

Year in Review

Review by the Secretary and the Chief of the Defence Force

Australia's strategic environment continued to present complex challenges in 2003-04. Defence remained focused on contributing to global and regional efforts to combat terrorism, and to fostering regional stability. The post September 11 demands on Defence continued to broaden, with increasingly close involvement in whole-of-government national security responses. We have responded well to expanded Government requirements, and it has been a rewarding year for Defence in terms of the Australian Defence Force's (ADF) performance on operations.

In the area of Defence management, much has been achieved in implementing the Kinnaird review's recommendations for improving Defence's performance in capability acquisition and procurement and for further reform of the Defence Materiel Organisation. We have continued to work at resolving challenging financial management matters and improving internal coordination. The groundwork for enhanced performance has been laid, but more needs to be done to improve asset and liability accounting.

As we write, approximately 2,000 ADF personnel are deployed on operations, around 1,100 of them overseas. They are on Coalition operations in the Middle East, and working with regional partners to help restore the rule of law in the Solomon Islands and to establish a basis for a peaceful democratic future for that nation. They are assisting Customs and Coastwatch to protect our borders and are supporting counter-terrorism security operations at home. Their operational success is made possible by the work of their ADF and civilian colleagues based around Australia.

Australia's Strategic Environment

In the three years since the terrorist attacks of September 2001, we have adjusted to the changed circumstances in our strategic environment and demonstrated our ability to respond quickly to emerging crises, building greater versatility and flexibility into our force structure and planning processes.

The threat of terrorism has had a major impact on the environment in which Defence operates. The bombing outside the Australian Embassy in Jakarta this year (after the period reviewed in this annual report) underscored again the intent of transnational terrorists to attack Australian interests abroad. This asymmetric threat has diminished the value of borders and geographic distance, fundamental to Australia's traditional security posture. Proliferation activities, and the risk of terrorism and weapons of mass destruction coming together, give a particular urgency to Defence's responses to our changed strategic circumstances.

Good, actionable intelligence has been key to our response. Continued investment in the Defence intelligence agencies over this past year has enabled them to develop new technologies to help combat terrorism, and systems to provide enhanced support to ADF commanders in the field.

Over the same period, our counter-terrorist capabilities have been strengthened and successfully exercised, with Special Operations Command Headquarters achieving full strength and capability, and expenditure on new capability on course. The Incident Response Regiment is now operationally capable and will reach full maturity by December

2005. Defence's participation in the whole-of-government counter-terrorism Exercise Mercury 2004 demonstrated our capacity to operate simultaneously in two geographically separate regions, and the readiness of the Reserve Response Force to support counter-terrorism operations at short notice. Our hosting of a Regional Special Forces Counter-Terrorism Conference in Australia in June 2004 brought together senior special forces commanders and counter-terrorism officials from 16 countries within the Asia-Pacific region to discuss cooperative counter-terrorism measures across the region.

Defence has been a key agency in the multinational Proliferation Security Initiative (PSI), which is working to prevent the transshipment of weapons of mass destruction, contributing ADF assets and policy support to the first multilateral PSI interdiction exercise in September 2003, hosted by Australia in the Coral Sea. We also provided expert advice on the export of defence and dual use items from Australia to limit the potential for exports from Australia becoming components of weapons of mass destruction.

Over the past year, Defence has also been involved in whole-of-government efforts to foster national stability, integrity and cohesion in our immediate neighbourhood. Some regional nations, including East Timor, Papua New Guinea and other Pacific Island states, are vulnerable because of internal stresses caused by economic disparity, population pressures and governance challenges. The ADF's support of Australia's intervention in the Solomon Islands, at the invitation of that country's Government, was a key regional success. And Defence's cooperation program continued to deliver practical assistance to the region through initiatives such as the Pacific Patrol Boat Project and the Papua New Guinea Defence Force Reform Program.

In support of national peacetime security tasks, we contributed to whole-of-government domestic security activities in aviation and maritime security during the year, and provided counter-terrorism support to major public events such as the Rugby World Cup 2003 and the visits by the Presidents of the United States and the People's Republic of China.

Current Operations

The number of ADF personnel deployed overseas peaked in July 2003 at around 3,600. Over the past year, that number has steadily declined with the reduction of personnel in both East Timor and the Solomon Islands. As at 30 June 2004, some 1,100 ADF personnel remained on overseas deployments.

Approximately 845 of these were deployed under Operation Catalyst to assist with the rebuilding of Iraq. They protected Australian officials in Iraq, primarily our diplomats, trained the new Iraqi armed forces, and provided our personnel in the Middle East Area of Operations with the logistics and communications support that they needed. They also ran a national headquarters in Baghdad which continues to control both Operation Catalyst and Operation Slipper (our contribution to the war against terrorism).

In 2003-04, our Navy personnel conducted over 1,000 successful challenges and 400 compliant boardings in the Persian Gulf to protect Iraqi oil supplies and counter smuggling and other illegal operations.

The Air Force flew some 2,000 sorties, provided aeromedical evacuation to nearly 1,000 patients in Iraq, and carried 14,000 passengers and over 12 million pounds of cargo. Two of our AP-3C Orion maritime patrol aircraft and 160 personnel flew over 400 sorties, conducting intelligence, reconnaissance and surveillance missions in the Persian Gulf, the Gulf of Oman and over Iraq. An Air Force air traffic control element served at Baghdad International Airport until 31 July 2004. The detachment processed over 175,000 aircraft

movements and trained Iraqi air traffic controllers, who have now taken over operations at Baghdad airport.

A force protection group of 120 personnel and 12 Australian Light Armoured Vehicles protected Australian Embassy and other government officials and ADF elements in Iraq.

ADF training teams contributed to the rehabilitation of Iraq by training the Iraqi 4th and 8th Brigades at Al Kasik and assisting the new Iraqi Coastal Defence Force to develop its patrol boat operations. Around 40 ADF personnel were embedded in the Multi National Force – Iraq to support the transitional and rehabilitation efforts in Iraq and an ADF member served as the Military Adviser to the United Nations Special Representative of the Secretary General.

The ADF's Operation Slipper contributed to the war against terrorism by providing the Operation Catalyst AP-3C detachment, a major fleet unit assigned to Maritime Interception Force operations in the northern Persian Gulf, and a de-mining specialist attached to the United States' Headquarters in Afghanistan.

The Australian-led, multinational operation has been under way in the Solomon Islands since July last year. At its peak in August 2003, over 1,700 ADF personnel were deployed in support of police efforts to restore law and order. Around 100 remained at 30 June 2004 providing support to the police and able to respond to any incident requiring military action.

Under Operation Spire, the ADF provided approximately 100 personnel to the United Nations' (UN) mission in East Timor, undertaking a range of roles to support the UN, mainly performing specialist logistics and engineering and military liaison tasks.

The ADF also continued to conduct operations to protect Australia's borders. The Navy's patrol boats, the Air Force's P3-Cs and the Army's Regional Force Surveillance Units all contributed to Operation Cranberry in northern Australia in support of Coastwatch's maritime surveillance program to detect illegal activity such as smuggling and illegal fishing. Our naval and air forces also operated under Operation Relex II, a major program to detect, warn and intercept vessels carrying unauthorised arrivals.

During 2003-04, the ADF responded to three major humanitarian crises. In response to the earthquake that devastated the city of Bam in Iran in December 2003, an Air Force C-130 aircraft transported in excess of 23,000 pounds of emergency stores. In January this year, an ADF health team deployed to the Pacific Island of Niue in response to tropical cyclone Heta which destroyed most of the country's infrastructure. The ADF health care facility became the only hospital on the island and treated over 300 patients. A few weeks later, two Air Force Hercules C-130 aircraft transported urgently needed emergency stores to Port Vila in Vanuatu following the devastation caused by tropical cyclone Ivy.

In addition to meeting these operational demands, ADF personnel continued to support UN missions in Ethiopia and Eritrea, in the Sinai, and along the Israel, Jordan, Syria, Lebanon and Egypt border and serve as unarmed military observers at headquarters in Jerusalem, the Golan Heights, Southern Lebanon and Gaza.

OPERATION ANODE

Operation Anode is the ADF's contribution to the Australian-led Regional Assistance Mission to the Solomon Islands (RAMSI).

The overall RAMSI undertaking is known as Operation Helpem Fren.

The ADF deployed to the Solomon Islands in July 2003 in support of the Australian Federal Police, Australian Protective Service and Australian Government civilian officials. The contingent's first priority was to restore law and order but it has subsequently assisted the Solomon Islands' Government to reform its key institutions.

ADF personnel including elements from the 2nd Battalion Royal Australian Regiment, the Navy's minehunter vessels and the Air Force's Caribou detachment worked with forces from Fiji, Tonga, New Zealand and Papua New Guinea.

The workload for military personnel deployed to RAMSI was heavy with many working 18-hour days for the duration of their deployment.



A Seaking helicopter from HMAS Manoora delivers a vehicle to police and military personnel establishing a police presence in a village on the remote Weathercoast on 4 August 2003. Two Seaking helicopters worked throughout the day flying 36 sorties and delivering 30 tonnes of stores.



A C-130 Hercules aircraft delivers supplies to Henderson Airfield, Honiara.



RAMSI military personnel destroy weapons during a ceremony at Marau, south east of Honiara on the last day of the Solomon Islands gun amnesty on 21 August 2003.

The high incidence of illegal firearm possession in the Solomon Islands also meant Australian soldiers operated under significant danger. Local conditions also posed significant challenges. Four members of one patrol, for example, were swept out to sea – and subsequently rescued by locals in a canoe – after attempting to cross a fast-flowing river mouth.

When RAMSI personnel arrived in the Solomon Islands, years of ethnic tension, gang-related violence and police corruption had undermined law and order and the Government's legitimacy. Within a year, RAMSI has significantly restored public confidence in the Solomon Islands' Government through arrests of key militants and the confiscation and public destruction of over 3,700 firearms.

The improved security situation has allowed the phased withdrawal of military forces and the transition to contracted administrative and logistic support for the Australian Federal Police. A smaller combined ADF and regional military force, including an infantry platoon on quick reaction force duties, remains in the Solomon Islands in support of the continuing police-led activities.

The focus of RAMSI has shifted from restoring law and order to building durable

governance mechanisms and stimulating economic growth. This is an endeavour the Australian Government will continue to support by providing specialist contributions to RAMSI designed to advance reforms in health, infrastructure, policing, justice and economic and financial management.



Captain Angela Devlin, an Australian Army nursing officer, has a few quiet words with a young patient at the Solomon Islands' main hospital in Honiara.

Intelligence Inquiries

Our intelligence agencies operated at a high tempo during the year to support ADF operations and the war against terrorism. They were also the subject of a number of official inquiries. These included the Parliamentary Joint Committee on ASIO, ASIS and DSD inquiry into intelligence on Iraq's weapons of mass destruction, the Senate Standing Committee on Foreign Affairs, Defence and Trade inquiry into security threats to Australians in South East Asia, and the inquiry by Mr Philip Flood AO into Australia's intelligence agencies.

Mr Flood recommended that the coordination, governance and legislative underpinning of the organisation and operations of Australia's intelligence community be strengthened. He recommended a cohesive national approach to the priorities and funding of our intelligence agencies and to evaluating their performance. In addition to contributing to community wide responses, the key implementation issues for Defence are to rebalance the Defence Intelligence Organisation's focus towards Defence requirements, to integrate Defence intelligence assessment priorities into national assessment priorities and to restore a healthy balance of ADF personnel in the Defence intelligence agencies.

Defence Capability and Procurement Reviews

During 2003, the Defence Procurement Review (known as the 'Kinnaird review') examined the procurement process for major Defence acquisitions. In response to the review's recommendations, Government directed that the Defence Materiel Organisation, while remaining part of the Defence organisation, should be established as a prescribed agency under the *Financial Management and Accountability Act 1997* from 1 July 2005.

Defence acted quickly to implement the Kinnaird recommendations. A new Capability Development Group, headed by Lieutenant General David Hurley, was formed to provide better definition both of the capability we require and the equipment or systems solutions to deliver it. We instituted a new process for approving capability proposals which requires the solutions to be better defined, more robustly costed, and their owners more accountable. In February 2004, Dr Stephen Gumley was appointed as the Chief Executive Officer of the Defence Materiel Organisation. With his new management team, Dr Gumley has initiated a program of reform that will professionalise the organisation's workforce, improve contract management, standardise business practice and process, benchmark the organisation against best practice and improve its relationship with industry.

A Defence Procurement Advisory Board made up of senior public and private sector members was established to monitor the implementation of the Kinnaird recommendations. The Board provides strategic advice and support to Dr Gumley on the direction, focus, objectives, planning, management and structure of the organisation.

The Defence Capability Plan was reviewed during 2003, with the revised plan endorsed by Government and released in November 2003. Subsequent Government decisions approved the acquisition of M1A1 Abrams tanks, two additional airborne early warning and control aircraft, five air-to-air refuelling aircraft, and an auxiliary oiler to replace HMAS *Westralia*.

Financial Management

Defence's Financial Statements are set out fully in this report. The results in terms of cash management, receivables, revenue appropriations, explosive ordnance holdings, and specialist military equipment exclusive of repairable items are stated fairly. Budget management practices continued the improvement of the last few years. As well, new techniques such as our Portfolio Budgeting system and proposed Force Element Product Costing model attracted interest from other defence ministries and Commonwealth agencies.

In relation to certain accrual entries and provisions and their resultant impact, the Secretary could not conclude on the financial statements as a whole. The qualifications identified in previous years remain on the statements for 2003-04, and the scope of some of them has increased. In particular, work by Defence's Management Audit Branch and the Australian National Audit Office (ANAO) identified shortcomings in stock recording policies and practices. This has had an impact on the level of uncertainty in relation to the reported values of general stores inventory and repairable items, problems which in the past had reflected only pricing issues.

This outcome is disappointing, as we had increased significantly the resources committed to trying to achieve compliance with accrual accounting standards and the introduction of other new accounting standards. These efforts were driven by a Project Board chaired by the Secretary and including all Service Chiefs, and guided by our independently chaired Defence Audit Committee. More than 600 staff across the organisation were involved, on a full or part-time basis, and several major accounting companies were contracted in.

These efforts will be strengthened in 2004-05. They include remediation plans for each of the qualifications as well as for more generic reforms aimed at meeting not only accrual accounting requirements but also the newly introduced International Financial Reporting Standards. Establishing the Defence Material Organisation as prescribed agency, with its own accounts, will add a further layer to the challenge. To assist in this work, a representative from the Department of Finance and Administration will join the Project Board, together with a private sector accounting specialist.

In all of this, Defence and ANAO have accepted that while some of the problems we face might be susceptible to quick remediation, others are more deeply seated and will take some years to resolve as Defence endeavours to reach beyond the Public Service, cash-based arrangements of the past and to attain the corporate-like, accrual-based international standards required of us.

In the meantime, cash and budget management policy and practice remain sound, and Defence operations are not evidently affected by the problems.

Other Management Issues

We made significant progress in reforming the provision of corporate services under the auspices of our Business Improvement Project. Some 20 initiatives were considered: eight have already been endorsed with implementation under way. These include the consolidation of travel, personnel (military and civilian) and accounts-processing services into two regional business centres and two regional accounts processing centres. To be established in Townsville, Newcastle, Edinburgh and Puckapunyal, these centres will provide more efficient corporate services to Defence, at a significantly reduced cost, while creating regional employment opportunities.

We also strengthened the management of our information environment by bringing together the strategy, planning, prioritisation, development, implementation and support elements of Defence's computing and communications capabilities under the Chief Information Officer Group. This allows much closer alignment between these functions and clearer accountability for all aspects of our information capability.

Supporting Defence People

The contribution of Defence people to capability and performance has been recognised through a number of significant achievements to improve remuneration, safety and staffing levels.

Remuneration and conditions for both ADF members and Defence's Australian Public Service employees were improved through the *ADF Workplace Remuneration Arrangement 2004-06* and the *Defence Employees Enterprise Agreement 2004-06*. Funding has been provided for the provision of quality living-in accommodation for ADF members for the next three to four years, and the Services Workforce Access Program for Partners, launched in October 2003 to assist partners of ADF personnel to gain employment in new localities, has proved successful.

Measures to remedy shortfalls in critical ADF employment categories have been developed and funded for the next three to four years. Funding has also been allocated over the next ten years to implement the Defence Strategic Occupational Health and Safety Plan that aims to develop procedures that will eliminate preventable and work-related injuries.

The passage of legislation in May 2004 allowed the new Rehabilitation and Compensation Scheme to come into effect on 1 July 2004. The new scheme maintains comprehensive benefits for ADF members who are injured or become ill in the course of their service, and meets the needs of dependants of members who die as a result of military service.

Advice to the Government and the Parliament

Issues related to the handling of detainees in Iraq by Coalition forces exposed shortcomings in information flows within Defence and between the Department and ministers. Our performance on this matter, as we acknowledged, was lacking. We have since reinforced with our people the need to remain sensitive to issues of potential policy interest, and to pay close attention to the standards of accuracy and timeliness in our advice to Government and to Parliament.

Internally, we have re-examined and changed some of our higher Defence arrangements related to issues management, coordination and public affairs. We appointed (in July 2004) a Chief of Staff in the Australian Defence Headquarters. The position provides high-level coordination in our headquarters to ensure that significant issues and trends are identified early and managed professionally, in support of our Ministers, the Parliamentary Secretary, the wider government and the Parliament.

Defence's achievements are impressive and the ADF's operational performance is evidence of that. Defence attracts good people who are passionate about their work. That passion drives our people to persist to overcome the problems we identify, as we identify them. Defence people have again demonstrated the versatility, professionalism and determination that enables the ADF to punch above its weight.

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