

**DEFENCE
ANNUAL
REPORT**

2000-01

COVER PHOTOGRAPHS

- Front cover: Henri Farman 'pusher' reconnaissance aircraft, *circa* 1915
Group of Australian Light Horsemen, *circa* World War I
- Portraits: Captain R. H. Muirhead Collins, CMG, (RN)
(from top to bottom) First Permanent Head, Department of Defence, 1901-1910
- Lieutenant General Sir Henry Wells, KBE, CB, DSO
First Chairman, Chiefs of Staff Committee, 1958-59 (the first 'Chief' of the Defence Force)
- Rear Admiral Sir William Creswell, KCMG, KBE, (RAN)
First Chief of Naval Staff, 1911-19
- Colonel W. T. Bridges
First Chief of the General Staff, 1909
- Air Vice Marshal R. Williams, CB, CBE, DSO
First Chief of the Air Force, 1921-39
- Back cover: Gunnery Practice, HMAS Sydney, *circa* 1913
Interior of Pay Office, Victoria Barracks Melbourne, 1917

CONTACT OFFICER

The production of this document was coordinated by the Statutory Reporting and Accountability Section of Organisational Improvement Division, Department of Defence.

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28 October 2001

The Hon Peter Reith
Minister for Defence

Dear Minister

We are pleased to present the annual report of the Department of Defence for the year ended 30 June 2001 which has been prepared in accordance with subsection 63(2) of the *Public Service Act 1999*.

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

The report summarises the performance of Defence for 2000-01, as well as containing other mandatory information required by legislation.

Yours sincerely

A handwritten signature in black ink that reads 'Allan Hawke'. The signature is written in a cursive style with a large, sweeping 'A'.

Allan Hawke
Secretary
Department of Defence

A handwritten signature in black ink that reads 'CA Barrie'. The signature is written in a cursive style with a large, circular flourish at the end.

CA Barrie
Admiral, RAN
Chief of the Defence Force

CONTENTS

Contact Details	ii
Letter of Transmittal.....	iii
User Guide.....	vii
Matters Arising from the 1999-2000 Annual Report.....	ix

CHAPTER ONE – OVERVIEW

Review by the Secretary and the Chief of the Defence Force	3
Year in Review: Report Against Key Priorities	11
Financial Performance	33
Accountability Arrangements.....	41
Corporate Governance.....	41
– Organisational Changes.....	41
– Senior Executive Changes.....	43
– Senior Executive Remuneration.....	43
– Senior Executive Study of Parliamentary Process.....	44
– Senior Committees.....	44
– Internal Audit Arrangements.....	50
– Whole-of-Defence Evaluations.....	52
External Scrutiny	55
– Parliamentary Committees	55
– Auditor-General’s Reports.....	60
– Defence Force Ombudsman	63
– Decisions of Courts and Tribunals	64
Report on the Operation of the Defence Service Charter for 2000-01	65

CHAPTER TWO – RESULTS FOR GOVERNMENT AS DEFENCE’S CUSTOMER

Output One – Defence Operations	73
– Australian Defence Force Operations	81
– Australian Defence Force Exercises.....	85

Output Two	Navy Capabilities.....	97
Output Three	Army Capabilities.....	107
Output Four	Air Force Capabilities.....	117
Output Five	Policy Advice	124
	– Defence Cooperation	135

CHAPTER THREE – RESULTS FOR GOVERNMENT AS DEFENCE’S OWNER

2000-01 Financial Statements	151
Major Capital Equipment	217
Capital Facilities.....	226
Capital Facilities Expenditure by Electorate	232
Asset Management	236
Enterprise Risk Management.....	238
Discretionary Grants	239
Purchaser-Provider Arrangements with the Defence Housing Authority	245
Internal Customer-Supplier Arrangements	246
Protective Security in Defence	248
Public Affairs and Corporate Communication.....	249
Ecologically Sustainable Development and Environmental Performance	251
Freedom of Information.....	254

CHAPTER FOUR – ENABLING BUSINESS PROCESS

Defence Reform Program	269
Commercial Support Program.....	277
Defence Materiel Reform	280
Defence Science and Technology.....	286
External Consultants	292
Advertising and Market Research.....	299

CHAPTER FIVE – PEOPLE MATTER

People 307

Recruitment and Retention Initiatives 315

Workplace Relations..... 319

Workplace Equity and Diversity 320

Non-operational Training..... 325

Occupational Health and Safety 327

Annual Report on the Administration and Operation of the
Defence Force (Home Loans Assistance) Act 1990 331

Glossary 335

Acronyms and Abbreviations 339

Index..... 342

USER GUIDE

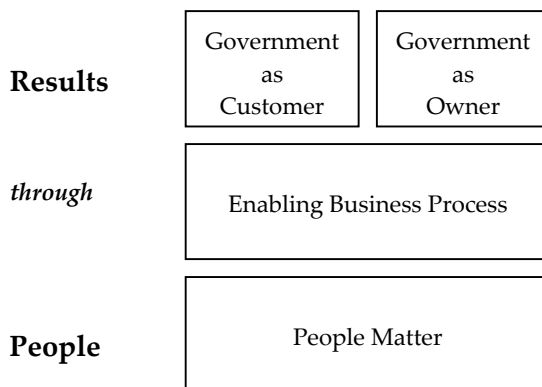
The format and content of this annual report reflect the requirements developed by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accounts and Audit in June 2001 under subsection 63(2) of the *Public Service Act 1999*.

The *Defence Annual Report 2000-01* addresses the Department of Defence and the Australian Defence Force (ADF), which are collectively referred to as 'Defence', while the Department of Veterans' Affairs and the Defence Housing Authority, which are parts of the Defence portfolio, have separate annual reports.

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

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

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



This year's report has been designed as a linking document between Defence's performance in 2000-01 and the reporting and accountability framework described in the *Portfolio Budget Statements 2001-02*.

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

Chapter One contains a review of the year by the Secretary of the Department of Defence and the Chief of the Defence Force, a report of performance against key priorities for 2000-01, a summary of financial performance for the year, as well as accountability arrangements. It also includes an organisational chart that shows the formal structure of Defence in the reporting period.

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

Chapter Three reports on the results to the Government as Defence's owner. The bulk of this chapter comprises the financial statements, required under section 49 of the *Financial Management and Accountability Act 1997*, which were independently audited by the Australian National Audit Office. Details of Defence's major capital equipment and facilities projects are provided as well as information on a number of owner-support responsibilities and activities.

Chapter Four contains information relating to Defence's enabling business processes. This chapter includes information on Defence Science and Technology; improvement initiatives, including the Defence Reform Program, the Commercial Support Program and Defence materiel reform; service delivery and customer-supplier arrangements; information on consultants engaged by Defence; and details of advertising and market research organisations used by Defence.

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

Finally, the report includes a glossary, a list of acronyms and abbreviations, and an index.

STYLE CONVENTIONS

In general, figures provided in the tables in this report are rounded to the nearest \$1,000, although there are some tables in which the figures are rounded to the nearest \$100,000 where appropriate. Figures referred to in the text are usually to the nearest million dollars for ease of reading. The rounding convention used is that rounding downwards occurs if the end digit is less than five, and rounding upwards occurs if the end digit is five or more. Totals are the sums of unrounded figures.

MATTERS ARISING FROM THE DEFENCE ANNUAL REPORT 1999-2000

Executive Remuneration

Following the publication of last year's annual report, the data for executive remuneration have been improved, notably in relation to more accurate calculation of fringe benefits tax on housing assistance, accrual-based salaries and superannuation. The data presented on page 57 of the *Defence Annual Report 1999-2000* for some executives have been updated as shown below. Improved data are also included at Note 52 in the Financial Statements section of this report.

SELECTED SENIOR OFFICERS – REMUNERATION FOR PERIOD IN OFFICE⁽¹⁾

Secretary	
Dr Allan Hawke from 12 October 1999	\$230,000 - \$239,999 (\$210,000 - \$219,999)
Chief of the Defence Force	
Admiral Chris Barrie AO	\$330,000 - \$339,999
Vice Chief of the Defence Force	
Air Marshal Doug Riding AM DFC to 5 June 2000	\$220,000 - \$229,000 (\$240,000 - \$249,999)
Lieutenant General Des Mueller AO from 5 June 2000	\$20,000 - \$29,999
Chief of Navy	
Vice Admiral David Shackleton AO	\$270,000 - \$279,999 (\$260,000 - \$269,999)
Chief of Army	
Lieutenant General Frank Hickling AO	\$240,000 - \$249,999 (\$270,000 - \$279,999)
Chief of Air Force	
Air Marshal Errol McCormack AO	\$260,000 - \$269,999 (\$280,000 - \$289,999)
Under Secretary	
Mr Mick Roche from 10 November 1999	\$130,000 - \$139,999

Note

1. Figures in parentheses are those shown in the 1999-2000 annual report.

Foreign Exchange Risk Management

The 1999-2000 annual report inadvertently included a statement that the ANAO performance audit on Commonwealth risk management practices had misrepresented Defence's foreign exchange risk management practices. Instead, the Annual Report should have stated that the misrepresentations were in some media reports of the audit, rather than in the audit report itself.

The Secretary, Dr Allan Hawke, wrote to the Auditor-General to apologise for the apparent criticism of the Audit Office and the statement was corrected in evidence to the Senate Legislation Committee on Foreign Affairs, Defence and Trade on 23 November 2000.