



Australian Government

Department of Defence

Defence Annual Report | 2002-03

03

HEADLINE RESULTS FOR 2002-03

OPERATIONAL

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

Further information can be found in Chapter Two

SOCIAL

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

Further information can be found in Chapter Five

FINANCIAL

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

Further information can be found in Chapter Three

ENVIRONMENTAL

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

Further information can be found in Chapter Three

GUIDE TO THE REPORT

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

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

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

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

STYLE CONVENTIONS

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

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Australian Government
Department of Defence

27 October 2003

Senator the Hon Robert Hill
Minister for Defence
Parliament House

Dear Minister

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

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

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

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

Yours sincerely

Handwritten signature of R C Smith in black ink.

R C Smith AO, PSM
Secretary
Department of Defence

Handwritten signature of P J Cosgrove in black ink.

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

CONTENTS

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

CHAPTER ONE – OVERVIEW

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

CHAPTER TWO – RESULTS FOR GOVERNMENT AS DEFENCE'S CUSTOMER

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

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

CHAPTER THREE – RESULTS FOR GOVERNMENT AS DEFENCE’S OWNER

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

CHAPTER FOUR – ENABLING BUSINESS PROCESSES

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

CHAPTER FIVE – PEOPLE MATTER

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

APPENDIX

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

LIST OF TABLES AND CHARTS

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

CHAPTER ONE – OVERVIEW

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

CHAPTER TWO – RESULTS FOR GOVERNMENT AS DEFENCE’S CUSTOMER

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

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

CHAPTER THREE – RESULTS FOR GOVERNMENT AS DEFENCE’S OWNER

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

CHAPTER FOUR – ENABLING BUSINESS PROCESSES

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

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

CHAPTER FIVE – PEOPLE MATTER

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

APPENDIX

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

CHAPTER GUIDE

Chapter One contains:

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

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

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

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

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

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

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

Chapter Five contains information on:

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

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

CORRECTIONS TO THE DEFENCE ANNUAL REPORT 2001-02

AUSTRALIAN DEFENCE FORCE EXERCISES

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

EXTERNAL CONSULTANTS

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

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

CONTRACTS EXEMPT FROM PUBLICATION IN THE PURCHASING AND DISPOSAL GAZETTE

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

TABLE 1: CORRECTIONS TO EXEMPT CONTRACTS FROM 2001-02

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

NOTES

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

ADVERTISING AND MARKET RESEARCH

MARKET RESEARCH ORGANISATIONS

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

MEDIA ADVERTISING ORGANISATIONS

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

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

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

