

CHAPTER 1

Year in review

FROM THE SECRETARY

Over 2007-08 the Chief of the Defence Force and I continued to drive long-term and tangible reform to improve Defence's effectiveness and efficiency and better meet the challenges of the future.

We invested considerable resources into remediating our financial statements and started to mend the backbone of Defence's business - the financial, inventory and explosive ordnance management and information communication technology systems - that had been overlooked for years. In 2007-08 CDF and I recognised we had to focus on these less visible but vitally important parts of the business to successfully support the future Australian Defence Force.

We are delighted with the Auditor-General giving Defence an unqualified audit report for the 2007-08 financial statements. The Auditor-General has acknowledged that Defence's efforts on improving its financial management are returning dividends.

Over 2007-08 we also improved our governance and accountability, refocused and streamlined the senior decision-making committees, clarified how the department works and who manages what at bases and establishments, and significant achievements were made towards implementing the agreed recommendations of the Defence Management Review.

Since the election of the new Government, our focus has shifted to



developing a new White Paper. But this hasn't meant we've dropped the reform program. Instead, we're using the White Paper and accompanying force structure and companion reviews as the vehicle for deepening and hastening reform across the entire organisation.

The White Paper will provide a strategic plan to develop Defence out to 2030. The force structure and companion reviews will ensure we have the workforce, logistics, capability, estate, industry capacity, science and technology and information communication technology we need to support the security demands of the next two decades.

In early 2008, our push to improve Defence's effectiveness and efficiency gained added impetus, and I am confident of finding \$10b in savings over 10 years to reinvest in higher priority areas. This was an incredibly challenging but important exercise. In response to a call for ideas, we received hundreds of savings suggestions from military and APS members across Defence, and many of

these ideas will be adopted. It made us all focus on our top priorities and we identified \$477.6m to reinvest for 2008-09.

But it is the budget audit, which began in late 2007-08, that will make the most significant mark on our long-term effectiveness and efficiency. The audit will help us validate the White Paper and savings measures, and enhance our budget and financial management and how we do business.

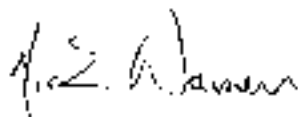
2007-08 also saw major changes to the senior management team. I'm confident we've now got the right leadership team in place to meet the challenges and priorities of the future. But I also want to ensure we've got the right people performing the right roles at every level. So in 2007-08 I commenced a long-term project to look at how we can better attract and retain a first class APS workforce to ensure Defence becomes a first class adviser and financial and business manager.

2007-08 presented a range of unique challenges for APS members of Defence.

We supported an extremely high operational tempo at the same time as transitioning to a new Government, identified significant savings for the next 10 years, started to develop the White Paper, force structure and companion reviews, and initiated the budget audit.

This level of activity placed considerable pressure on much of the workforce, which often lasted for months. I'd like to thank all our Defence members for their great work over 2007-08 and for their ongoing feedback on how we can continue to make Defence a better organisation.

We've started to improve our effectiveness and efficiency, laying a foundation for deeper reform in Defence in 2008-09.



Nick Warner
Secretary

FROM THE CHIEF OF THE DEFENCE FORCE

It is an immense privilege to command such an experienced and capable Defence Force. During the last year our performance on operations has continued to be impressive.

We have consistently delivered exceptional results in very challenging circumstances. However, the busy operational tempo has also placed significant pressure on members of the ADF and their families. I thank all members of the Defence community for their contribution and commend those elements of Defence focused on the welfare and wellbeing of Defence members and their families.

Despite the high operating tempo, the ADF continues to modernise and innovate. My vision is that the ADF will be balanced, networked and deployable, staffed by dedicated and professional people who operate within a culture of adaptability and excel at joint, interagency and coalition operations.

In 2007-08 I was very pleased with our continued progression towards this vision. We commenced consideration of our future force structure as part of the White Paper process. This review is an intensely vigorous analysis of our strategic circumstances, capability and force structure and has involved significant input from all three Services. I am confident this White Paper will be the most comprehensive ever compiled.

Individually, the three Services have continued to perform strongly in 2007-08. I particularly want to thank the outgoing Service Chiefs for their contribution to the strategic leadership of the ADF. I thank Vice Admiral Russ Shalders, Lieutenant General Peter Leahy and Air Marshal Geoff Shepherd for their great service to the ADF and nation. They



commanded their Services with great distinction and provided me with great advice and support.

This year the Royal Australian Navy (RAN) confronted its critical trades and shortages with innovative sea change initiatives such as multi-crewing, specific allowances and enhanced geographic stability. This led to a significant increase in the Navy's retention levels. During my visits with RAN personnel this year, I was particularly heartened by their enthusiasm with the improved management and increased personal choice offered under the Sea Change program.

In 2007-08 the Australian Army had to manage demanding concurrency issues. As a result of having the equivalent of a brigade deployed and another on high readiness, infantry, cavalry and special forces capabilities were successfully managed through a demanding period. Towards the end of the year, this was in part mitigated by the cessation of land combat operations in Iraq.

The Royal Australian Air Force (RAAF) also continued to modernise and innovate. The C-17 Globemaster III is integral to our future airlift capability and was

introduced in an exemplary fashion, on time and budget. Since its introduction in August 2007, the C-17 has flown almost 1,600 hours and been used for short notice operations such as Operation Nargis Assist and numerous sustainment flights to the Middle East. The RAAF continues to perform strongly in terms of recruiting and retention.

Of course, when the ADF commits personnel to overseas service, it is not only the military facets of Defence that contribute to our success. Our reputation as a world-class fighting force is due, not only to our performance as a Defence Force overseas, but also to our performance as a Defence organisation here at home. The Secretary and I are very pleased with the way in which the

Defence organisation combines to enable our deployments.

Sadly, this year we lost four fine young men who were killed while taking the fight to the Taliban in Afghanistan. A number of our people were also wounded and continue to undergo rehabilitation. I salute the service of these brave individuals.



Angus Houston AC AFC
Air Chief Marshal
Chief of the Defence Force

YEAR IN REVIEW

2007-08 was a year of significant change for Defence, with a new Government, new Ministers and Parliamentary Secretaries, new Service Chiefs, the withdrawal of combat troops from Iraq, the establishment of the Australian Military Court and the commencement of a new Defence White Paper. These changes have created new opportunities for Defence to pursue into 2009, as well as complex issues and challenges. Throughout this period, the men and women of Defence have consistently demonstrated exceptional drive and skill, working hard so that Defence is best placed to ensure Australia's security and to contribute to building peace and stability in our region and beyond.

Operations

During 2007-08, the ADF engaged in 12 operations around the world. About 3,500 personnel are directly involved, both in Australia and offshore.

Operation Slipper is the ADF's contribution to the international coalition against terrorism. The majority of our contribution to the coalition is through the commitment to addressing security, reconstruction, governance and economic development in southern Afghanistan. This year Defence worked strongly on reconstruction and undertaking tasks to address provincial needs in the fields of education, health, security and civil infrastructure. Defence continued to build the capacity of local Afghans through the trade training school in Tarin Kowt, Oruzgan. In late 2008, the ADF will transition to a mentoring and reconstruction role in Oruzgan with the deployment of ADF mentors to train the Afghan National Army, aligning with the broader strategy of establishing a self-reliant Afghan National Security Force.

Operation Catalyst is the ADF's contribution to the rehabilitation and reconstruction of Iraq. On 1 June 2008,

the Overwatch Battle Group and Australian Army Training Team ceased operations in Southern Iraq. Over three years, the Overwatch Battle Group made a significant contribution to the transition of security responsibility from Coalition forces to Iraqi authorities. ADF trainers contributed to the individual training of around 33,000 Iraqi Army soldiers. With the conclusion of the ADF deployments in southern Iraq, a new visa policy was implemented to enable Iraqis who had worked for the Australian Government and who were consequently at some risk to permanently resettle in Australia. To date, Defence and the Department of Immigration and Citizenship have assisted 118 Iraqis that have worked for the ADF (387 people, including families) to resettle in Australia. Defence personnel remain engaged in Iraq in a range of roles in support of Coalition objectives.

Regionally, the ADF continued to contribute to the support of the governments of East Timor (Operation Astute) and Solomon Islands (Operation Anode). These operations aim to provide a secure environment for national efforts to improve law and order and good governance. On 11 February 2008, East Timorese President Horta was seriously wounded in an assassination attempt. The ADF deployed HMAS *Perth* and a response force of around 200 ADF personnel, plus Australian Federal Police personnel, by Air Force C-17 Globemaster III and C-130 Hercules aircraft, to provide additional support to Timorese and international efforts to stabilize the country.

Defence continued to support United Nations peacekeeping missions in 2007-08, contributing observers and other specialist capabilities to missions in Africa, the Middle East, Afghanistan and East Timor.

Defence provided critical airlift support as part of the Australian Government's relief efforts following Cyclone Nargis in

Myanmar (Operation Nargis Assist), and after flooding in Oro Province, Papua New Guinea, following Cyclone Guba (Operation PNG Assist).

Defence contributed to the Australian Government's indigenous community intervention initiative in the Northern Territory (Operation Outreach) and continued its long term involvement in the Army Aboriginal Community Assistance Program (AACAP). This included providing mobility, communications and sustainment support to police and civilian health teams, as well as assisting with procurement and provision of medical stores and contracted services.

Defence also supported the Asia Pacific Economic Cooperation (APEC 2007) meetings held in 2007 under Operation Deluge, through providing Defensive Counter-Air, Counter-Terrorism and transport support.

It is with great sadness that Defence notes the losses of Private Luke Worsley, Lance Corporal Jason Marks, Sergeant Matthew Locke and Trooper David Pearce, who died on operations in Afghanistan. Defence salutes these soldiers and honours their memory.

Defence White Paper

On 22 February 2008, the Minister for Defence, the Hon Joel Fitzgibbon MP, announced that work had commenced on a new Defence White Paper. Completion of the White Paper is Defence's highest non-operational priority. This will be the key strategic planning document to develop Defence in the future. Related work includes a Force Structure Review, which will define Australia's future force structure and capability needs, and a series of Companion Reviews which will complement the White Paper by analysing issues such as information and communications technology, industry capability, science and technology support, logistics systems and personnel. These reviews will underpin the White Paper and be central to developing

Defence business and budget priorities out to 2030. A public consultation exercise seeks to engage community views in the White Paper process.

Development of the Defence White Paper will also be supported by the Defence Budget Audit to be undertaken during 2008-09. The audit will help identify areas in which Defence can improve efficiency, accountability and overall resource management.

The Services

The Services sustained high tempo operations in the Middle East and the region, despite considerable concurrency pressure. Army continued to refine the Combat Training Centre to ensure deploying forces experienced the range of scenarios and threats they face on operation in a realistic training environment. The result has been a world-class training experience that soldiers report successfully prepares them for the events they experience.

Navy Sea Change initiatives such as multi-crewing for patrol boats and flex crewing for major fleet units have eased the tempo in these critical capabilities, contributing in turn to improved retention rates. Navy will continue to refine its training throughput to ensure the ratio of trained personnel to trainees continues to improve.

The Air Force continues to recruit and retain strongly. The Air Force has integrated the C-17 Globemaster III Heavy Lift aircraft into the Air Lift Group and almost immediately contributed to sustainment operations and aero-medical evacuations to the Middle East and to operations such as disaster relief in Myanmar. The Air Force commenced adjusting the operational construct for the 21st century by establishing a new muster - Air Combat Officer. The Air Combat Officer will be the link between the traditional aircrew and the remainder of the air combat system, including the Wedgetail Airborne Early Warning and Control aircraft.

Strategy

During 2007-08, Defence continued to coordinate non-operational policy on domestic security as well as arms control, including capability and operational aspects of the whole-of-Government policy on cluster munitions.

Priority work included drafting a treaty and implementing arrangements between Australia and the United States on defence trade cooperation.

There was a strong focus on the Proliferation Security Initiatives (including regional outreach), export control and regional counter-proliferation engagement, missile defence, export control for defence and strategic goods, and engagement with other Government agencies to implement United Nations sanctions.

Defence was also involved in domestic security policy development, particularly through the National Counter Terrorism Committee, and contributed to whole-of-Government efforts to prevent, prepare and respond to terrorism, pandemics and chemical, biological and radiological threats.

International engagement

Defence international engagement in 2007-08 maintained a busy pace, undertaking a broad range of activities in cooperation with partners in our region and beyond. Security and defence milestones included reaching major agreements with the United States, Indonesia, India, Pakistan, Japan, Singapore and the North Atlantic Treaty Organization, while bilateral defence cooperation programs increased engagement in a range of areas.

Within our region, Defence focused on increasing its engagement and cooperation with partners in South-East Asia, particularly in the areas of counter-terrorism, humanitarian assistance and disaster relief, training and peacekeeping. Defence cooperation programs continued to achieve strong outcomes in international engagement across the region.

The Five Power Defence Arrangements between Malaysia, Singapore, Australia, New Zealand, and the United Kingdom remain a key stabilising element in regional security. Joint exercises and activities included a multilateral exercise program to counter conventional and non-conventional security issues.

In total, during 2007-08, Defence supported five successful multilateral operations involving 14 regional countries, with support from New Zealand, France and the United States.

Capability

Defence's future capability program is reflected in the Defence Capability Plan, which sets out Australia's military capabilities for the next decade and is updated annually to reflect changing strategic circumstances and new technologies. Major capability achievements in 2007-08 included a partnership with the United States in the Wideband Global Satellite communications program and obtaining Government approval for the acquisition of an improved counter-mine capability (LAND 144 Phase 1) as well as first-pass approval for a new maritime patrol aircraft (AIR 7000 Phase 2) and the acquisition of additional Chinook helicopters (AIR 9000 Phase 5C).

Air Combat Capability Review

In February 2008, the Minister for Defence announced a review into the adequacy of plans for the development of Australia's Air Combat Capability to 2045. Conducted in two stages, the review gives Government a detailed assessment of the adequacy of Defence's air combat capability plans. Based on the findings of the first stage of the review, the Government decided to proceed with plans to retire the F-111s in 2010 and to continue with the acquisition of the Super Hornet. The Government will consider the findings of the second stage of the review in the context of broader deliberations on the forthcoming Defence White Paper.

People

The people focus for 2007-08 was on consolidation, skilling the APS workforce and implementing effective ADF retention and recruitment initiatives. Defence's people priorities remain the annual recruitment of around 6,500 new full-time ADF entrants and reduction of the ADF separation rate to below ten per cent, in order to meet ADF workforce capability requirements over the next decade and beyond. This year saw significant improvements in both areas, with strong overall ADF recruitment (including the re-enlistment of people with prior military service and Reservists electing full-time service). The separation rate was also lower than the overall target, averaging 9.8 per cent across the Permanent Force, although this still presents a challenge in some employment categories. A tight labour market continued to provide competition to recruit and retain people with sought-after professional, technical and trade skills.

Support to Government

Following the Federal election in November 2007, the Defence portfolio saw a change in Ministerial structure with a new Minister for Defence, the Hon Joel Fitzgibbon MP, a Minister for Defence Science and Personnel, the Hon Warren Snowdon MP, and an increase to two Parliamentary Secretaries, with the Hon Greg Combet AM MP the new Parliamentary Secretary for Defence Procurement and the Hon Dr Mike Kelly AM MP as Parliamentary Secretary for Defence Support. Defence provided comprehensive administrative support to rapidly update and brief the incoming Ministers and their support staff.

During the year, Defence also provided administrative support for the Ministers and their Parliamentary Secretaries who have conducted a number of visits to

Defence establishments and bases, to engage with Defence personnel and acquire a broad understanding of the organisational structure and capabilities of Defence. The Minister for Defence also made visits to the Middle East Area of Operations, including a visit to wounded Australian personnel serving with the Special Operations Task Group. Defence continues to provide support to the offices of the Ministers and the Parliamentary Secretaries in fulfilling their portfolio responsibilities to the Parliament, Cabinet and the public.

Financial Performance

The Auditor-General has provided Defence with an unqualified audit report for its 2007-08 financial statements. This is the first unqualified financial audit for Defence since 2000-01. The department has successfully addressed several areas of audit qualification, including general stores inventory, explosive ordnance, repairable items, infrastructure, plant and equipment assets and leave provisions.

Management and accountability

Defence's reform program originates from a number of recent reviews, inquiries and investigations, both internal and external to Defence. It includes the implementation of an enhanced governance framework, with clearer authority and accountability and more rigorous performance management, assurance and audit processes.

The Defence White Paper and its associated Force Structure and Companion Reviews, the savings and efficiency program, the audit of the Defence budget and financial management, and the ongoing program of Defence reform are complementary activities focusing on longer term Defence governance and reform.

Governance reform

Key achievements in 2007-08 included a revised Defence Business Model, which provides a strategic framework for identifying and implementing improvements in authority and accountability, performance management and assurance. The Defence authority and accountability framework has been strengthened through new Group Head and Service Chief charters and Group organisational performance agreements. With new membership, the Defence Audit Committee has a greater focus on targeted governance and assurance processes. A draft enterprise risk management plan has been developed, along with a new Defence base management model which separates responsibility for capability and force generation from support services. The model will improve efficiency, accountability and transparency in cost and performance outcomes.

Reforming the organisation

Reform is not about changing the nature of our business, but the way we do it.

The savings we generate from reform - that is, from doing our business more efficiently, now and in the future - will help build both the next-generation ADF and a stronger Defence backbone.

Significant progress has been made across a wide range of business enablers. The Accelerated Disposals Program has

significantly improved Defence's management of inventory and associated logistics. Thousands of items of obsolete or surplus stock have been disposed of from the Defence National Storage and Distribution Centre, including fire trucks, street sweepers, a sonar dome from the obsolete Oberon class submarines, ships' propellers, clothing, mobile kitchens, mosquito nets and millions of paper towels. During 2008-09, the Accelerated Disposals Program will be expanded to include other major Defence warehouses, resulting in greater efficiencies in inventory management costs and logistics support for operations.

In April 2008, the Explosive Ordnance Management and Policy Branch was established to address the findings of the Weapons, Munitions and Explosives Security Performance Audit, and the Review of Defence Policy and Procedures for the Management of Explosive Ordnance. The audit project plan is scheduled to continue until 2013; 10 of the 58 recommendations were completed by 30 June 2008.

During 2007-08, a concerted effort was made to improve Defence's information technology systems. The top 10 user irritants were resolved by 30 June 2008, and work will continue throughout 2008-09 on improving service delivery, enterprise governance, deliver time for new IT capabilities, and sourcing strategies.

With major changes and developments in many areas of Defence, 2007-08 has been a busy and productive year. As well as maintaining our high operational tempo, all of us in the organisation have been working hard to inform the Defence White Paper as it establishes the way ahead for Defence through high-level strategic planning in all areas of business.
