer accountabilities, to reinforce the focus on Defence's ability to sustain its delivery of outputs and achieve budgeted financial results.

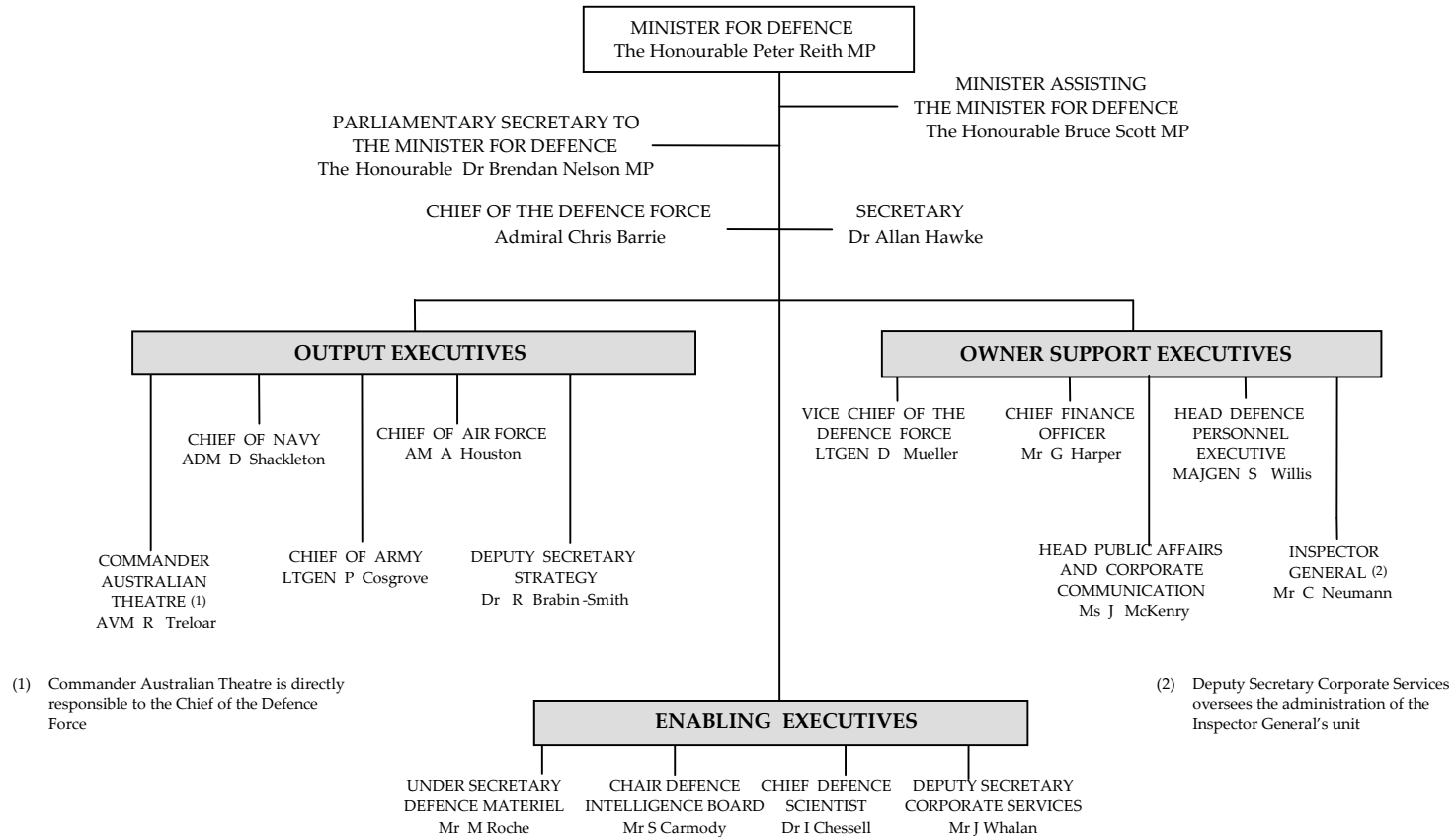
A new organisational structure was implemented to recognise the primary focus and role of the Services and Groups. The three different classifications for Groups supported accountabilities expected of the Executives:

- Output Executives – who are responsible for the majority of direct effort within Defence to allow the Secretary and the Chief of the Defence Force to deliver the external outputs expected by the Government;
- Owner-Support Executives – who are responsible for independently providing advice and assurance to the Secretary and the Chief of the Defence Force in relation to goods and services required within Defence and organisational performance and sustainability issues over the longer term; and
- Enabling Executives – who are responsible for providing services, including the majority of assets, to the Services and other Groups to assist them in meeting their own responsibilities to the Secretary and the Chief of the Defence Force.

Charters were also concluded between the Secretary and the Chief of the Defence Force and the head of each of Defence's Services and Groups to establish clear responsibilities and accountability, as well as organisational alignment.

The changes in organisational structure are depicted in the chart on the following page. Further organisational changes that took effect on 1 July 2001 can be found in the *Portfolio Budget Statements 2001-02* at pages 12 – 13.

As at 30 June 2001



SENIOR EXECUTIVE CHANGES

Mr Hugh White transferred from the position of Deputy Secretary Strategy in July 2000 to lead the Defence Review 2000 process, including the preparation of the Defence 2000 White Paper. Following the release of the White Paper, he assumed responsibility for the establishment of the Australian Strategic Policy Institute. Dr Richard Brabin-Smith moved to Deputy Secretary Strategy. Dr Ian Chessell was promoted to Chief Defence Scientist in October 2000.

Mr Greg Harper was promoted to the new position of Chief Finance Officer in November 2000, and Mr Jeff Whalan transferred from the Department of Family and Community Services in January 2001 to the position of Deputy Secretary Corporate Services. Mr Shane Carmody was promoted to the new position of Deputy Secretary Intelligence and Security in June 2001 and Mr Martin Brady retired as the Chairman of the Defence Intelligence Board in July 2001.

Air Marshal Errol McCormack, Chief of Air Force, retired in June 2001 and was replaced by Air Marshal Angus Houston, formerly Head Strategic Command.

SENIOR EXECUTIVE REMUNERATION

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

Secretary	
Dr Allan Hawke	\$390,000 - \$399,999
Chief of the Defence Force	
Admiral Chris Barrie AO	\$360,000 - \$369,999
Vice Chief of the Defence Force	
Lieutenant General Des Mueller AO	\$350,000 - \$359,000
Chief of Navy	
Vice Admiral David Shackleton AO	\$330,000 - \$339,999
Chief of Army	
Lieutenant General Frank Hickling AO to 15 July 2000	\$1,000 - \$9,999
Lieutenant General Peter Cosgrove AC, MC From 16 July 2000	\$380,000 - \$389,999
Chief of Air Force	
Air Marshal Errol McCormack AO To 19 June 2001	\$270,000 - \$279,999
Air Marshal Angus Houston AM, AFC From 20 June 2001	\$50,000 - \$59,999
Under Secretary	
Mr Mick Roche	\$280,000 - \$289,999

SENIOR EXECUTIVE STUDY OF PARLIAMENTARY PROCESS

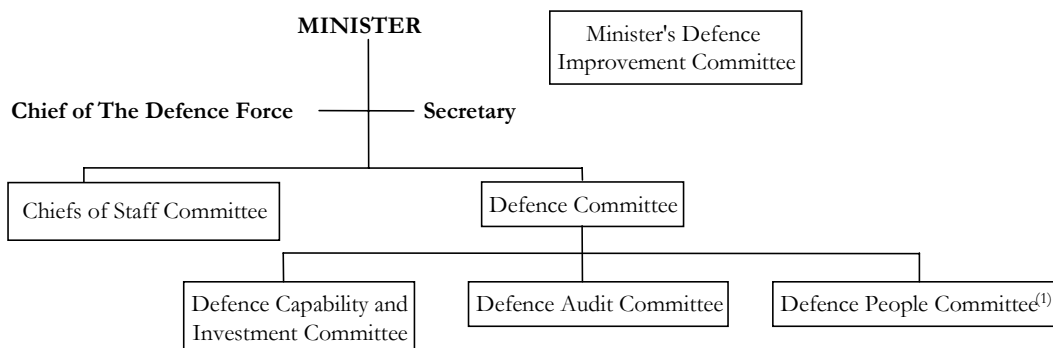
Following a resolution of the Senate requiring that Senior Executive Service officers undertake study of the principles governing the operation of, and accountability to, the Parliament, Defence, along with all Commonwealth departments, was required by the Senate to report on compliance with the resolution. Defence's report was tabled in November 1999 and is included in the Senate Committee of Privileges 89th Report tabled in April 2000. Defence provided a status report to the Senate Committee of Privileges in November 2000.

Defence is committed to ensuring that Senior Executive Service and star ranking officers attend parliamentary principles/process training. Defence contracted the Department of the Senate to provide this training, during 2000-01, through its seminar—*Parliament, Privilege and Accountability*. To date, 175 out of 223 current Senior Executive Service and military-equivalent officers, or 78 per cent, have attended formal parliamentary principles/process training. (This figure does not include officers acting at Senior Executive Service or military-equivalent levels, or officers who left Defence during 2000-01.)

SENIOR COMMITTEES

'Corporate governance', a term used globally to identify processes by which organisations are directed, controlled and held to account, is of primary importance to the Secretary and the Chief of the Defence Force, with their attention focused on achieving a more explicit values-based, results-focused approach consistent with the Government's public sector reform agenda. The senior Defence committees are one of the key elements of Defence's governance framework. Other elements are individual accountability arrangements for the senior leadership, the administrative policies and procedures that support decision making at all levels of the organisation, and leadership initiatives that foster a values-based culture.

There are six senior Defence committees:



Note

1. Formerly known as the Defence People Council.

Minister's Defence Improvement Committee

Membership comprises the Minister for Defence (chair), Secretary, Chief of the Defence Force, and two independent external members – Mr Graeme McGregor and Dr John White - appointed by the previous Minister for Defence, the Honourable John Moore.

The establishment of the Defence Improvement Committee was announced in June 2000. The committee is a vehicle for overseeing Defence's program of continuous improvement through enhanced management and accountability. Its role is to provide strategic top-down direction for the development of the Defence Plan; to help the Minister monitor progress on key Defence reform initiatives; and to provide assurance that the Government receives value for money from the dollars spent on Defence.

The Defence Improvement Committee met once (October) in 2000-01. Attendance was as follows:

Name and Position	Meetings Attended
The Hon John Moore, MP (Minister for Defence)	1
Dr Allan Hawke (Secretary)	1
Admiral Chris Barrie (Chief of the Defence Force)	1
Mr Graeme McGregor (external member)	1
Dr John White (external member)	1

Following the announcement of the White Paper, which enunciates a clear capability plan and funding strategy for the next ten years, the current Minister has not seen a need for the committee to meet. Regular reporting on progress with implementation of the White Paper and day-to-day contact with Defence officials have given him sufficient assurance that Defence is committed to continuing improvement in management, in reform of the acquisition process and in the achievement of White Paper objectives.

Defence Committee

Membership comprises 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, Deputy Secretary Strategy, Deputy Secretary Corporate Services, Chief Finance Officer, Chief Defence Scientist and Deputy Secretary Intelligence and Security (formerly Chair Defence Intelligence Board).

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 embrace 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 defence advice; proper stewardship of people and of financial and other resources; and a Defence Plan for the approval of the Minister which incorporates the above.

Overview

The Defence Committee gives direction and assesses performance in delivering those results, with a focus on the longer term.

The Defence Committee met 10 times (August, September, October, November, December, February, March, April, May and June) in 2000-01. Attendance was as follows:

Name and Position	Meetings Attended
Dr Allan Hawke (Secretary)	10
Admiral Chris Barrie (Chief of the Defence Force)	9/1 ⁽¹⁾
Mr Michael Roche (Under Secretary Defence Materiel)	9/1 ⁽¹⁾
Lieutenant General Des Mueller (Vice Chief of the Defence Force)	10
Vice Admiral David Shackleton (Chief of Navy)	9/1 ⁽¹⁾
Lieutenant General Peter Cosgrove (Chief of Army)	6/4 ⁽¹⁾
Air Marshal Errol McCormack (Chief of Air Force) (until 19 June 2001)	9
Air Marshal Angus Houston (Chief of Air Force) (from 19 June 2001)	1
Dr Richard Brabin-Smith (Deputy Secretary Strategy)	10
Mr. Rod Corey (Acting Deputy Secretary Corporate Services) (until 29 January 2001)	2
Mr Jeff Whalan (Deputy Secretary Corporate Services) (from 29 January 2001)	5
Mr Greg Harper (Chief Finance Officer)	10
Dr Roger Lough (Acting Chief Defence Scientist) (until 6 October 2000)	2
Dr Ian Chessell (Chief Defence Scientist) (from 6 October 2000)	7
Mr Martin Brady (Chair Defence Intelligence Board)	8/1 ⁽¹⁾

Note

1. Substitute attended in place of member.

Chiefs of Staff Committee

Membership comprises the Chief of the Defence Force (chair), Vice Chief of the Defence Force, Chief of Navy, Chief of Army and Chief of Air Force. The Secretary is a permanently invited member.

The Chiefs of Staff Committee provides military advice to the Chief of the Defence Force to assist him in discharging his command responsibilities and providing military advice to the Government.

The Chiefs of Staff Committee met 12 times (July, August, September, October, November, December, February, March (twice), April, May and June) in 2000-01. Attendance was as follows:

Name and Position	Meetings Attended
Admiral Chris Barrie (Chief of the Defence Force)	12
Dr Allan Hawke (Secretary)	11
Lieutenant General Des Mueller (Vice Chief of the Defence Force)	11/1 ⁽¹⁾
Vice Admiral David Shackleton (Chief of Navy)	7/5 ⁽¹⁾
Lieutenant General Peter Cosgrove (Chief of Army)	8/4 ⁽¹⁾
Air Marshal Errol McCormack (Chief of Air Force) (until 19 June 2001)	10/1 ⁽¹⁾
Air Marshal Angus Houston (Chief of Air Force) (from 19 June 2001)	1

Note

1. Substitute attended in place of member.

Defence Capability and Investment Committee

Membership comprises the Vice Chief of the Defence Force (chair), Deputy Secretary Strategy (deputy chair), Under Secretary Defence Materiel, Chief Finance Officer, Chief Defence Scientist, Deputy Chief of Navy, Deputy Chief of Army, Deputy Chief of Air Force, Head Capability Systems, Chief Knowledge Officer, Head Defence Personnel Executive and First Assistant Secretary Capability, Investment and Resources (secretary). The Deputy Chiefs assumed membership of the committee from the Chiefs in November 2000.

Within limits established by the Secretary and 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 contribute to 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 government strategic policy and priorities;
- fit into the Defence Capability Plan as contained in the 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 (twice), August, September, October (twice), December (twice), January (twice), February (twice), April, May and June) in 2000-01. Attendance was as follows:

Name and Position	Meetings Attended
Lieutenant General Des Mueller (Vice Chief of the Defence Force)	15
Dr Richard Brabin-Smith (Deputy Secretary Strategy)	14/1 ⁽¹⁾
Mr Michael Roche (Under Secretary Defence Materiel)	9/6 ⁽¹⁾
Mr Greg Harper (Chief Finance Officer)	14/1 ⁽¹⁾
Dr Roger Lough (Acting Chief Defence Scientist) (until 6 October 2000)	5
Dr Ian Chessell (Chief Defence Scientist) (from 6 October 2000)	8/2 ⁽¹⁾
Vice Admiral David Shackleton (Chief of Navy)	3/3 ⁽¹⁾
Rear Admiral Brian Adams (Deputy Chief of Navy)	8/1 ⁽¹⁾
Lieutenant General Frank Hickling (Chief of Army) (until 16 July 2000)	1
Lieutenant General Peter Cosgrove (Chief of Army) (from 17 July 2000)	4/1 ⁽¹⁾
Major General Peter Leahy (Deputy Chief of Army)	5/4 ⁽¹⁾
Air Marshal Errol McCormack (Chief of Air Force)	3/3 ⁽¹⁾
Air Vice Marshal Alan Titheridge (Deputy Chief of Air Force) (until 18 June 2001)	7/1 ⁽¹⁾
Air Vice Marshal Chris Spence (Deputy Chief of Air Force) (from 18 June 2001)	1
Rear Admiral Chris Ritchie (Head Capability Systems)	15
Air Vice Marshal Peter Nicholson (Chief Knowledge Officer)	8/7 ⁽¹⁾
Major General Simon Willis (Head Defence Personnel Executive)	9/6 ⁽¹⁾
Dr Ralph Neumann (First Assistant Secretary Capability, Investment and Resources)	15

Note

1. Substitute attended in place of member.

Defence People Committee

Membership comprises 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 establishment of the Defence People Committee (formerly known as the Defence People Council) was announced in February 2001. 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 that 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 four times (March, April, May and June) in 2000-01. Attendance was as follows:

Name and Position	Meetings Attended
Mr. Jeff Whalan (Deputy Secretary Corporate Services)	4
Lieutenant General Des Mueller (Vice Chief of the Defence Force)	4
Rear Admiral Brian Adams (Deputy Chief of Navy)	3/1 ⁽¹⁾
Major General Peter Leahy (Deputy Chief of Army)	3/1 ⁽¹⁾
Air Vice Marshal Alan Titheridge (Deputy Chief of Air Force)	3/1 ⁽¹⁾
Major General Simon Willis (Head Defence Personnel Executive)	3
Ms Myra Rowling (Deputy Head Defence Personnel Executive)	4
Ms Noela L' Estrange (external member) (from May 2001)	2

Note

1. Substitute attended in place of member.

Defence Audit Committee

Membership comprises Mr Paul McGrath (chair) and Mr Will Laurie (deputy chair), both independent external members of the committee, along with Mr Rod Corey, Major General Peter Dunn and Mr Frank Lewincamp. The Chief Finance Officer and Inspector-General attend as advisers. The Auditor-General, or representative, attends as an observer. Defence members of the 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 the oversight of audits, evaluations, and other committee activities. Its roles are to:

- review the preparation and audit of the Defence financial statements and provision of 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 Parliamentary 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;

Overview

- 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 Secretary and other relevant authorities on risk management, identify good practice and opportunities to improve the performance and management of Defence activities arising from the oversight of 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 met eight times (August, September, October, December, February, March, April and May) in 2000-01. Attendance was as follows:

Name	Meetings Attended
Mr Paul McGrath	8
Mr Will Laurie	8
Mr Rod Corey	7
Major General Peter Dunn	7
Mr Frank Lewincamp	5

INTERNAL AUDIT ARRANGEMENTS

Defence Audit Committee

The Defence Audit Committee addressed the following subjects at its meetings during 2000-01:

- Consideration of the final draft 1999-2000 Defence Financial Statements.
- Consideration of the ANAO Closing Audit Report of the 1999-2000 Defence Financial Statements.
- Risk management of the financial reporting process.
- Handling matters of concern – formal consideration of agreed policy statement.
- Progress report on the implementation of Defence Fraud Control Plan No.3.
- Progress report on the Audit Recommendations Management System.
- Progress report on the implementation of Parliamentary Joint Committee of Public Accounts and Audit recommendations.
- Management Audit Branch Annual Report 1999-2000.
- Progress with development of a management action plan to address each of the recommendations in the ANAO Closing Audit Report of the 1999-2000 Defence Financial Statements.
- Group risk assessments for 2000-01.

- Progress report on the risk management of the financial reporting process in association with the Defence Management Systems Improvement Project.
- Report on reconciliation and alignment of Defence Appropriations and Budget.
- Audit strategy for the ANAO's 2000-01 financial statements audit.
- Consideration of Management Audit Branch Report on Post-Implementation Review of Personnel Management Key Solution Project-Phase 1.
- Proposed strategy for Defence Fraud Control Plan No. 4.
- Progress report on outstanding fraud control plans.
- Mine Warfare Command Support System (matters of concern raised in the Inspector-General's audit).
- Draft Medium Term Audit Strategy 2001-04.
- Draft Audit Work Program 2001-02.
- Management of liquidated damages in the Defence Materiel Organisation.

Ethics Awareness Program

Defence has a strong commitment to maintaining an ethical culture and has a well-developed program of ethics awareness. During the year, a new training video titled *Fringe Benefits* was produced for Defence by the Australian Broadcasting Commission. This video, which won the prize for best vocational training video at the Australian Teachers of Media Awards, illustrates the unintended consequences of accepting gifts and benefits and demonstrates how easy it is to make successive decisions that may prejudice future action.

During the year, a copy of the training video *Brutus Award* was sent to each civilian and service officer at the 1 star and equivalent level in Defence. The *Brutus Award* video depicts a fictitious Army unit and the actions of a young captain, who brings his commanding officer's apparent abuse of travel allowance to the attention of a superior officer. The captain is then subjected to harassment from senior unit officers, including the commanding officer. Defence's policies and procedures for resolution of the problems depicted in the video are then pursued using a variety of teaching and learning strategies.

Fraud control and ethics awareness presentations continued to be provided in 2000-01. In all, around 90 separate presentations were held during the year across Defence.

Fraud Control

The requirement for Defence, along with other Commonwealth agencies, to have a fraud control plan is prescribed in the *Financial Management and Accountability Act 1997*, and also in the *Fraud Control Policy of the Commonwealth*, published in 1994.

Currently, Defence has an established fraud control plan, *Defence Fraud Control Plan No. 3*, which resulted from a Defence-wide fraud risk analysis undertaken in 1996 and validated in 1998.

In May, the Defence Audit Committee endorsed a strategy for undertaking a new fraud risk assessment in Defence and for the development of the next iteration of the fraud control plan. Fraud risk assessments have already been carried out by the Groups in Defence, and these assessments are being used to update existing fraud control plans to form *Defence Fraud Control Plan No. 4*.

During 1999-2000, there were 588 fraud investigations registered within Defence and 503 investigations were completed. Approximately one third of completed investigations led to criminal, disciplinary or administrative action. In two thirds of cases, it was determined either that the allegation was not substantiated or that no offender could be detected.

The determined fraud loss for completed cases was some \$1.06m, of which \$340,000 was recovered. Over the last seven financial years, detected fraud has averaged an estimated \$2.1m per year within a range of \$1.1m to \$3.1m per annum.

WHOLE-OF-DEFENCE EVALUATIONS

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 whole-of-Defence evaluations covering 2000-01 and 2001-02. In 2000-01, the principal evaluation topics included *Strategic Management of Defence Contracting*, *Australian Public Service Career Management in Defence*, *The Management of Equity in Defence*, *Enterprise Resource Planning in Defence* and *Defence Progress in Pursuing the National Support Agenda*.

Topics foreshadowed for 2002 in the 2001-02 *Portfolio Budgets Statements* were *Responsibilities for Doctrinal Development* and *Resource Allocations for Capital Facilities Projects*. As facilities projects were subject to considerable ANAO review during 2000-01, further evaluation at this stage is not seen as being as useful as the evaluation of other topics which have not had the same recent coverage by the ANAO. Evaluation topics now foreshadowed for 2002 are *Responsibilities for Doctrinal Development*, *Corporate Governance of the Defence Information Environment*, and *Implementation of the Customer-Supplier Model*.

Schedule of Whole-of-Defence Evaluations for 2000-01

The following evaluation activities were completed in 2000-01:

Risk Management in Defence. The Secretary and the Chief of the Defence Force formally endorsed this evaluation report in July 2000, and its recommendations as reported in the *Defence Annual Report 1999-2000* were agreed.

Strategic Management of Defence Contracting. This evaluation report was presented to the Secretary, the Chief of the Defence Force and all Defence Group Heads in March 2001. The report found that:

- Groups generally maintained reasonable oversight of the contracting activity within their respective areas of control;
- there appeared to be little coordinated oversight of contracting activity across Defence; and
- while most interviewees favoured some corporate oversight, they did not want a structural solution (ie another organisational level); rather, they believed that existing policy, processes and practices needed to be improved.

Australian Public Service Career Management in Defence. This evaluation report was forwarded to the Secretary and the Chief of the Defence Force in April 2001. The report found that:

- APS employees in Defence should be responsible for their own careers within an overall framework where supervisors at all levels exercise their leadership and management responsibilities while making best use of extant structures, tools and available facilities; and
- all parties should be committed to genuine and enduring individual, team and organisational growth.

In addition to the approved schedule, a review of the *Management and Administration of Major Capital Equipment Projects* was undertaken, with the final report delivered to the Secretary and the Chief of the Defence Force in April 2001, and forwarded to senior key stakeholders in June 2001. This report identified lessons learned in the areas of risk, accountability and control, contract administration, whole-of-life-support and project management. The report concluded that recent acquisition reforms have the potential to improve projects as evidenced overseas, although there are risks associated with under-funding, initial optimism, business risk, management oversight of contractor performance and organisational culture.

The following evaluation activities were commenced in 2001 and are scheduled for completion by December 2001:

Enterprise Resource Planning in Defence. The objectives, as approved by the steering committee that has responsibility for this evaluation, are to:

- define, in terms of management information, what Defence requires from its enterprise resource planning systems, including any requirements that Defence wants but cannot do currently;
- determine the adequacy of the Defence information management strategy to provide a framework for the improvement of management information and further implementation of enterprise resource planning systems; and

- determine the capacity of the current systems to provide management information to satisfy Defence's decision making, performance analysis and reporting requirements.

Broadly, the aim of this evaluation is to examine what Defence needs in terms of management information (through its enterprise resource planning systems) so that it can fulfil its reporting, decision making and performance analysis requirements into the future. In examining this, the evaluation hopes to identify any impediments that are preventing Defence from accessing, using and disseminating accurate management information. Based on an external literature search, research of internal Defence documents, interviews with Defence personnel (at strategic and operational levels) and with personnel from other government and private organisations, a report with recommendations for improvement will be concluded by the end of December 2001.

The Management of Equity in Defence. This evaluation commenced in May 2001 and is scheduled for completion by mid-December 2001. The terms of reference were approved by the steering committee that has responsibility for overseeing this evaluation. The evaluation aims to:

- outline current legislative and policy approaches to equity and diversity in Defence;
- examine current approaches to equity and diversity in Defence and determine:
 - the extent to which they contribute to the effectiveness of the ADF;
 - the extent to which equity and diversity responsibilities are being met by the Services, Groups, commanders and managers; and
 - the strengths and weaknesses of each approach; and
- recommend ways in which current policies, processes and management practices could be improved.

This evaluation is progressing to plan. A draft report is scheduled to be completed at the end of November 2001.

Progress in Pursuing the National Support Approach. The evaluation topic 'Progress in Pursuing the National Support Agenda' was subsequently changed to 'Progress in Pursuing the National Support Approach.' The evaluation commenced in May 2001 and is scheduled for completion by mid-December 2001. The objectives are to:

- describe the policies, structures and networks that exist to advance national support;
- describe progress in pursuing the national support approach against desired results;
- identify any problems and benefits in the way Defence has progressed national support; and

- propose recommendations on ways to improve the national support approach, which will include, where practicable, a comparison with overseas experience.

The evaluation is progressing to plan. The first of three steering committee meetings has been held. Some thirty formal interviews have been undertaken to date as part of the data collection phase. An initial draft report is planned for the end of October 2001.

EXTERNAL SCRUTINY

PARLIAMENTARY COMMITTEES

Defence interacted with a number of parliamentary committees over the course of the year. This segment reports on the status of inquiries or other action by parliamentary committees in relation to Defence in 2000-01.

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

Joint Statutory Committees

Public Accounts and Audit

Report No. 380, February 2001 – Review of Auditor-General's Reports, 1999-2000, Third Quarter

This Report included consideration of ANAO report No 26, 1999-2000, *Army Individual Readiness Notice*. Defence provided a submission on the audit and Defence officers gave evidence at a public hearing on 6 October 2000.

Review of ANAO Report No. 8, 2000-01 – Amphibious Transport Ship Project and ANAO Report No. 11, 2000-01 – Knowledge Equipment Acquisition Projects in Defence

Defence provided submissions on both audits and Defence officers gave evidence at two separate hearings on 2 March 2001.

Review of ANAO Report No. 22, 2000-01 – Fraud Control in Defence and ANAO Report No. 26, 2000-01 – Defence Estate Facilities Operations

Defence provided submissions on both of the audits, with Defence officers giving evidence at two public hearings on 2 May 2001.

Inquiry into the Adequacy of the Auditor-General Act 1997

Defence officers gave evidence at a public hearing on 15 May 2001.

Review of the Accrual Budget Documentation

Defence officers gave evidence at a round-table hearing at Parliament House on 22 June 2001.

Public Works

RAAF Edinburgh Redevelopment Stage 1

This project provides new facilities in the technical area at RAAF Edinburgh. The proposed works include new administrative, workshop and warehousing facilities, as well as an upgrade of engineering services and an aircraft shelter facility. The project was considered by the committee at a public hearing held in August 2000 and approved by the Parliament in November 2000. A second stage is proposed for the redevelopment, which is planned to commence in 2004-05.

Joint Standing Committees

Foreign Affairs, Defence and Trade

Inquiry into Military Justice Procedures

The Government response was tabled in April 2001.

Inquiry into the Level of Funding Required for the Australian Defence Force

The Government response was tabled in March 2001.

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

The report of the inquiry, *From Phantom to Force: Towards a More Efficient and Effective Army*, was tabled in September 2000. At that time, the committee made it clear that the report was an interim report and that the committee would seek the community's views on the content and recommendations. The committee's subsequent report, *A Model for a New Army: Community Comments on the 'From Phantom to Force' Parliament Report into the Army*, was tabled in September 2001.

Inquiry into Enterprising Australia – Planning, Preparing and Profiting from Trade and Investment

The Defence submission to the inquiry was submitted on 8 March 2001 and Defence witnesses appeared before the committee on 2 April 2001. Further information was provided to the committee on 24 April 2001.

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

In August 2000, the Joint Committee on Foreign Affairs, Defence and Trade resolved that its Defence Sub-Committee examine the annual report of Defence

for 1998-99 and, when tabled, 1999-2000. The Defence Sub-Committee was to look, in particular, at four aspects of the annual report:

- The conduct of military justice and the alleged events in 3RAR.
- Equipment fleet management and life-cycle costing of equipment.
- Personnel issues, including mutual obligation agreements upon both the unemployed and Army recruiting, changes to service conditions and superannuation.
- The use of military exercises as a means of assessing military outputs.

Defence provided information to the committee in September and December 2000. Defence witnesses appeared before the inquiry in October 2000 and March 2001. The report, *Rough Justice? An Investigation into Allegations of Brutality in the Army's Parachute Battalion*, was tabled in April 2001. The Government response had not been tabled at 30 June 2001.

Inquiry into Australia's Relations with the United Nations in the Post-Cold War Environment

Defence witnesses appeared before the committee on 22 March 2001.

Visit of the Defence Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade to Defence Establishments in Northern Australia 26-29 July 1999

The Government response was tabled in October 2000.

Treaties

Report 29: Singapore's Use of Shoalwater Bay, Development Cooperation with Papua New Guinea and Protection of New Varieties of Plants

The Government response was tabled on 5 October 2000.

Senate Standing Committees

Foreign Affairs, Defence and Trade (References)

Inquiry into the Sale of ADI Ltd

The Government response was tabled in October 2000.

Inquiry into Disposal of Defence Properties

In September 2000, the Senate referred the following matters to the committee for inquiry and report:

- The importance and value of the Western Australian Army Museum and the Fremantle Artillery Barracks.

- Whether the Fremantle Artillery Barracks is the most appropriate and suitable location for the museum.
- The reason for the disposal of the Fremantle Artillery Barracks.
- The disposal of the Fremantle Artillery Barracks and the probity of the disposal process.
- How Defence decides whether the property is surplus to requirements and the management or disposal of surplus property.
- Sale and lease-back of Defence property.
- Any other matters related to the above-mentioned issues.

The Defence submission to the inquiry was submitted in October 2000. Defence witnesses appeared at the inquiry in October and November 2000. Members of the committee inspected the Artillery Barracks and the Army Museum in October 2000. An interim report, *Artillery Barracks Fremantle*, was tabled in January 2001. The final report was tabled on 27 September 2001.

Inquiry into Recruitment and Retention of Australian Defence Force Personnel

In April 2001, the Senate referred to the committee for inquiry and report whether the current recruitment and retention strategies of the ADF are effective in meeting Defence's personnel requirements (including Reserves). The committee was to examine and report on the following issues:

- Whether the current recruitment system is meeting, and will continue to meet, the needs of the ADF.
- The impact of the Defence Reform Program on retention levels and recruiting.
- The impact of changes to ADF conditions of service, pay and allowances on retention and recruitment of personnel.
- Current levels and categories of specialist personnel in the ADF compared to the organisation's requirements.
- The impact of current career management practices on retention of personnel.
- Any other issues, relevant to the terms of reference but not referred to above, which arise in the course of the inquiry.

The Defence submission to the inquiry was submitted in May 2001. Defence witnesses appeared before the committee in June 2001.

Foreign Affairs Defence and Trade (Legislation)

The *Defence Annual Report 1999-2000* was tabled in the Senate in October 2000. In its report, *Scrutiny of Annual Reports No 1 of 2001*, released in March 2001, the committee found that Defence's report fulfilled all the requirements of departmental annual reports.

Defence appeared before the committee on three occasions during the reporting period.

The budget estimates 2000-01 supplementary hearing was conducted in November 2000 and responses to 52 questions on notice arising from that hearing were provided to the committee. The additional estimates hearing was conducted in February 2001 with Defence responding to 66 questions on notice arising from that hearing.

The budget estimates 2001-02 hearing was conducted over three days in June 2001 – with the Secretary and the Chief of the Defence Force appearing on the first day. Defence responded to 111 questions on notice following that hearing.

Legal and Constitutional Legislation

Inquiry into the Freedom of Information (Open Government) Bill 2000

The Defence submission to the inquiry was submitted in March 2001.

Senate Select Committee

Superannuation and Financial Services

The Defence submission to the inquiry was submitted in February 2001, with Defence witnesses appearing at the February 2001 inquiry.

AUDITOR-GENERAL'S REPORTS

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

Australian National Audit Office reports and general information on its operations can be accessed through its website at: www.anao.gov.au.

Audit Report No. 3, 31 July 2000 – *Environmental Management of Commonwealth Land – Follow-up Audit*

This audit was a follow-up to ANAO Audit Report No. 31, 1995-96, *Environmental Management of Commonwealth Land: Site Contamination and Pollution Prevention*. The objectives of the follow-up audit were to determine the extent to which Defence has implemented the agreed recommendations contained in the original audit (relating to its environmental management and the management of unexploded ordnance on non-Commonwealth land) and the effectiveness of the implemented recommendations in improving the environmental management of Commonwealth land.

The ANAO made five recommendations, with which Defence agreed. Defence has implemented all recommendations.

Audit Report No. 8, 7 September 2000 – *Amphibious Transport Ship Project*

The audit reviewed the amphibious transport ship project, involving the acquisition and modification of two second-hand United States Navy ships. The objective of the audit was to assess the efficiency and effectiveness of Defence's management of the project, focusing on the capability development process, costs and schedule issues, contract issues, the management of project risks and project review processes.

The ANAO made five recommendations, with which Defence agreed, one with qualifications. Implementation of four of these recommendations is complete and implementation of the remaining recommendation is in progress.

Audit Report No. 11, 15 September 2000 – *Knowledge System Equipment Acquisition Projects in Defence*

The audit reviewed Defence's higher-level management of its knowledge system equipment acquisition projects. The focus of the audit was on the opportunities for Defence to adopt a more coherent and integrated approach to knowledge systems management prospectively rather than on emphasising current system compatibility issues.

The ANAO made seven recommendations, with which Defence agreed, one with qualifications. Implementation of one recommendation is complete. Implementation of the remaining six recommendations is in progress.

Audit Report No. 22, 14 December 2000 – *Fraud Control in Defence*

The objective of this audit was to establish whether Defence had developed sound fraud control arrangements that were consistent with better practice and fulfilled its responsibilities for the protection of public property, revenue, expenditure, and rights and privileges from fraudulent exploitation. The audit was one of a series of audits of fraud control arrangements in Commonwealth agencies.

The ANAO made six recommendations. Defence agreed with five of the recommendations and disagreed with one. Implementation of the agreed recommendations is in progress.

Audit Report No. 26, 22 December 2000 – *Defence Estate Facilities Operations*

The objective of the audit was to assess the efficiency and effectiveness of selected Defence facilities operations, including tendering and contracting, with a view to adding value with practical recommendations for enhancing operations.

The ANAO made six recommendations, with which Defence agreed, one in principle. Implementation of three recommendations is complete. Implementation of the remaining three is in progress.

Audit Report No. 32, 6 April 2001 – *Defence Cooperation Program*

The audit reviewed Defence's management of the Defence Cooperation Program, through which Australia interacts with and provides assistance to security forces in South East Asia and the South Pacific. The primary aim of the program is to support Australia's defence relationships. Activities conducted through the program include training, study visits, personnel exchanges and combined exercises with elements of the various regional armed forces. The objectives of the audit were to consider how Defence assessed performance in meeting Defence Cooperation objectives, to review Defence's development of those objectives and to identify areas for improvement in managing Defence Cooperation resources.

The ANAO made seven recommendations, with which Defence agreed, one with qualifications. Implementation of the recommendations is in progress.

Audit Report No 33, 7 May 2001 – *Australian Defence Force Reserves*

The objective of the audit was to identify possible areas for improvement in the ADF's management of its Reserve forces. The audit focused on major aspects of the Reserves including roles and tasks, force structure, capability, training, individual readiness, equipment, facilities, recruitment, retention, conditions of service and administration. The audit covered the Australian Naval Reserve, the Australian Army Reserve and the Royal Australian Air Force Reserve. However, due to its size and cost, the Army Reserve was a major focus of the audit activity.

The ANAO made thirteen recommendations covering all three Services' Reserve forces. Defence agreed with, and is implementing, all recommendations.

Audit Report No. 41, 29 May 2001 – Causes and Consequences of Personnel Postings in the Australian Defence Force

The audit arose from a Defence Efficiency Review (1997) recommendation that Defence could make savings on the large volume of postings it made every year. The audit examined the posting process and sought to provide assurance that Defence had identified and examined salient postings issues and was addressing them effectively.

The ANAO made four recommendations, with which Defence agreed. Implementation of one recommendation is complete. Implementation of the remaining three recommendations is in progress.

Audit Report No. 51, 15 June 2001 – Australian Defence Force Health Services Follow-up Audit

This audit followed up a 1997 performance audit report on ADF health services (Audit Report No. 34, 1996-97, *Australian Defence Force Health Services*), which focused on the delivery of non-operational health services to entitled members. The objective of the follow-up audit was to assess Defence's implementation of recommendations made in the original audit report and their effectiveness in improving ADF health services. No new recommendations were made.

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

Audit Report No. 9, 6 September 2000 – Implementation of Whole-of-Government Information Technology and Infrastructure Consolidation and Outsourcing Initiative

Audit Report No. 14, 26 October 2000 – Benchmarking the Internal Audit Function

Audit Report No. 15, 9 November 2000 – Agencies' Performance Monitoring of Commonwealth Government Business Enterprises

Audit Report No. 19, 4 December 2000 – Management of Public Sector Travel Arrangements - Follow-up Audit

Audit Report No. 23, 15 December 2000 – Audits of the Financial Statements of Commonwealth Entities for the Period Ended 30 June 2000

Audit Report No. 38, 24 May 2001 – The Use of Confidentiality Provisions in Commonwealth Contracts

DEFENCE FORCE OMBUDSMAN

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

The Ombudsman again raised concerns about delays in receiving a reply to initial inquiries and the consequences of those delays. Consequently, the Secretary directed the Complaint Resolution Agency to provide him and the Chief of the Defence Force with monthly reports on the status of all outstanding Ombudsman inquiries.

In May 2000, the Head of the Defence Personnel Executive commissioned a review of the redress of grievance process in response to criticism from within Defence and external bodies, including the Ombudsman. A representative of the Ombudsman's office was a member of the review team. The review team submitted its report in August 2000 to the Chief of the Defence Force and the Service Chiefs and was accepted in principle. In October 2000, a working group was convened to implement the review team's recommendations and to ensure that changes were effectively communicated to ADF members. The working group has submitted a report to the Chief of the Defence Force and the Service Chiefs, identifying the necessary amendments to legislation and policy that will be required to implement the proposed changes and seeking approval to proceed with that work. A revised defence instruction, DI(G) PERS 34-1 *Redress of Grievance – Tri-Service Procedures*, which incorporates procedural and policy changes that were recommended by the review team, and that do not require legislative amendment, was issued in August 2001.

The Ombudsman has shown a strong interest in the redress of grievance review as redress delays result in complaints to his office. The Ombudsman has made suggestions that are under consideration by the working group.

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 current law.

Litigation continued in relation to common-law actions for negligence by former crew members of the former HMAS *Melbourne*. Generally, the plaintiffs are claiming post traumatic stress disorder arising out of the collision of former HMA Ships *Voyager* and *Melbourne* and claims are statute-barred under statute of limitations legislation. Hearings of claims for like injuries arising from an accident aboard the former HMAS *Stalwart* have also commenced.

The Federal Court of Australia, in determining a claim for damages for age-based discrimination by a former Navy member, has found that unlawful discrimination includes indirect discrimination for the purposes of the *Human Rights and Equal Opportunity Act 1986*.

All matters noted above are being resolved on a case-by-case basis.

REPORT ON THE OPERATION OF THE DEFENCE SERVICE CHARTER FOR 2000-01

The Defence Service Charter was introduced on 1 August 1998. Since that time, Defence has provided input to an annual whole-of-government report compiled by the Department of Finance and Administration.

The Government has decided to cease whole-of-government reporting on charters from, and including, 2000-01. Agencies will continue reporting their service delivery achievements through their annual reports.

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

Background

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

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;

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- 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. Policy and 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 will commence in late 2001 with a view to revalidating performance standards, reinvigorating staff awareness and assessing the effectiveness of monitoring systems.

Performance in 2000-01

Awareness Of Charter

The Defence Service Charter has been distributed throughout Defence, is available electronically on the internal and external Defence websites, and is included in induction training of new staff. Copies of the charter have also been

distributed throughout Canberra and the regions and displayed in prominent places at bases and public information, recruiting and acquisition offices.

Several Groups implemented initiatives in 2000-01 to increase staff awareness of the Defence Service Charter. In particular:

- The Navy has placed a link on its web page to the Defence Service Charter that gives all Navy personnel more visible access to the charter.
- Within the Defence Materiel Organisation, all new employees attend an induction course that includes information on the Defence Service Charter.

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 Minister for Defence or their local Member of Parliament or Senator. In addition, customers can contact the Commonwealth Defence Force Ombudsman.

More effective monitoring and reporting mechanisms implemented at the Group level have resulted, among other things, in more complaints being registered in 2000-01 than in previous years.

Table 1.5: Complaints Made To Defence 1998-99 – 2000-01

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

The total number of complaints received represents only a small proportion of total inquiries made. For example, 208 complaints were received by the Defence Force Recruiting Organisation out of a total of 122,000 inquiries and 24,000 applications for enlistment. The honours and awards unit implemented a complaints management system in 2000-01 and recorded 247 complaints, which represents only 3 per cent of total inquiries. All of these complaints were dealt with in accordance with specified resolution procedures.

The average time taken to resolve complaints varied across Defence, but most complaints were able to be resolved within the stated performance standard of 15 working days. Groups report that the most common complaints were related to recruitment issues, issues relating to the distribution of honours and awards, and general aircraft noise from 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, professionalism in service delivery, and customer service within Careers References Centres.

The satisfaction rate for 2000-01, which is a measure of Defence's complaint handling procedures, remained at approximately 90%.

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A number of improvements to service delivery have been implemented as a result of customer feedback. There has been a significant improvement across the organisation in providing timely responses to departmental and ministerial correspondence. Individual Groups report the following specific improvements having been made:

- The Defence Science and Technology Organisation has nominated one staff member to handle all complaints received in an effort to provide a more coordinated approach to complaints handling.
- Public Affairs and Corporate Communication and the Inspector General's Division have made a point of contact available to the public through the Defence internet site.
- Within the Defence Personnel Executive, Business Process and Management Information Branch has promulgated a separate charter for the Defence Service Centre.
- Within the Navy, more stringent administrative procedures have been put in place to capture compliment and complaint data for Defence Service Charter reporting. A concise and accurate audit trail has been put in place.

Responsiveness to Ministers and Parliamentary Secretary

Defence continued to improve its performance in preparing material to enable the Ministers and the Parliamentary Secretary to reply to correspondence. This is a reflection of the high priority being given to improving Defence's responsiveness to its Ministers.

Defence has introduced initiatives designed to streamline processes and to improve performance. For example, in consultation with the Ministers' offices, an evaluation matrix has been added to all ministerial submissions and correspondence. This enables quick and clear feedback to Defence on the quality, timeliness, degree of consultation, policy innovation and presentation of the material. Collection of matrix data will allow analysis of Defence's performance against these criteria.

Other initiatives included:

- presenting information sessions to staff to provide an overview of Defence's responsibilities to the Ministers, Parliamentary Secretary, Cabinet and Parliament and how these should be fulfilled. A number of sessions tailored specifically for the Senior Executive Service and star ranking officers were also conducted;
- providing monthly three-day externally-contracted ministerial correspondence writing courses, primarily for staff who deal regularly with ministerial or parliamentary matters; and
- providing regular ad hoc briefing sessions, upon request, to small groups across Defence.

Table 1.6: Percentage of departmental response times against standard requirement of 15 days.

	1997-98	1998-99	1999-2000	2000-01
Number of Letters Received	8,867	8,428	9,421	9,657
Average % of Responses that met 15-Day Standard Requirement	54%	50%	75%	86%

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 terms, which is generally 30 days from receipt of a correctly rendered invoice and receipt of the goods or services.

Defence's performance in 2000-01, with only 78.4 per cent of accounts paid by the due date, has fallen to an unacceptable level (99.4 per cent of accounts were paid by 30 days after the due date compared against 99 per cent for the same period in 1999-2000). While a management information system upgrade, mentioned in last year's report, has ensured that accounts are paid automatically once invoices are entered, significant problems are being encountered with data integrity – especially miscoding and timeliness issues.

This is due to a range of training, staff turnover and change management issues which are being addressed currently. A full review of accounts processing is under way to improve, among other things, due-date processing. The review is expected to run until June 2002, with improvements being implemented progressively during the review process.

Table 1.7: Percentage Of Accounts Paid By Due Date

Financial Year	Number of Accounts Paid	Accounts Paid by Due Date	% of Accounts Paid by Due Date
2000-01	1,068,434	837,360	78.4
1999-2000	1,126,057	924,579	82.1
1998-99	1,142,887	979,914	85.7
1997-98	994,547	923,032	92.8
1996-97	1,164,865	1,081,368	92.8
1995-96	1,262,037	1,067,125	84.6

White Paper Community Consultation Program

In 2000-01, the Government conducted a fundamental review of defence policy and, as part of the review, ran an extensive consultation process to take into account the views of the Australian community. The Hon Andrew Peacock led the public consultation program, which ran over a nine-week period from 6 July to 7 September 2000. The program included 28 public meetings, which over 2,000 people attended, as well as meetings with state and local governments, interest groups, business and industry associations in capital cities and numerous regional centres. Throughout the process, a website provided online

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access to the discussion paper and other information, as well as telephone, facsimile and email contact details for comments and submissions.

Table 1.8: Community Consultation Program Contact Data

Public Contact	Number
Website hits	179,745
Website visits ⁽¹⁾	105,865
Discussion Paper downloads	6,453
Email messages	5,316
Submissions	1,157
Calls and voice-mail	3,674
Discussion paper distributed (hardcopy)	17,935

Note

1. A website visit is a series of consecutive requests from a user to an Internet site.

Many Australians welcomed the opportunity to be able to participate in the community consultation process. This was reflected in the enthusiasm and interest displayed by people at the meetings and, most importantly, in the large number of written submissions received from members of the public.

Demographics of Written Submission Contributors

