Chapter One

Year in Review by the Secretary and the Chief of the Defence Force

The year in review saw a continued strong focus on military operations, procurement reform, and financial management remediation. Particular attention was also accorded to military justice, intelligence reform and issues of Australian Defence Force (ADF) recruitment and retention.

Operations

The ADF’s performance in a wide range of military operations and other tasks directed by the Government in 2004-05 again reflected well on Australia.

The ADF was involved in 17 offshore operations during the year, and at 30 June 2005 some 1,700 Defence personnel remained deployed on eight significant operations around the world including in Iraq and the Gulf, the Solomon Islands, Sudan, Timor-Leste and northern Australia and its approaches.

Our presence in Iraq was strengthened in 2004-05 with the deployment of a 450-strong Task Group to the Al Muthanna province in May. As at 30 June 2005, about 1,340 Defence personnel were deployed in the Middle East Area of Operations in the National and Coalition Headquarters; the Maritime, P-3 Orion, C-130 Hercules and Al Muthanna Task Groups; in Medical and Air Traffic Control detachments; and in Training Teams working with the Iraqi Security Force.

During the first months of 2005, Defence played a significant role, under the auspices of Operations Sumatra Assist and Thai Assist, in the Australian response to the tragic aftermath of the South-East Asian tsunami. Our main focus was on the Indonesian province of Sumatra. The humanitarian support provided, demanding as it was on our personnel as they worked amidst the distress of the Indonesian people, was one of Defence’s most significant achievements for the year. Our satisfaction with the job done was tempered by the tragic loss of nine ADF personnel, and the injuries suffered by two others, in the helicopter crash on Nias in early April.

Australia’s peacekeeping role in Timor-Leste, under Operation Spire, concluded with the end of the operation in May 2005, though Defence remains engaged with the United Nations there through the inclusion of three ADF personnel in a new mission known as the United Nations Office in Timor-Leste. Support will also continue in the form of the Defence Cooperation Program, in which 27 ADF personnel will provide training and advice to assist in the development of a sustained East Timor Defence Force to contribute to national and regional security. The ADF’s involvement in Timor-Leste commenced in 1999 and saw the deployment of more than 5,000 personnel over a period of five and a half years.

In March 2005, the Minister for Defence, Senator Robert Hill, and the Minister for Justice and Customs, Senator Chris Ellison, officially opened the Joint Offshore Protection Command. The establishment of this Command has already enabled a more effective, efficient and coherent whole-of-Government approach to the various high priority operations currently conducted in our offshore area to protect Australia’s national interests. The augmented patrols commenced on 30 March, and agreement has been reached on key elements of the future direction and the supporting legislative framework.
Following both the 2004 South-East Asian tsunami and the March 2005 earthquake, Defence played a vital role in the Australian Government’s national humanitarian relief effort to Indonesia. During this event, Defence demonstrated not only its effectiveness in a whole-of-government context, but also its capacity to provide an integrated and coordinated response through the combined effort of the ADF and a number of Defence Groups.

Operation Sumatra Assist, and Sumatra Assist Phase II, was the ADF’s contribution to the Australian Government effort to provide assistance to people affected by the tsunami disaster and the earthquake. Sadly, nine ADF members lost their lives in a tragic helicopter accident on the 2 April 2005 during Operation Sumatra Assist Phase II.

Relief assistance provided by Australia was part of a cooperative effort involving the ADF, the Department of Foreign Affairs and Trade and Emergency Management Australia.

Within 36 hours of hearing the news of the impact of the tsunami, Defence had dispatched initial personnel and emergency supplies to Indonesia. In consultation with the Department of Foreign Affairs and Trade and AusAid, and working with the Indonesian Armed Forces and other foreign force elements in Sumatra, advisers were sent to assist local commanders, and various local command centres were established. This was a complex, but very successful, whole-of-Defence operation.
Banda Aceh and surrounds was one of the worst affected areas. Many of the emergency-services for the region had been destroyed and there was no sanitation, food or running water. The hospital was completely unusable, filled with mud, and the equipment rendered useless. Within days of the disaster, ADF Army engineers had established a clean water supply, which worked around the clock to supply the thousands of survivors with limited clean water. In addition, the ADF established the ANZAC Field Hospital, a field hospital operated jointly by medical personnel of the ADF and the New Zealand Defence Force. The early establishment of these types of services played a significant role in averting a major outbreak of disease.

The ADF’s achievements during Operation Sumatra Assist included:

- distributing 1,200 tonnes of humanitarian aid by air,
- undertaking 70 aero-medical evacuations,
- providing air transport for 2,530 people,
- providing 3,700 medical treatments,
- producing 4.7 million litres of clean water,
- clearing 9,000 cubic metres of debris and 1,700 large drains, and
- salvaging six large fishing boats.

After another earthquake in March, two C-130 aircraft were dispatched with medical supplies, bottled water, tarpaulins, rations and water purification tablets. This was followed by a 43-strong medical team to provide surgery, intensive care, X-ray, pathology and post-operative care.

HMAS Kanimbla, an amphibious transport ship with a well-equipped medical facility, was also diverted, from Singapore enroute to Australia, to provide assistance to the earthquake victims.

Again under trying circumstances, during Operation Sumatra Assist Phase II, the ADF:

- delivered 133 tonnes of rice,
- provided 5,000 litres of water,
- provided medical treatment to 570 people,
- conducted 13 Surgical and further treatments on board HMAS Kanimbla,
- undertook seven Sea King aero-medical evacuations,
- repaired the Lahewa town water pump and generator, and
- moved over 138 tonnes of stores by C-130 Hercules.
Intelligence Reform

The Government’s agreement in July 2004 to all but one of the recommendations of a report by Mr Philip Flood led to significant changes in the management of Defence’s intelligence responsibilities, and will continue to drive change in the future. The key issues for Defence were the refocusing of the Defence Intelligence Organisation towards meeting strategic-level Defence requirements, particularly in support of military operations; and the requirement to amend relevant intelligence legislation to include the Defence Imagery and Geospatial Organisation, and to bring all intelligence agencies under the scrutiny of the Parliamentary Joint Committee on ASIO, ASIS and the DSD. Defence has since increased the number of ADF personnel posted to Defence intelligence agencies.

Capability Development, Acquisition and Sustainment

There have been continued improvements in capability development, acquisition and sustainment flowing from progressive implementation of key recommendations of the Defence Procurement Review, headed by Mr Malcolm Kinnaird AO and agreed by the Government in September 2003.

The Capability Development Group, established in 2004 under Lieutenant General David Hurley, was consolidated in this, the first full year of the two-pass capability development process, and is contributing effectively to better pre-approval project definition.

Prescribed agency status was achieved for the Defence Materiel Organisation (DMO) on 1 July 2005. The huge and technically complex undertaking of separating the DMO’s accounts from those of the rest of Defence was well managed and a credit to all involved. In future years, the DMO’s accounts will be presented separately. This will enable the DMO to operate in a more business-like manner, focusing on, and being accountable for, the delivery and sustainment of Defence equipment.

The DMO is also upskilling its staff to improve the management of its business, and has selected project managers to drive the delivery of acquisition projects on time, within budget and to the required specification.

Financial Management

Defence’s financial statements for 2004-05 are set out fully in this report. The Secretary and Acting Chief Finance Officer again concluded this year, as in 2003-04, that they could not attest that the overall statements were true and fairly stated. Again, however, they considered that the results in terms of cash management, receivables, revenues from government, and specialist military equipment exclusive of repairable items were fairly stated. They also considered that the value of land and buildings was fairly stated.

While the overall result remains disappointing, it does reflect improvement on the 2003-04 statements. The total value of the uncertainty has been reduced, and the qualification on land and building values removed. As well, 53 of last year’s 95 audit findings were submitted to the Australian National Audit Office (ANAO) for clearance during the period.

We continue to drive to improve and reform our management of assets and liabilities. In June 2005, as part of this drive, we launched the Defence Financial Controls Framework project. This project, under the Chief Finance Officer’s leadership, aims to establish a best practice financial controls framework in Defence that results in high quality, repeatable, outcomes that are accepted by external auditors.
Here are just some of the awards recognising achievements by Defence personnel:

**Diversity achievement**

In October 2005, Defence received an award for leadership and excellence in the category ‘Employment and Inclusion of People with a Disability’ for its development and implementation of the Disability Management Strategy. This honour was presented at the 2005 Diversity@work Awards, a national award recognising the efforts and initiatives of Australian private and public sector organisations in encouraging workplace diversity.

The Disability Management Strategy is an initiative to drive cultural change within Defence, and identified key issues that needed to be addressed in order to support people with disabilities, including the provision of assistive technologies, equal access to career progression, and better management of people with disabilities.

**Defence Materiel Organisation shines at AIPM Awards**

Eleven Defence Materiel Organisation projects were nominated for top honours by state chapters of the Australian Institute of Project Management (AIPM) for project management achievement awards, held throughout August and September this year. The projects characterised the depth of spread of our core business - to equip and sustain the ADF - with a healthy representation of projects from Aerospace, Maritime, Land and Electronic and Weapons Systems domains.

‘Rehabilitation and Return to Work’ Award

The efforts of the 1st Health Support Battalion were recognised when it won the 2005 Defence Safety Award’s ‘Rehabilitation and Return to Work’ category for the battalion’s initial employment trainees injury program. This program works collaboratively with the Training Command - Army Rehabilitation Wing to ensure the rehabilitation of medium to long term injured Army initial employment trainees. As a result of winning the category within Defence, the nomination progressed for consideration at the Safety, Rehabilitation and Compensation Commission 2005 Annual Safety Awards, where it was commended.

The employment trainees injury program was formed in July 2003 and aims to restore initial employment trainees, after illness or injury, to full health and to the military standard of fitness.

**Test success**

In Toronto, Canada in September this year, the Air Force and the Defence Science and Technology Organisation shared receipt of the International Council of Aeronautical Sciences' Von Karman award. This is the first time Australia has won this award, which recognises outstanding examples of international cooperation in the field of aeronautics. The award was presented for the structural testing program assessing the fatigue life of the F/A-18 Hornet aircraft.
As well, detailed remediation plans were developed to address the major adverse findings from the previous year’s financial statements. The plans are driven by a project board, chaired by the Secretary, comprising the Service Chiefs, and senior Defence officials and representatives from the Department of Finance and Administration and the private sector.

Further progress in the areas in which our statements remain qualified will depend in large part on our ability to equip our people with the necessary financial skills. A comprehensive review of our financial skilling requirements has been undertaken. Close to 7,000 people in Defence received financial training during the year, some 5,000 of them on our financial management information systems.

That said, and notwithstanding the enormous efforts made, challenging issues remain and the standards we must aspire to will not be achieved easily or early. We will continue to drive the change management and remediation plans vigorously, recognising that taken as a whole they represent a very significant management change agenda.

We continued to work during the year to streamline other management practices. We have achieved significant reform in the maintenance of our aging estate through improved maintenance planning. During 2004-05, the Business Improvement Program, which develops and implements a range of business improvement initiatives, successfully introduced the Defence Travel Card for all business travel (which will enable the recovery of the GST not previously achievable) and implemented the invoice scanning and imaging system (which has reduced the overall number of staff required to process Defence’s payments).

We also strengthened the management of Defence’s information environment and systems by appointing a Chief Information Officer (CIO) with enhanced reach and responsibility for our performance in this area. All of the significant enterprise application development functions are being brought into the CIO Group to facilitate the growth of deeper and more sustainable expertise in business system technical and project management, and facilitate better integration of business processes and systems. We have also moved to finalise the outsourcing of most of our network management functions.

People

The enormous breadth of Defence activities and interests, covered elsewhere in this report, reflects the organisation’s demanding agenda. We are heartened by the performance of our people – military, civilian and contracted support partners. In delivering the outcomes expected by Government, we remain committed to our values and to the enduring philosophy of Results through People, and recognising that how we do business is just as important as what we do.

In a recent review of workforce planning in Commonwealth departments and agencies, the ANAO observed that only Defence has a systematic and documented means of assessing the workforce impacts on organisational capability. The same report also highlighted innovative workforce management solutions implemented by Defence and offered several of our initiatives as examples for other agencies to follow.

ADF Recruitment and Retention

The overall separation rate for the ADF increased slightly in 2004-05, although remaining under the ten-year average, and overall recruiting targets were not met. This reflected, among other things, the tighter labour market conditions. Defence is pursuing a number of

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initiatives to improve recruiting generally and to retain personnel who are in specialist and technical trade categories in particular.

We continue to invest heavily in leadership and professional development, and in training to equip staff with the necessary skills to enhance career management and workplace performance and management. In addition to reviewing training on corporate finance and personnel systems, accessibility to e-learning facilities has been improved. In the coming year, we will review the current workplace arrangements to ensure we remain an employer of choice. This includes renegotiating the Defence Employees’ Certified Agreement, in consultation with staff, providing further opportunity for Australian Workplace Agreements for Public Services Staff, and revising the ADF Workplace Remuneration Arrangement.

Military Justice

The administration of the military justice system was a significant issue for Defence during the year. In October 2003, the Senate referred the matter to the Senate Foreign Affairs, Defence and Trade References Committee for inquiry and report. The Committee tabled its report on 16 June 2005 and the Government’s response was tabled on 5 October 2005. The Minister for Defence, in a statement to the Senate on that day, announced significant enhancements to the military justice system, representing fundamental change to the system. These changes balance the maintenance of effective discipline with protection of individuals and their rights. Key features include an Australian military court independent of ADF chains of command that will replace the current Courts Martial and Defence Force Magistrates, a new Chief of the Defence Force-authorised Commission of Inquiry for complex or sensitive incidents with an independent civilian president, a joint ADF investigation unit and a streamlined complaints system.

We, and the Service Chiefs, are committed to providing a fair and equitable workplace that includes a transparent and cohesive military justice system and will be working hard over the next two years to implement these recommendation and enhancements.

In closing, we pay tribute to the enormous contribution made by General Peter Cosgrove, who commanded the ADF during the period covered by this annual report. He was an inspirational and highly professional leader. We are very fortunate to have the opportunity to build on his work, and we wish him well in his future endeavours.

R.C. SMITH AO, PSM
Secretary
Department of Defence

A.G. HOUSTON AO, AFC
Air Chief Marshal
Chief of the Defence Force
Air Chief Marshal Angus Houston accepts command from General Cosgrove at his official departure.

Cadetnet launch by Parliamentary Secretary to the Minister for Defence, Teresa Gambaro, at Parliament House.