

YEAR IN REVIEW

REVIEW BY THE SECRETARY AND THE CHIEF OF THE DEFENCE FORCE

In 2002-03, Defence continued to respond to the broad and complex demands created by a changed strategic environment. The high operational tempo of the last few years continued and the diversity of tasks confronting Defence expanded. Responding to the tragedy of the Bali bombing, the US-led operation in Iraq to enforce United Nations' Security Council resolutions, and the continuing commitment to the war on terror, demanded high levels of operational performance throughout the year. Financial management, acquisition reforms and improved business processes generally were given increased attention and will remain a major focus during the next 12 months and beyond.

THE CHANGED STRATEGIC ENVIRONMENT AND OPERATIONAL ACHIEVEMENTS

Changes in Australia's strategic environment were outlined in *Australia's National Security: A Defence Update 2003*, released by the Minister for Defence in February 2003. The *Defence Update* described Australia's changed strategic circumstances and identified the need for some rebalancing of capabilities and priorities to take account of the new strategic environment. The major changes to the strategic environment identified in the *Defence Update* were the emergence of new and more immediate threats from terrorism and increased concerns about the proliferation of weapons of mass destruction. The *Defence Update* also noted the continuing economic, political, governance and social challenges which countries in our region face – challenges intensified by the terrorist threat. The terrorist attacks in Bali demonstrated the reach of terrorism, and underscored the reality that Australia is not immune.

The *Defence Update* noted that, while Australia's involvement in coalition operations further afield was somewhat more likely, there may also be increased calls to undertake operations in Australia's immediate neighbourhood. Events of the following six months have borne this out. Australia's contribution to the war in Iraq, named Operation Falconer, involved the deployment of some 2,000 Australian Defence Force (ADF) personnel. Among the many ADF contributions that stood out were the close air support and defensive counter-air operations provided by RAAF F/A-18s, the naval gunfire support for troops ashore provided by HMAS *Anzac*, the mine clearing operations by Navy clearance diving teams and the deep reconnaissance patrols by the Army's Special Forces. The excellence and sophistication of ADF force elements were borne out by Operation Falconer which, fortunately, sustained no Australian military casualties.

Defence support to the rehabilitation of Iraq continued after the cessation of formal hostilities in May. About 800 Defence personnel remain in the Middle East area of operations under trying and difficult circumstances to contribute to Iraq's stability and reconstruction. Australia's post-war contribution included an air traffic control detachment at Baghdad International Airport, a security detachment to provide protection

and escort for Australian Government personnel, a RAAF C-130 detachment supporting operations in Iraq, a RAAF P-3 Orion detachment supporting both the rehabilitation operation in Iraq and the coalition operation against terrorism, and analysts and technical experts supporting the coalition effort to locate, identify, account for and subsequently destroy Iraq's weapons of mass destruction. A RAN ship also remains on patrol in the Gulf.

The success of ADF operations throughout the year, but particularly those in Afghanistan and Iraq, attested to the ability of Defence to develop, maintain and field world-class military capabilities. It also reaffirmed Defence's ability to deploy and maintain forces in distant theatres and in difficult environmental conditions.

Defence has conducted a review of its strategic-level involvement in the Iraq War with input from other Government departments and coalition partners, who were consistently positive in their evaluation of Defence's performance. The review produced a series of lessons learnt, identifying aspects of performance which need to be sustained, aspects which need to be improved and performance shortfalls which need to be addressed. A public version of the report will be released in late 2003.

While responding to operational requirements in Iraq and Afghanistan was challenging, responding to the terrorist attacks in Bali on 12 October 2002 was a singularly confronting experience for the ADF members involved. Operation Bali Assist involved a large mobilisation of emergency military support. Within 24 hours, the ADF had ferried medical personnel and supplies to Bali and begun the emergency evacuation of bomb victims to Australia. The tragedy hit hard back in Australia, with 88 Australians among the 202 fatalities.

Throughout this period of intense activity, Defence personnel continued their heavy engagement in the region. We have continued our major commitment of around 1,000 personnel to the United Nations Mission in Support of East Timor and our support to help train and develop the fledgling East Timor Defence Force. The deployment of an Army Reserve company to East Timor in November 2002 was particularly significant, as it was the first time that Reserves have been deployed overseas as a formed unit since World War II.

The year ended with the closure of one of Defence's longest running commitments in the region. The Peace Monitoring Group in Bougainville, which included both ADF members and civilians, ceased operations on 30 June 2003 after five years. With no fighting on the island since 1997 and substantial success in the weapons' reduction program, it was time to hand over responsibility to a civilian body - the Bougainville Transitional Team. Bougainville has been a success for all concerned.

Defence personnel also undertook a range of other important national tasks during the year. Under Operation Relex II, naval and air forces continued to be involved in a program to detect, intercept and deter vessels carrying unauthorised arrivals from entering Australia. Defence personnel also provided extensive assistance to civil authorities in battling the bushfires that raged throughout the Australian Capital Territory, Victoria and New South Wales last summer.

At the end of the year under review, Defence was heavily engaged in planning for its next major deployment to assist (under Operation Helpem Fren) the Solomon Islands



The Minister for Defence, Robert Hill, and United States Defense Secretary, Donald Rumsfeld, respond to questions from the press during their talks in the Middle East in April 2003.



The Minister for Defence talks with a group of Australian pilots during a tour of the F/A-18 detachment at a Middle East base in April 2003.



Minister Assisting the Minister for Defence, Danna Vale, visited East Timor in April 2003 with members of the Defence Reserve Support Council and civilian employers of Army Reservists serving on full-time deployment with A Company, 5th/7th Battalion, Royal Australian Regiment.



Parliamentary Secretary to the Minister of Defence, Fran Bailey, with a member of the new Tiwi Islands Army Cadet Platoon after a first aid lesson following the official launch of the platoon on 6 May 2003.

OPERATION BALI ASSIST

Operation Bali Assist was the ADF contribution to the Australian Government response to the tragic bombings in Bali that occurred late on the evening of 12 October 2002. The ADF priority throughout the operation was to provide medical assistance and aero-medical evacuation support to those injured in the bomb blasts.

The prime task throughout the medical evacuation was to get the seriously injured, once stabilised, from Bali to Darwin, and then from Darwin to southern cities for further medical treatment as quickly and as safely as possible.

Defence responded quickly to the call for assistance, with the first aero-medical evacuation team airborne less than six hours after being notified of the mission.

A total of five Hercules aircraft, 12 crews and five aero-medical evacuation teams deployed from RAAF Richmond in NSW to assist with the evacuation effort. Those aircraft transported urgently needed medical stores to Darwin and flew aero-medical shuttles between Bali and Darwin. The Air Force also transported two ambulances to Bali. One Orion aircraft also deployed to transport Australian Federal Police and additional Foreign Affairs consular staff from Canberra to Bali.



A burns patient is transported across the tarmac at Denpasar Airport, to an awaiting Hercules aircraft.



RAAF medical staff attend to patients on board a C-130 Hercules flight from Denpasar Airport to Darwin.

In total, there were 15 Hercules flights (including 1 Royal New Zealand Air Force flight and medical team) from Bali during the operation, with 70 casualties transported to Darwin.

Four RAAF aircraft were further tasked to move injured personnel to southern capital cities to relieve the strain on Darwin Hospital facilities. Altogether, 39 patients were flown to southern cities by those aircraft.

Defence was also involved in transporting three severely injured Indonesian citizens from Bali to Perth. During the flight, the aircraft had to be diverted to Darwin when the condition of one of the patients deteriorated. Sadly the patient passed away later at Darwin Hospital. The aircraft continued to Perth with the remaining two patients and their accompanying family members. This was the last aero-medical evacuation task for the Air Force.



The second phase of the operation – personnel at RAAF Darwin assist with the unloading of the RAAF Ambibus. Patients were loaded onto a Hercules aircraft and taken to southern airports where they were taken to burns units of major hospitals.

Defence also supported the Australian Federal Police in the transportation of stores and additional personnel to Bali to assist in the victim identification process.



A Hercules flight flew some victims to Melbourne.

A number of Defence personnel were deployed to Bali after the aero-medical evacuation operations were completed to assist with the management of the bombings' aftermath. These personnel included coordination and communication staff, chaplains, psychologists, Indonesian linguists, forensic medical and dental staff, electrical and refrigeration technicians and ambulance drivers.

Other Defence personnel serving in Jakarta travelled to Bali to coordinate the evacuation of injured Australians and other foreign nationals and they were joined by several ADF personnel who were on leave in Bali at the time of the bombings and came forward to offer assistance.

Government in restoring law and order and the institutions of government in coalition with a number of Pacific Island Forum countries. While this was to be primarily a police operation, Defence was to provide a major contribution with security and logistics support totalling some 1,500 ADF personnel.

DOMESTIC SECURITY

The Bali terrorist attacks of October 2002, terrorist strikes elsewhere and the activities of well-established extremist regional organisations, in particular Jemaah Islamiyah, underscore the threat that terrorism poses to Australia. These challenges require a whole-of-government response and, in this, Defence has a key role to play.

Domestic coordination was enhanced and rapid response capabilities increased. The Special Operations Command was established in May 2003 to improve Australia's ability to respond to terrorism at home and abroad.

The size of the Special Forces was increased and more troops trained for counter-terrorism capabilities. A second Tactical Assault Group was created, along with the expansion of the Incident Response Regiment to deal with nuclear, chemical and biological threats. The ability of the reserve force to support domestic security was also enhanced. In May, the Government announced the establishment of the Reserve Response Force comprising a company-sized group in each of the six reserve brigades, to be trained for short-notice response to domestic security incidents.

Some of these capabilities were demonstrated in the apprehension of the North Korean drug smuggling ship, *Pong Su*, when Special Operations troops worked with Navy and Air Force elements under the new command arrangements in assisting state and federal police and customs to apprehend the vessel and crew.

Planning and preparation are well advanced for whole-of-government security arrangements for the Rugby World Cup 2003, which will take place at venues across Australia in October and November. Defence is an active participant on the Major Events Commonwealth Coordination Group, led by the Department of Industry, Tourism and Resources, which has been established to coordinate government support for the World Cup. Defence is developing a range of support measures, including appropriate specialist counter-terrorism response options.

FORCE CAPABILITY

To ensure the future effectiveness of the ADF, Defence continued to work towards achieving the capability goals outlined in the Defence White Paper and adjusted in the *Defence Update*. Significant milestones were achieved in the early stages of major capital acquisition projects in the Defence Capability Plan, such as air-to-air refuelling and helicopter rationalisation. Other major projects, including airborne early warning and control aircraft and armed reconnaissance helicopters, remain on schedule and within budget.

In October 2002, Australia formally joined the system development and demonstration phase of the Joint Strike Fighter program. This represents a new approach to international participation in combat aircraft programs. Participating in this phase is a more

forward-thinking approach, one that reflects closer partnering with industry and improved responsiveness in the Defence capability acquisition process. These kinds of innovative approaches are needed if the ADF is to remain at the forefront of developments in technology. Several industry opportunities have already been identified for the future and the Government is seeking to secure an Australia-based regional support capability for Joint Strike Fighter aircraft.

Defence's investment program is on track to achieve the White Paper capability goals, with some 85 new projects having been approved since December 2000 with an all-up cost of around \$16b. There have been some delays in projects as the Government and Defence have worked to ensure that projects are subject to greater scrutiny in order to achieve better outcomes for the ADF.

Following on from the *Defence Update*, a full review of Australia's defence capabilities was commenced to take account of the changes to our strategic and security environment since the publication of the White Paper. This review will focus on the development of a more flexible and mobile force, with sufficient levels of readiness, sustainability and interoperability, to perform the increased range of tasks the ADF is likely to face in Australia's current strategic environment. The Government has already expanded the Special Forces to meet the most immediate security changes, but the capability review will identify what further rebalancing of capability and investment priorities might be required to meet the needs of our changed circumstances.

During the year, the Senate Foreign Affairs, Defence and Trade References Committee undertook an inquiry into *Materiel Acquisition and Management in Defence*. Overall, its report was positive about the creation of the Defence Materiel Organisation and the implementation of the materiel reform agenda. The committee expressed confidence that the organisational, structural and process reforms already implemented by the Defence Materiel Organisation were providing the disciplined basis necessary to deliver projects on time, within budget and that meet operational requirements.

A separate review of Defence procurement was initiated by the Government to identify further improvements in Defence project management. The review team, led by Mr Malcolm Kinnaird, was to report to the Government early in 2003-04¹.

Defence continued to work during the year to shed unwanted overheads arising from property ownership. Defence will continue to own properties that contribute directly to military capability and special purposes. Other properties that become surplus to requirements will be divested in accordance with Australian Government property disposals policy. In 2002-03, Defence sold properties to the value of \$616m. The Government decided not to proceed with the sale and lease-back of the Russell Offices in Canberra.

Maintaining ADF capability relies on our ability to attract, train and retain the right people. In 2000, the Australian National Audit Office (ANAO) conducted a performance audit on the retention of military personnel. A follow-up audit, tabled in March 2003, concluded that Defence had made progress in implementing the original audit recommendations and commended Defence for undertaking evaluation of measures designed to retain personnel.

¹ The Government announced on 18 September 2003 that it had agreed to broadly accept the recommendations of the Kinnaird review.

Recent initiatives include the identification and management of critical trades and key service separation points for the ADF and programs focused on ADF members' families, including Defence employer-sponsored child care and spouse employment, improved choice of accommodation for members without dependants and enhancement of housing standards for members with dependants.

FINANCIAL MANAGEMENT

FINANCIAL TRANSFORMATION

During 2002-03, Defence put in place a comprehensive financial transformation agenda that seeks to significantly improve its financial management capability. In particular, the strategy aims to embed lasting processes and understandings which will support more effective planning, estimation and reporting of Defence finances. Achievements in 2002-03 included:

- the most comprehensive budget statements ever delivered by Defence;
- the development of a ten-year view of the budget that was approved and released prior to the end of the financial year;
- the development of the financial management strategy and its alignment to financial activities;
- a rigorous and systematic Defence-wide approach to the financial statements process and controls;
- the upgrade of the Standard Defence Supply System, which records Defence's asset inventory;
- improvement initiatives surrounding data quality, particularly debtor and cash management; and
- development of the business model and internal business rules.

Despite these improvements, longstanding financial management issues still affect Defence's ability to control costs, ensure accountability, anticipate future costs and claims on the budget, measure performance and maintain funds control. Several years of further hard work are required to fully resolve the challenges facing Defence in these areas.

The size of the task cannot be underestimated. Defence is one of Australia's largest and most complex entities. It manages some \$50b worth of assets on behalf of the Government and has an annual operating budget of some \$16b. But the imperative for current and future capability plans to be linked both to strategic priorities and to sustainable and achievable resource levels is recognised. So is the need for Defence to be able to estimate reliably its future investment, operating and workforce requirements, and have visibility and accountability relating to capability budgets. Improving processes in all these areas remains a high priority for the organisation.

TACKLING THE FINANCIAL MANAGEMENT CHALLENGE

During the course of 2002-03, Defence made progress in tackling its financial management challenges. The Defence business model was strengthened, and the Defence Capability and Investment Committee's role broadened, to give more focus to the balance between current capability and future investment.

The 2003-13 Defence Management and Finance Plan was presented to the Government in February 2003. The plan provided Ministers with a much clearer oversight of Defence planning and resourcing strategies than they have had previously. This document, together with the 2003-04 Defence portfolio budget submission which was lodged in March 2003, enabled the Government to make important resourcing decisions in respect of the Defence portfolio.

In addition to providing the third annual tranche of White Paper funding, the Government announced new policy measures totalling \$2.1b over the period 2002-03 to 2006-07. These included funding for the net additional costs of current operations, including Defence's commitments in the Middle East area of operations.

During 2002-03, we took action to arrest, and then reduce from 2003-04 onwards, overhead costs in a number of areas. As part of the \$200m per annum program of administrative savings announced in the 2003-04 Budget, savings targets have been set for civilian personnel numbers, travel, use of professional service providers and the level of overseas representation. In support of these endeavours, we sought generally to encourage a 'culture of economy' in the organisation.

To give effect to these reforms, Defence's peak management body, the Defence Committee, agreed to a set of programming principles and business rules designed to strengthen the accountability of senior leaders in managing their budget allocations. More rigorous performance agreements were introduced for civilian SES staff, to take effect in 2003-04.

A new outcomes/output structure was developed for implementation in the 2003-04 Budget, and Defence introduced a new portfolio-wide budgeting system and initiated a rolling program of zero-based budget reviews to improve the overall quality and accuracy of the Defence Budget. Group Heads were provided with their 2003-04 and ten-year forward budget allocations on 2 June 2003.

Significant improvements were also made to Defence's preparedness management system which have enhanced performance reporting and also helped our work in better understanding and managing the linkage between preparedness levels and costs. In turn, our work on the decision-support project will, by 2003-04, enable us to accurately cost Force Element Groups.

Further improvements to the budgetary process are aimed at achieving a best practice budgeting system in line with the Australian National Audit Office's (ANAO) *Better Practice Guide for Internal Budgeting*. The benefits of these endeavours will be apparent in 2003-04 and beyond.

Overall, the budget outcome for 2002-03 was broadly in line with expectations.

FINANCIAL STATEMENTS IMPROVEMENT PLANS

To improve the quality of its financial statement reporting, Defence put in place financial statement improvement plans that focused attention on high-risk financial areas, including inventory and other asset areas that were the subject of the 2001-02 audit qualification. These plans were prepared in consultation with the ANAO and designed to ensure that all steps in the financial statement preparation process were undertaken, our quality assurance procedures were completed and that the required internal sign-offs and assurances were received.

This planning process also addressed the many audit findings raised by the ANAO in recent years. Much of this work was directed at improving the controls and business processes relating to Defence's major systems, including the financial reporting framework, the Standard Defence Supply System, the general ledger system and personnel systems. Many of the audit findings of the past year have been resolved, but ANAO audits and Defence's own continuous improvement programs and data-quality review processes continue to expose deficiencies. A process of identifying and addressing issues is in place, but a number of significant areas will require several more years to complete.

To ensure further improvement in the quality of our financial reporting, a number of data-quality 'tiger teams' were established to achieve permanent changes to business practices and to make the review and improvement of data a continuing process. These teams are focusing on capital expenditure programs, inventory management and reporting, the accuracy of employee entitlements and budgeting and financial structures.

The financial statement planning processes and data quality initiatives mean that our 2002-03 financial statements are of better quality than those of previous years. Although the 2002-03 financial statements have again been qualified by the ANAO in respect of inventory and repairable items, the extent of the qualification is reduced over that of 2001-02. A new qualification in respect of military leave provisions has highlighted the need for stronger leave processing arrangements and for improvements in the filing and storage of personnel data. Defence has a comprehensive data quality assurance program in place to address these issues.

It is important to note that the qualification is of an 'except for' nature, so all aspects of our financial statements were considered by the ANAO to be in accordance with the Finance Minister's Orders except for those aspects relating to certain inventory, a part of our specialist military equipment, military leave provisions and executive remuneration. Several more years may be required before Defence will see the elimination of the audit qualification.

DEFENCE RENEWAL

We fully support the path that our predecessors, Admiral Chris Barrie and Dr Allan Hawke, set us on in regard to 'Defence Renewal'. We need to do everything possible to sustain the pace and direction of necessary cultural change. At the same time, we are convinced that Renewal should proceed with a clear emphasis on deliverable reforms and outcomes. Our drive for culture change must be underpinned by recognition of the need to improve business processes and systems.

Renewal is shaped by, and contributes to, three key themes. First, building better alignment with the Government's strategic direction; second, building clearer accountability for results; and third, building a leadership culture. It also places a premium on values.

Renewal is also intrinsically linked to the practical application of the 'Results through People' philosophy in Defence, which puts the onus on leaders at all levels to recognise that individuals can and do make a difference, and that the alignment of workplace behaviour with a shared set of values helps people to be more innovative and effective in achieving results.

VALUES

Consistent with the *Public Service Act 1999*, Defence's corporate governance framework is characterised by a commitment to be a results-focused, values-based organisation. The six Defence values are professionalism, loyalty, integrity, courage, innovation and teamwork. The key challenges for Defence are in communicating these values as a basis for shared working styles and translating these values into evident behaviours.

ALIGNMENT

The 'Strategic Leadership for Australia' policy statement, released by the Prime Minister in November 2002, firmly grounded the priority afforded to national security, defence and counter-terrorism in the context of a range of other whole-of-Government priorities. This context brings into sharp focus what must be done in working with Cabinet, Ministers and government agencies to ensure that our work is in alignment with the Government's strategic direction.

ACCOUNTABILITY

With regard to accountability for results, new Australian Workplace Agreements have recently been introduced for civilian senior leaders (Senior Executive Service Band 1 and above). The new agreements focus on the achievement of more clearly defined and measurable outcomes, in line with the intent to continue to sharpen personal accountability. Individual accountabilities at lower levels across Defence will also become more rigorous and performance will be measured against specific targets.

LEADERSHIP

Our continuing program of senior leadership events provides for intentional communications with senior leaders across Defence in order to sustain the focus on priorities for improvement and discuss critical strategic issues. This is a very important strategic leadership process, not least for its value in developing alignment and cohesion across a diverse organisation. We must continue to emphasise core expectations with leaders at all levels in Defence. They include achieving better results faster, close attention to people initiatives, setting and managing priorities, and responsive, accurate advice.

This was a year which saw an unusual extent of leadership change, with ourselves assuming office in July 2002 (the Chief of the Defence Force) and November 2002 (the Secretary), and with new appointments to the positions of Vice Chief of the Defence Force, Chief of Army, Chief of Navy, Deputy Secretary Corporate Services and Deputy Secretary Strategic Policy in July 2002, and Deputy Secretary Intelligence and Security in August 2002. It reflects well on the commitment and professionalism of the men and women of Defence that, through this demanding year, they maintained an operational tempo unprecedented in modern times, and a renewed pace of organisational activity, change and improvement. We wish to recognise this, and to thank them for it.

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