**HEADLINE RESULTS FOR 2001-02**

**Operational**

- Defence met the Government’s highest priority tasks through:
  - effectively contributing to the international coalition against terrorism
  - playing a major role in assisting East Timor in its transition to independence
  - strengthening Australia’s border security
  - increasing the Australian Defence Force’s (ADF) counter-terrorism capability
  - providing substantial assistance to the Bougainville and Solomon Islands’ peace processes
  - supporting civil agencies in curbing illegal fishing in Australian waters.
- The ADF was at its highest level of activity since the Vietnam war.

**Social**

- 86 per cent of Australians said they were proud of the ADF – the highest figure recorded over the past 20 years. 85 per cent believed the ADF is effective and 87 per cent considered the ADF is well trained. Unacceptable behaviour in the ADF continued to be the community’s largest single concern.
  
  (Defence community attitudes tracking, April 2002)

- ADF recruiting:
  - Enlistments were **up**,  
  - Separations were **down**,  
  - Army Reserve retention rates were the highest for 40 years.
- The new principles-based civilian certified agreement formally recognised a balance between employees’ work and private commitments.
- Intake of 199 graduate trainees was highest ever.
- Defence was awarded the Australian Public Sector Diversity Award for 2001.
Financial

- Defence recorded a net surplus of $4,410 million (before the Capital Use Charge of $4,634 million), when compared to the revised budget estimate of $4,772 million.

- The net asset position is $45,589 million, an increase of $1,319 million or 3% over 2000-01. At 30 June 2002, Defence held some 71% of the non-financial assets of the Commonwealth General Government sector.

- The current asset ratio has further strengthened at 103%, exceeding the revised budget estimate equivalent ratio of 88%. In addition, the liquidity coverage of cash for meeting obligations to suppliers has improved to 0.81 when compared to the revised budget estimate of 0.75.

- Total expenses (including borrowing costs) amounted to $14,581 million compared to $12,739 million for 2000-01. Significant increases in non-cash expense items, such as asset write-downs, have contributed to this result. Defence is the largest employer in the Commonwealth General Government sector and controls a significant and unique non-financial asset base.

Environmental


- Annual energy consumption reduced by 191,276 gigajoules.

- Greenhouse gas emissions reduction target for 2000-01 of 25,000 tonnes is surpassed by 18,825 tonnes - on target to achieve a further reduction of 80,000 tonnes in 2001-02 (results available in November 2002).

- Expenditure on water increased to $13.3m (from $12.9m in previous year). Water conservation strategy will be developed in 2002-03.
25 October 2002

Senator the Hon Robert Hill
Minister for Defence
Parliament House

Dear Minister

We are pleased to present the annual report of the Department of Defence for the year ended 30 June 2002 which has been prepared in accordance with section 63 of the Public Service Act 1999.

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

The report summarises the performance of Defence for 2001-02, as well as containing other mandatory information required by legislation.

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

Yours sincerely

Michael Roche
Acting Secretary
Department of Defence

Peter Cosgrove
General
Chief of the Defence Force
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The format and content of this annual report reflect the requirements developed by the Department of the Prime Minister and Cabinet and approved by the Joint Committee of Public Accounts and Audit in June 2002 under subsection 63(2) of the Public Service Act 1999.

The Defence Annual Report 2001-02 addresses the Department of Defence and the Australian Defence Force (ADF), which are collectively referred to as ‘Defence’, while the Department of Veterans’ Affairs and the Defence Housing Authority, which are parts of the Defence portfolio, have separate annual reports.

The primary purpose of annual reports of departments is accountability, in particular to the Parliament. Annual reports serve to inform the Parliament (through the responsible Minister), other stakeholders, educational and research institutions, the media and the general public about the performance of departments.

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

In addition, Defence’s annual reports are designed as linking documents between Defence’s actual performance in the year under review and the performance forecasts contained in the portfolio budget statements for the following financial year.

The structure of this annual report reflects the development of an integrated performance framework within Defence using the Defence Matters balanced scorecard. The scorecard focuses on four perspectives:

```
Results
  Government as Customer
  Government as Owner

through
  Enabling Business Process

People
  People Matter
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The report is divided into five chapters. With the exception of the first chapter (Overview), each of the subsequent chapters reflects a perspective of the Defence Matters balanced scorecard.
**Chapter One** contains a review of the year by the Secretary of the Department of Defence and the Chief of the Defence Force, a report on implementation of the Defence White Paper published in December 2000, a summary of financial performance for the year, as well as accountability arrangements. It includes an organisational chart that shows the formal structure of Defence as at 30 June 2002. Because there was a significant number of senior executive changes in mid-2002, a further chart is provided depicting the organisation after the changes had been effected.

**Chapter Two** reports on the results to the Government as Defence’s customer. This chapter contains information on output delivery and prices, including explanations for significant variations from budget estimates. Information covering ADF operations, ADF exercises and a summary of Defence cooperation activities is also provided.

**Chapter Three** reports on the results to the Government as Defence’s owner. The bulk of this chapter comprises the financial statements, required under section 49 of the *Financial Management and Accountability Act 1997*, which were independently audited by the Australian National Audit Office. Details of Defence’s major capital equipment and facilities projects are provided as well as information on a number of owner-support responsibilities and activities. The chapter also includes information required to be published under the Freedom of Information Act.

**Chapter Four** contains information relating to Defence’s enabling business processes. This chapter includes information on improvement initiatives – efficiency savings, the Commercial Support Program, customer-supplier arrangements, Defence materiel reform, an assessment of purchasing policies and principles, and enhancing internal service delivery. The chapter includes information on consultants engaged by Defence and contracts exempt from publication in the *Commonwealth Purchasing and Disposals Gazette*, together with details of advertising and market research organisations used by Defence.

**Chapter Five** focuses on people management and information required pursuant to specific statutory provisions relating to the annual reports of all Commonwealth departments.

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

**STYLE CONVENTIONS**

In general, figures provided in the tables in this report are rounded to the nearest $1,000, although there are some tables in which the figures are rounded to the nearest $100,000 where appropriate. Figures referred to in the text are usually to the nearest million dollars for ease of reading. The rounding convention used is that rounding downwards occurs if the end digit is less than five, and rounding upwards occurs if the end digit is five or more. Totals are the sums of unrounded figures.