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SENATE

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COMMITTEE

ESTIMATES

(Budget Estimates)

THURSDAY, 4 JUNE 2009

CANBERRA

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SENATE FOREIGN AFFAIRS, DEFENCE AND TRADE

LEGISLATION COMMITTEE

Thursday, 4 June 2009

Members: Senator Mark Bishop (*Chair*), Senator Trood (*Deputy Chair*), Senators Farrell, Forshaw, Kroger and Ludlam

Participating members: Senators Abetz, Adams, Back, Barnett, Bernardi, Bilyk, Birmingham, Boswell, Boyce, Brandis, Bob Brown, Carol Brown, Bushby, Cameron, Cash, Colbeck, Jacinta Collins, Coonan, Cormann, Crossin, Eggleston, Feeney, Ferguson, Fielding, Fierravanti-Wells, Fifield, Fisher, Furner, Hanson-Young, Heffernan, Humphries, Hurley, Hutchins, Johnston, Joyce, Lundy, Ian Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Moore, Nash, O'Brien, Parry, Payne, Polley, Pratt, Ronaldson, Ryan, Scullion, Siewert, Sterle, Troeth, Williams, Wortley and Xenophon

Senators in attendance: Senators Birmingham, Mark Bishop, Brandis, Farrell, Ferguson, Forshaw, Hogg, Johnston, Kroger, Ludlam, Ian Macdonald, McEwen, Nash, Payne and Trood

Committee met at 9.01 am

DEFENCE PORTFOLIO

Consideration resumed from 3 June 2009.

In Attendance

Senator Stephens, Parliamentary Secretary for Social Inclusion

Senator Ludwig, Minister for Human Services

Department of Defence

Portfolio overview and budget summary

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

Mr Nick Warner PSM, Secretary of Defence

Mr Phillip Prior, Chief Finance Officer

Lieutenant General David Hurley AO, DSC, Vice Chief of the Defence Force

Mr Michael Pezzullo, Deputy Secretary Strategy

Dr Margot McCarthy, Deputy Secretary, Strategic Reform and Governance

Air Commodore John Meier, Joint Combined Exercises

Outcome 1: The protection and advancement of Australia's national interests through the provision of military capabilities and promotion of security and stability

Program 1.1: Office of the Secretary and Chief of the Defence Force

Program 1.9: Vice-Chief of the Defence Force

Major General Greg Melick AM, Head Reserve and Employer Support Division

Program 1.10: Joint Operations Command**Program 1.12: Chief Finance Officer****Outcome 2: Advancement of Australia's strategic interests through the conduct of military operations and other tasks directed by Government****Program 2.1: Operations contributing to the security of the immediate neighbourhood****Program 2.2: Operations supporting wider interests****Outcome 3: Support to the Australian community and civilian authorities as requested by Government****Program 3.1: Defence contribution to national support tasks in Australia****Capability development**

Vice Admiral Matt Tripovich AM, CSC, Chief Capability Development

Outcome 1**Program 1.11: Capability development****Defence Materiel Organisation****DMO Outcome 1: Contributing to the preparedness of the Australian Defence Force organisation through acquisition and through-life support of military equipment and supplies.**

Mr Colin Sharp AM CSC, Head, Land Systems

Mr Warren King, General Manager, Programs

Major General Tony Fraser, Head, Helicopter Systems Division

Mr Kim Gillis, General Manager, Systems

Brigadier Bill Horrocks, Director General Land Combat Systems, Defence Materiel Organisation

Ms Michelle Kelly, Director General Guided Weapons, Defence Materiel Organisation

Mr Mark Devlin, Director, General Electronic Warfare, Defence Materiel Organisation

Air Vice Marshal Chris Deeble, Program Manager, Airborne Early Warning and Control

Rear Admiral Boyd Robinson AM RAN, Head, Maritime Systems Division

Air Vice Marshal John Harvey, Project Manager, New Air Combat Capability

Air Vice Marshal Colin Thorne, Head, Aerospace Systems Division

DMO program 1.1: Management of capability acquisition**DMO program 1.2: Management of capability sustainment****DMO program 1.3: Provision of policy advice and management services**

Dr Steve Gumley, Chief Executive Officer, Defence Materiel Organisation

Mr Harry Dunstall, Special Counsel to CEO, Department of Defence

Capital facilities and Defence support

Mr Martin Bowles, Deputy Secretary Defence Support

Major General Paul Alexander, Commander, Joint Health

Outcome 1**Program 1.6: Defence support****Program 1.14: Defence Force superannuation benefits.****Program 1.15: Defence Force superannuation-nominal interest****People**

Mr Phil Minns, Deputy Secretary People Strategies and Policy

Outcome 1**Program 1.13: People strategies and policy**

Major General Craig Orme AM CSC, Head, People Capability

Remaining Defence programs**Outcome 1****Program 1.2: Navy capabilities**

Vice Admiral Russ Crane AM, CSM, RAN, Chief of Navy

Program 1.3: Army capabilities

Lieutenant General Ken Gillespie AO, DSC, CSM, Chief of Army

Major General Paul Symon AO, Deputy Chief of Army

Brigadier Gerard Fogarty AM, Director General Personnel – Army

Program 1.4: Air Force capabilities

Air Marshal Mark Binskin AM, Chief of Air Force

Program 1.5: Intelligence capabilities

Mr Stephen Merchant, Deputy Secretary Intelligence & Security

Mr Frank Roberts, Chief Security Officer

Program 1.7: Defence science and technology

Professor Robert Clark, Chief Defence Scientist

Program 1.8: Chief Information Officer

Mr Greg Farr, Chief Information Officer

Defence Housing Australia

Mr Michael Del Gigante, Managing Director

Mr Robert Groom, Chief Financial Officer.

Department of Veterans' Affairs**Portfolio overview****Corporate and general matters**

Outcome 1: Compensation and support Maintain and enhance the financial wellbeing and self-sufficiency of eligible persons and their dependants through access to income support, compensation, and other support services, including advice and information about entitlements.

Program 1.1: Veterans' income support and allowances**Program 1.2: Veterans' disability support****Program 1.3: Assistance to Defence widow(er)s and dependants****Program 1.4: Assistance and other compensation for veterans and dependants****Program 1.5: Veterans' children education scheme****Program 1.6: Rehabilitation compensation acts payments—income support and compensation****Program 1.7: Adjustments to the rehabilitation compensation acts liability provisions—
income support and compensation**

Mr Ian Campbell, PSM, Secretary

Mr Gary Collins, Acting Deputy President

Mr Ken Douglas, General Manager, Service Delivery

Mr Barry Telford, General Manager, Policy and Development

Ms Carolyn Spiers, Principal Legal Adviser

Mr Roger Winzenberg, Acting General Manager, Corporate

Mr Graeme Rochow, Chief Finance Officer

Mr Michael Griffin, Principal Member, Veterans' Review Board

Outcome 2: Health Maintain and enhance the physical wellbeing and quality of the life of eligible persons and their dependents through health and other care services that promote early intervention, prevention and treatment, including advice and information about health service entitlements.

Program 2.1: General medical consultations and services

Program 2.2: Veterans' hospital services

Program 2.3: Veterans' pharmaceutical benefits

Program 2.4: Veterans' community care and support

Program 2.5: Veterans' counselling and other health services.

Program 2.6: Rehabilitation compensation acts—health and counselling and other health services.

Program 2.7: Adjustment to the rehabilitation compensation acts liability provisions—health and counselling and other health services.

Mr Ian Campbell, PSM, Secretary

Mr Gary Collins, Acting Deputy President

Mr Ken Douglas, General Manager, Service Delivery

Mr Barry Telford, General Manager, Policy and Development

Dr Graeme Killer AO, Principal Medical Adviser

Ms Carolyn Spiers, Principal Legal Adviser

Mr Roger Winzenberg, Acting General Manager, Corporate

Mr Graeme Rochow, Chief Finance Officer

Mr Sean Farrelly, National Manager, Compensation and Income Support, Policy and Development Division

Outcome 3: Commemorations Acknowledgement and commemoration of those who served Australia and its allies in wars, conflicts and peace operations through promoting recognition of service and sacrifice, preservation of Australia's wartime heritage, and official commemorations.

Program 3.1: War graves and commemorations

Program 3.2: Gallipoli related activities

Mr Ian Campbell, PSM, Secretary

Mr Gary Collins, Acting Deputy President

Ms Kerry Blackburn, General Manager, Commemorations and War Graves

Major General Paul Stevens AO (Rtd), Director, Office of Australian War Graves

Australian War Memorial

Outcome 1: Australians remembering, interpreting and understanding the Australian experience of war and its enduring impact through maintaining and developing the national memorial, its collection exhibition of historical material, commemorative ceremonies and research.

Program 1.1: Commemorative ceremonies

Program 1.2: National memorial and grounds

Program 1.3: National collection

Program 1.4: Exhibitions

Program 1.5: Interpretive services

Program 1.6: Promotion and community services

Program 1.7: Research and information dissemination

Program 1.8: Visitor services.

Major General Steve Gower AO, AO (Mil) (Rtd), Director

Ms Rhonda Adler, Assistant Director, Branch Head, Corporate Services

Ms Katherine McMahon, Acting Assistant Director, Branch Head, Public

Ms Nola Anderson, Assistant Director, Branch Head National Collection

Ms Leanne Patterson, Chief Finance Officer

CHAIR (Senator Mark Bishop)—The committee will come to order. We will continue working through the portfolio overview. I will hand over to Senator Johnston.

Senator JOHNSTON—Can I take you to paragraph 14.1 of the white paper on page 113?

Mr Warner—Yes.

Senator JOHNSTON—At the end of the second line the sentence continues:

... we will need to grow the full-time military workforce to approximately 57,800 personnel, and the civilian workforce, including contractors, to approximately 21,900 over the next decade.

If I may take you to paragraph 100 in the Strategic Reform Program, there is a sentence at the end there that says:

From 2012-13 onwards there will be reductions in the total civilian workforce of between 50 and 300 in any one year. These reductions equate to between 0.2 per cent and 1.2 per cent of the total civilian workforce.

Do those statements conflict?

Mr Warner—No, they do not.

Senator JOHNSTON—Please explain to me why.

Mr Warner—I take you to page 28 of the draft document we gave you yesterday and, without leading to any further unhappiness, I offer to table or to give to members of the committee what is now the final copy of the report. I said yesterday that we were making some mostly editorial changes to the document that I presented yesterday morning. I would be happy now to present the not yet published but final copy of that report and, if it would be helpful, would also be happy to go through what changes we have made, although I must say most of them are editorial changes.

CHAIR—Is leave granted for the report to be tabled? There is no opposition. Leave is granted. Do you want to identify that?

Mr Warner—Yes, that would be useful. Most of them are editorials. You do not want the contents page. It is headings which are changed around but nothing of substance, but I can go through it line by line. It all depends. There are a couple of words added, like the word ‘and’ and the word ‘focused’ on page 5. You do not want that. There are some very minor changes to the table on page 6 and the table on page 7. For instance, on page 7, where we have that second block, what was called ‘Defence capability plan’ is now ‘capability development’; those are the sorts of changes. As to paragraph 12 on page 8, the years ‘2019-20’ are now ‘2018-19’. As to paragraph 14, the most significant change is that, in the second line, we have deleted the phrase ‘recognising the underspend that had occurred in these programs in recent years’. As to paragraph 15, ‘savings of around \$110 million’ is ‘\$70 million’. At page 13 we have swapped some paragraphs around but there is no fundamental change. There are more editorial sorts of changes. In paragraph 94, in the last sentence, where we had ‘around 1,000 contractor positions’, that is now ‘1,100’. There are a few spelling mistakes scattered through it which hopefully have been all captured. In the table on page 27, under ‘other savings’ down at the bottom of the page, where we had administrative savings, at the moment we have 33, 32, 21, 21 and 111. Those figures change: the minus 33 changes to minus nine; minus 32 changes to minus 15; 108 changes to minus 66 and minus 111 changes to minus 70. There are other small changes, but that is essentially it.

Senator JOHNSTON—We are on page 27.

Mr Warner—Do you want me to go through that again?

Senator JOHNSTON—I think it is the difference between the white paper projections for workforce and what attachment B says—

Mr Warner—I understand that. If you turn to table 28, you will see that the paragraph in the white paper that you drew my attention to, 14.1, was 57,800. If you go to the top part of that table, ‘final total’ is 57,812. If you go to the bottom table, it is ‘final total on APS, 21,937’. I will step back from that and just talk more broadly, though. Over the period of the next 10 years, two things will happen. Through the white paper there will be a growth in the workforce due to new capability coming on, hollowness being filled in and those sorts of processes. The workforce will grow. Under the Strategic Reform Program there will, in a phased way over time, be a reduction in various parts of the workforce and at the end of the 10 years the ADF will grow by about 3,000 and the public service will grow by about 300. There will be swings and roundabouts. There will be churn. There will be movement. Jobs will be redefined. Some jobs will be lost, but at the end of the day both the ADF and the APS grow.

Senator JOHNSTON—The white paper expression talks about the final growth figures and what the end result is, and what the SRP says is that we get there with a reduction in growth. There is no net lessening of personnel; there is just a reduced rate of growth.

Mr Warner—We will end up with more people in the ADF and more people in the Public Service. We will get there through some increases in some processes and some decreases in other processes.

Senator JOHNSTON—We still have more people through the process, but we just have fewer than we would otherwise have had?

Mr Warner—That is probably true in the broad. In respect of the APS, I am not actually sure it is true at all, because we have not had a projection for the total size of the civilian workforce in Defence, I think, in the past.

Senator JOHNSTON—If we have not had a projection, how do we know if we are making a saving on the growth rate?

Mr Warner—I can take you through what is going to happen to the workforce and how those savings will be realised in great detail if you like. It is spelt out in this booklet that I hope senators have had a chance to look at during the course of the past 24 hours. Most of it, of course, is on page 28, where you can see what the reform program does to the workforce year by year—indeed, over the next 10 years. I would argue that the Department of Defence has never had this sort of forward planning for its workforce and, of course, therefore that members of this committee have never had this visibility of our workforce and the changes that will occur to it over that period of time.

Senator JOHNSTON—What does ‘efficiency improvements’ mean?

Mr Warner—It means we are going to get better at the things we do and we are not going to be wasteful as we have been in the past.

Senator JOHNSTON—What objective benchmarks can we look to to satisfy ourselves that you are in fact meeting these projections?

Mr Warner—I would be very happy, and you would expect me—and indeed you would question me about it anyway—to report back to this committee as regularly as you like about how we are meeting these benchmarks in respect of workforce targets but also in respect of savings targets and to demonstrate to you as we go through this long process of reform that we are becoming more efficient and more effective.

Senator JOHNSTON—Can you give me an example of a classic efficiency improvement that you would perceive we would yield through those out years?

Mr Warner—Certainly I can. Let us go to an issue that you have shown some interest in, special forces pay. I said yesterday in my opening comments that we had a jumble of accountabilities. We do not have a shared services approach to payroll. That means that various parts of Defence are responsible and have sometimes been held accountable. It also means that our various IT systems that allow us to process pay have not been able to talk to each other. As you know, PMKeyS and ADFPay have not been able to interact and CENRESPAY, which looks after the reserves pay, is, I think, at best 1990s technology. I think I did say this yesterday in my opening statement. The efficiencies that will flow from a shared services approach to payroll, I think, will not only be significant but will also protect Defence from the pain of the last few months.

Senator JOHNSTON—Do we need new software?

Mr Warner—Of course.

Senator JOHNSTON—Do we need to integrate that software across all of the various aspects of the services, the units et cetera?

Mr Warner—Yes. That, too, is outlined in the reform program and, I think, described in the document that we gave you yesterday. Of course we do.

Senator JOHNSTON—Whereabouts is that described?

Mr Warner—There is a section on IT reform.

Senator JOHNSTON—The problem I have with this description is that any IT reform that we seek to do ends up costing a lot more than we ever anticipated. When I hear the words ‘system integration’ I just know that means a bucket of money we never budgeted for.

Mr Warner—Air Chief Marshal Houston and I have spent the last week, and everyone else behind us in the room today and many others—probably many hundreds of others—in Defence have spent 18 months, identifying what the problems are that confront Defence and how they need to be rectified. We believe that this reform program which is briefly outlined in the document that you have is the right reform program for Defence not only in the ICT area but right across the board. We have looked as carefully as we can—and that is very carefully—into the cost of reform, into what we need to do and into what the workforce implications are. I believe—and CDF agrees with me, and he has been in Defence a little bit longer than I have—that this is the best-developed reform program for Defence that has ever been developed. It is also a reform program home grown within Defence and one that has the complete support of every member of the Defence committee, military and civilian alike.

In respect of ICT, of course you are right. ICT reform is hard. It is hard for any organisation. ICT reform programs often fail. We are as confident as we can be—as confident as anyone can be—that this ICT reform program is going to work. It underpins almost every other aspect of reform that we are going to undertake over the next three, five or 10 years. We understand that we have to get it right and we, the senior leadership of Defence, are committed to getting it right.

Senator JOHNSTON—That is very good. I note that in 2010-11 efficiency improvements equate to a figure of 371—

Mr Warner—I am sorry—2010-11 of which document?

Senator JOHNSTON—The year 2010-11. I am still looking at attachment B. We are still on page 28.

Senator FERGUSON—Can I just clarify something? I take it that these efficiency improvements are all cumulative figures? They are not annual figures, are they?

Mr Warner—No, they are annual figures.

Senator FERGUSON—Annual figures?

Mr Warner—It is the only way we can get to \$20 billion.

Senator FERGUSON—When you get to a figure of minus 1,266 at the end, that does not mean you are going to get rid of 1,266 people every year; that is the accumulated total?

Mr Warner—I am sorry; I thought you were on savings figures, not workforce figures.

Senator FERGUSON—I am talking about workforce figures. As to workforce personnel, they are cumulative savings; aren't they? In other words, it is 627 this year and then that is included in the next year's total of 371—

Mr Warner—I will get Phil Minns to go into real detail on this for you.

Mr Minns—If you look at attachment B, 2018-29, and take, for example, SRP efficiency improvements, minus 1,266, that is the position reached at the end of the decade as a result of that form of efficiency improvement.

Senator FERGUSON—So that is a cumulative figure?

Mr Minns—Yes. You do not add the nine columns to the left of 1,266.

Senator FERGUSON—Otherwise it could be quite confusing, because when you get to efficiency improvement amongst the civilian workforce you are talking about losing 551 people in the coming year?

Mr Minns—That is correct.

Senator FERGUSON—Then, in the following year, 270 people to bring it up to 825?

Mr Minns—That is right.

Senator JOHNSTON—What gave rise to the specific number of 371 for 2010-11?

Mr Warner—As I said, we have been working on some aspects of this process of reform for 18 months and on other aspects, I guess, since the white paper began 14 or 15 months ago. We have done considerable work within Defence through a process of what we were calling internal reviews or companion reviews, and as you know the government also appointed an external auditor to come in and look at Defence management. That term 'management' turned out to be rather broadly defined. They, working with us, helped to come to these figures.

Senator JOHNSTON—I have no doubt about the process. I just want to know precisely why we have chosen and how we yield the number 371. What does that comprise specifically?

Mr Minns—The approach that was taken with efficiency improvements, which is the lean back office—the idea of a shed service environment in HR, finance, IT et cetera—is to build a ramp. It would have been unhelpful if we had said that we were going to achieve all of these savings in that area of Defence's back office from 1 July next year. You actually have to reform your business processes and practice, and then you have to come along and IT-enable the new model. Most of the savings in the lean back office area start to kick in from years 2 and 3 and they peak around years 4 and 5 because they reflect that idea of a process of reform and an IT-enabled ramp.

We know from some cases and from the minister's saving program that preceded the Defence business audit that we had some objectives to rationalise method in some program areas, and that yielded some opportunities for savings in the earlier years. Having said all of that, what we put in the table here is our sense of the indicative numbers. In the workforce shared services space, there are two initial tasks that we need to do by the end of this year. The first is to complete what we call a workforce diagnostic study. The Defence budget audit did that work for parts of the workforce and then used an extrapolation model. We have to, for

example, understand what is referred to on page 20 at paragraph 98 of the SRP booklet. It talks about an 18 per cent benchmarking opportunity across the other non-operational support functions. That is an extrapolated number in the Defence budget audit. We actually have to go and analyse that workforce and determine what the savings model will be and what the ramp will be. At the moment these numbers are indicative as recommended by the budget audit. We need to do that more detailed audit.

The second thing we need to do is develop a model for shared services design in Defence: what is the end state that we are working to by year 5 or 6? When we have developed that model and sought agreement from the Defence committee and the Defence Strategic Reform Board, we are in a position to fully plan the workforce impacts year by year. We expect that at the end of this year we will have full clarity on how this model is meant to play out. What I could say about the number that you have said—2010-11, minus 371—is that that will be some early savings that are forecast by actions to get quick wins in the Defence budget audit associated with the shared services functions in the back office.

Senator JOHNSTON—What we have just done is have a percentage that we have applied to these various positions—namely, 22 per cent for HR, 14 per cent for finance, 31 per cent for non-equipment procurement and 18 per cent across other non-operational support functions. The 18 per cent applies to efficiency improvements. Is that the figure in the efficiency improvements, or is it a break-up of each of those different functions to arrive at those figures—because I note that after 2013-14 and beyond we are on approximately 18 per cent?

Mr Minns—That line of efficiency improvements represents the workforce savings dividend, if you like, as a result of the shared back office reform process.

Senator JOHNSTON—But it is tied to a percentage?

Mr Minns—Yes.

Senator JOHNSTON—In this instance it is 18 per cent?

Mr Minns—My memory is that it was 22 in HR, 14 in finance et cetera and they said the net average was 18, so that is what that number is broadly forecasting, and the ramp is completed by about year 4 or 5—

Senator JOHNSTON—The ramp in the first couple of years is a different percentage as you build up.

Mr Minns—As you build up.

Senator JOHNSTON—I can relate to that. And then we stabilise at 18 per cent.

Mr Minns—Yes.

Senator JOHNSTON—Where precisely does 18 per cent come from?

Mr Minns—It is just a mathematical calculation. It was 22 per cent as a gap to average benchmark corporate performance for HR.

Senator JOHNSTON—It is 22 per cent for HR?

Mr Minns—Fourteen per cent for finance. It was actually zero for information technology, ICT. We still think there is an opportunity to have a shared services environment there, but there was not a gap to benchmark.

Senator JOHNSTON—But what methodology, what doctrine or what paradigm gives us these percentages?

Mr Minns—That is the Defence budget audit benchmarking methodology.

Senator JOHNSTON—Is it a figure you have settled on?

Mr Minns—No. For example, in HR we had done a thing called the census of people in Defence. We tried to understand the work that was being done and the activities of all people in the HR workforce, in both the APS and the ADF. We did that in the middle of last year. The Defence budget audit team picked up that data. They said, ‘Okay, that suggests you have got in excess of 9,000 people doing some kind of HR work in Defence.’ They then compared that to their database source and we went through a process of netting off and adding back.

Senator JOHNSTON—What is the database source?

Mr Minns—The database represents McKinsey’s global consulting practice and their studies of—

Senator JOHNSTON—That is what I want. The reference point is McKinsey’s benchmarks, if you like?

Mr Minns—Yes.

Senator JOHNSTON—That is what you referred to?

Mr Minns—That is what the budget audit modelled and that is what we accepted as a team and that gives rise to these indicative savings which we have to do that additional work to.

Senator JOHNSTON—This is not about looking at the actual performance of the various sections that you have nominated: HR, finance, non-equipment procurement and non-operation support functions. You did not actually look at them and say, ‘What is their current level of performance and what do we think we can do to them’? We simply benchmark them against McKinsey?

Mr Minns—I will just make one point and hand back to Dr McCarthy. When you do the benchmarking work at the top level and you establish the gap, the next question is: why is there a gap? The audit describes what seemed to be the top line reasons for the gap and therefore what the first ports of call are for reform. It is not just simply the maths; it is the maths plus the notion of the rationale for why the gap exists.

Dr McCarthy—It is also important to point out that, in relation to the database, McKinsey compared Defence with like organisations, organisations of similar size and geographic distribution. In relation to the benchmark performance, we are talking about average performance, not the top quartile of performance in those organisations. It is, if you like, a more conservative benchmarking to take account of the fact that Defence is a unique organisation.

Senator JOHNSTON—In other words, this is a textbook package reform process?

Dr McCarthy—I think the global database has over 500 organisations in it and there is an awful lot of analysis that underlies it. It is benchmarking that is comparable and underpinned by robust analysis.

Mr Warner—McKinsey's were with us for about eight or nine months. We worked very closely with them. We have looked, of course, at our workforce as they have looked at our workforce and we—again, the Defence leadership—have accepted their findings, as their findings are also informed by our work.

Mr Minns—As to the HR workforce that we have discussed, we did that detailed census of the workforce, and when we had the benchmarking conversations with McKinsey we explicitly addressed the idea that in a Defence organisation you do things that you would not do in the private sector. The benchmarking analysis model and the opportunities to close the gap that arise from it have deliberately and explicitly referenced the idea that a defence organisation has some difference to the normal comparators in their database.

Senator JOHNSTON—These figures are modelled, benchmarked computer figures. They are not subjective; they are objective, if you know what I mean by that. They are not looking at a particular department and looking at whether or not there is an efficiency rate pertinent to the individual performance within that and the output within that department or section; it is simply a global benchmark that applies one of the four percentages set out in paragraph 98 in terms of the forward savings.

Mr Minns—I think I would probably correct that global issue and say in respect of HR that they got to 22 per cent by looking at some 12 benchmarked functions of large organisations in respect of HR. In some of them we were actually a bit underdone compared to benchmark and in others our process and our method and in some cases our IT limitations drove quite a significant performance gap. It is not just a global figure; it is a 'built from the bottom up' figure.

Mr Warner—If I could add to that, your description is too sweeping and not accurate. As I said before, we worked very closely with McKinsey as they generated their data, as they came to their conclusions in the audit. As I also said before, we, the Defence leadership, are very comfortable with these figures. You will see in this paper—and I think I referred to it yesterday in my opening statement and perhaps Mr Minns also referred to it—we are going to go through a diagnostic process in respect not just of workforce but of a number of other key reforms, just to make sure that the specific numbers, the specific targets that we have set ourselves, are the right ones so that we do not do damage to the Defence organisation as previous so-called reform programs, which actually have been toecutter exercises, have done to Defence.

Senator JOHNSTON—But the point is that the 1,266 is a computer modelled product; it is not an identification of actual inefficiency?

Mr Warner—We have looked at inefficiency in Defence working closely with McKinsey. At this stage we are comfortable with that figure but we will do a diagnostic process to confirm it.

Air Chief Marshal Houston—It was not just a textbook exercise; it was not applying a computer model. We actually went out and looked at our business and did analysis of various

parts of our business before they sat down and worked out what would be a good benchmark to apply to us. Perhaps Mr Minns could add to that.

Mr Minns—In the case of the HR workforce and its activities, we have quite a comprehensive road map about the diagnostic work that we have to do and the way to achieve savings through that period of the ramp, so we talk about a first wave which is clarifying the design of the future model and it is about confirming the workforce diagnostic and all the areas where the analysis has been less deep and the extrapolation method is applied. Then we move to phase 2, which is the detailed areas where we expect to do business process reform. Phase 3 is the continuation of that and the IT enablement.

We have a quite detailed and clear roadmap for how to achieve the gap closure in respect of the human resources functions in Defence. I think we need to do more work in this diagnostic and design phase to get to the same position for some of the other shared service functions. Once we have a shared service design model that works in the Defence context, it will be relatively easy to roll it to the other functional areas.

Senator FERGUSON—I want to go back to the same table. There are a couple of things that are confusing me a little just in relation to savings. You start your number of people employed in the white paper both from the services and from the civilian workforce next year. Are there people currently working on the white paper this year?

Mr Warner—Do you mean right now?

Senator FERGUSON—Yes.

Mr Warner—The white paper is out—

Senator FERGUSON—It is, but there must have been people employed. Let me just clarify the question. Next year you are going to employ nearly 1,700 people on the white paper.

Mr Warner—I am sorry; I see what you mean.

Senator FERGUSON—There is nobody in this year's column employed and working on the white paper. There are no figures whatsoever, yet next year, in 2009-10, there are 679 from the military workforce and 999 from the civilian workforce.

Mr Warner—We could not quite fit into that little box exactly what we meant. We were trying to encapsulate a concept that I will ask Ms McCarthy to explain to you.

Dr McCarthy—That is shorthand for the additional people who will be employed, both military and civilian, to develop and operate the new initiatives and the new capabilities associated with the white paper.

Senator FERGUSON—Nearly 1,700?

Dr McCarthy—That is right. Over forward estimates there is some \$9.5 billion worth of new initiatives associated with the white paper, and over the decade some \$45 billion. That requires new people to come on board to develop the capabilities, manage the projects and man the platforms. White paper is shorthand for new initiatives.

Air Chief Marshal Houston—You have heard a lot about the debate about NPOC. It has been around in this committee for a considerable period of time. It covers the personnel side

of NPOC. What we are doing is covering the personnel requirements of net personnel and operating costs to a large extent.

Senator FERGUSON—When you get to the year 2016-17, you are still needing 2,225 military workforce people involved in the implementation of this? I would have thought that the development of it would have been just about complete by then.

Air Chief Marshal Houston—But, if you have a look at some of the projects that we are embarking on, we have an expansion of capability within the white paper. This is the personnel aspect of it. It is all coordinated and linked. Of course, there are other initiatives as well which are not capability based.

Mr Warner—You are using the word ‘implementation’, but this is not about implementation. This is about—

Senator FERGUSON—I thought that was your word.

Mr Warner—No. This is about manning, developing and seeing through the new capabilities that are listed in the white paper, not about implementing the white paper.

Senator FERGUSON—Which comes to a grand total in 2016-17 of something like 4,600 people.

Mr Warner—There is a lot of new capability listed in the white paper.

Senator FERGUSON—And 4,600 is a lot of people.

Mr Warner—It is. It is a lot of capability.

Senator FERGUSON—I also notice that next year you are going to get rid of 551 people in efficiency improvements. This is in the civilian workforce. Because this is happening next year, you must have identified where those 551 are going to come from. Can you tell me where they are going to come from?

Mr Minns—As I mentioned before, we had some savings plans in place in Defence that predated the Defence budget audit. All groups and services had looked at the opportunities to achieve some reform and savings that were outside or preceding the Strategic Reform Program. Some of that will reflect in these numbers in the early years. I was just going to make another point, and it now escapes me.

Mr Warner—I think we have been talking about paragraph 100 of the booklet. You will see that in the first three years from now civilian numbers actually grow by about 1,100. A reduction does not begin until 2012-13. We anticipate that reduction in civilian numbers will be something between 50 and 300. I think those percentages are quite interesting, quite important and quite telling. That is 0.2 or 1.2 per cent of our total civilian workforce at a time when our usual natural attrition rate of civilians leaving Defence is 9.3 per cent.

Senator FERGUSON—I do understand that. By the time you get to the end of our table you have got rid of 2,527 people because of efficiency improvements, but you have 2,290 additional people working on the white paper. In actual fact, over a period of 10 years, according to those figures, out of the civilian workforce there are only 250-odd gone there plus some in the support productivity improvements.

Mr Warner—Let me just repeat that these people will not be working on the white paper. These people will be developing and—

Senator FERGUSON—I should say ‘as a result of the white paper’.

Mr Warner—Okay. There will be ups and downs. The white paper brings more people into Defence; a program of finding efficiencies in our bureaucracy will lead to people leaving the Department of Defence—I hope in small numbers, because our objective is to retrain and redeploy people as best we can. There will be a churn. Job descriptions will change. Requirements will change, but we are talking about a 10-year period. But, yes, it grows in respect of capability listed in the white paper. It decreases in respect of efficiency gains in the department. Overall, over that 10-year period there will be 300 more civilians.

Air Chief Marshal Houston—To a large extent in the past we have not handled NPOC very well. It has been an issue that has not always been funded, particularly the personnel side of it. Whenever you buy new capability or decide you are going to get new capability, you need new people in capability development. You need new people in the Defence Materiel Organisation and you need new people to operate the capability. For example, with an LHD there is a net increase in the number of people that we might need over one LHD versus the platform that it replaces. All of that needs to be factored into our workforce planning, and indeed that is what is reflected here.

We are not going to have the sorts of black holes we have had in the past and we are addressing not just the platform but also the workforce that is required—first of all to do the force capability development and the acquisition; then, if there is an additional requirement to sustain the capability in service, we have catered for that. Also, if there is a net increase or a net decrease in terms of the capability that is coming on stream, we have accounted for that, too. That is all wrapped up in this. It complicates the table, but that is why you have pluses. Of course, on the other side you have some rationalisation in terms of the SRP. It is quite a complex table, and perhaps at some stage we should arrange a briefing to take you through it in detail so that you fully understand that we have indeed planned for everything. This is a complete and comprehensive workforce plan.

Senator FERGUSON—As you can understand, you have had probably months to consider what is in this paper; we have had 24 hours.

Air Chief Marshal Houston—I appreciate that.

Senator FERGUSON—I wonder if Mr Minns now has any recollection of where those 551 people are going to go.

CHAIR—On that point there has been a significant amount of complex material and there have been quite deep discussions held over the last 24 to 48 hours. Your organisations of course have been heavily involved for the better part of 12 to 18 months in preparing that and are on top of it, as you would be. I think the invitation extended by CDF—I presume you meant to the committee as a whole—to give us a detailed briefing in due course is worthwhile. We will discuss that internally and come back to you. I think it would be very useful. It is the architecture of where the government is going that could be placed in the minds of this committee.

Air Chief Marshal Houston—Of course and that would be subject to the views of my minister, but I think it would be a sensible thing to do.

Senator FERGUSON—I just want to get back to Mr Minns about those 551 people who are going to lose their jobs.

Mr Minns—I have recovered the thought that I was seeking to express before. To give you an example, in the last year the Defence APS workforce declined by a number in the order of 800 plus because we were over guidance in last year's PBS and our performance against it. We were over our budgeted workforce allocation. We put in place simple measures around due consideration of whether or not we should readvertise for roles when attrition, just normal turnover, generated a vacancy. We would rehire in certain cases where we did the assessment. In other cases we might make a choice to reprioritise a resource within the group or the service relating to its APS workforce. That endeavour yielded more than 800 reductions in the full-time equivalent average for our APS workforce in the current year, from last July to now.

A number like 551 does not sort of represent carnage. It does not represent significant job loss. Most, or indeed probably all, of it will be achieved through an attrition model. The framework that gives rise to it at the moment—most of it will be pre-identified before the strategic reform plan initiatives of groups and services to achieve the minister's objective of \$1 million.

Senator FERGUSON—To arrive at such as precise figure as 551, which is your figure in the report, you must have identified where those positions are going to come from. You did not say about 500 or about 600; you said 551.

Mr Minns—By group and service for 2009-10 we would say that we expect there are 31 roles in Navy, minus 63 in Army and minus 33 in Air Force. There will be 157 from all the other groups as an offset reduction. In terms of how it comes about, it is going to be a mixture. There are myriad initiatives that have previously been identified by the group or service. It is not the full impact of the lean reform model of shared services because that will not start to come on train until year three.

Senator FERGUSON—If you say X from Navy, X from Army, X from Air Force, that still does not identify them. You are not going to take the first 27 that walk through the gate. There must be some specific areas where you have identified that efficiencies can be made.

Mr Minns—Indeed there are and they are known by the group head and the relevant service head.

Mr Warner—In the three years that I have been coming to Defence Senate estimates a question that has always been put to me and others is, 'Your civilian workforce is growing out of control; what is going on? There is terrible inefficiency in Defence.' Here we have a detailed plan with good, strong numbers with a lot of thought behind it about implementation and you seem to be questioning the sense and utility of the workforce reductions that we have got planned. I have to say I find it a little bit bemusing.

Senator FERGUSON—Can I say, you might have been coming here for three years; I have been coming here for 14 years—

Mr Warner—I am sorry.

Senator FERGUSON—with the four secretaries of the departments and I think four chiefs if I remember rightly, and I seem to have heard the same thing said on numerous occasions over the past 14 years about efficiencies and savings and the numbers of people in the civilian workforce. I understand the attempt of what you are trying to do. I do. But I just think that for us to be able to find this a believable document we need some more information as well. I am sorry to put it that way.

Air Chief Marshal Houston—I hate to use the ‘I have been coming here for a long time’ argument—

Senator FERGUSON—You have been coming here for a while too.

Air Chief Marshal Houston—but I would just observe that I do not think we have ever had a comprehensive workforce plan like this that goes out for 10 years and which covers not only the workforce increases associated with the capabilities, acquisition and sustainment of capability but also the rationalisation of the workforce that is associated with a very good and very well-planned reform program. What this reflects is, if you like, the higher level planning that has been done in the workforce area. Of course, below that in each service and group we have more detailed plans. It is something that is new and I think it is very informative. I guess we should apologise to you in only giving you a little bit of time to have a look at it.

CHAIR—I will not unnecessarily politicise this discussion but, like nearly everyone else around this committee, I have been around here for a long time and I can tell you now that any time in the last eight or nine years where I had to lead discussion for the opposition on a range of Defence and foreign affairs matters, if the wealth of material, the long-term thinking, the openness of discussions, the preparedness to provide information in a difficult environment had been evidenced to me I would have thought I was in seventh heaven.

This is a significant change. It is a welcome breakthrough. The degree of work that you and your officers and the secretary and his officers have done in putting this information together, putting out the government’s position for discussion—and critical discussion at that—and putting it on the public record, in my view, should be acknowledged, recognised and applauded. As far as I am concerned, any and all information that the government, via your department, is willing to provide to this committee, no matter how imperfect, is most welcome. This will reform the Australian Defence Force and provide to this country the wherewithal to carry out the tasks that have been identified by previous governments and this government. I do not want to politicise the debate, but I think you are doing—

Senator FERGUSON—If you do not want to politicise the debate, Chair, you are doing a pretty good job. I had no idea you felt like that. What comparable enterprises did McKinsey use when comparing the Australian Defence Force in his report?

Mr Minns—The actual membership of the database is not something that McKinsey or indeed any of their competitors would normally disclose because it represents information that they glean from their commercial relationships with clients. I know from my own consulting practice history for databases about relative remuneration pay and positioning that you never really disclose the full membership unless organisations want you to. We were not able to get a definitive list, but we do know, for example, that McKinsey has worked with

several European defence organisations and so they were certainly in their database mix, along with large geographically dispersed private sector organisations.

In the dialogue that we had with them about benchmarking for different categories of the workforce we did this netting off process to say, 'You cannot really compare that because it is unique to the ADF.' For example, in the HR space a category would be military career management. We have significant workforce involved in military career management. You do not find that in any kind of private sector model. We have to adjust for that in the process, and that was done.

Mr Warner—I am sure that this was not your intention, but your question leaves the impression that this reform program, specifically in respect of the workforce, has been imposed on Defence by an external auditor.

Senator FERGUSON—No, I did not suggest that.

Mr Warner—I am sure it was not your intention, but that impression might have been left. I want to reiterate a point I made yesterday and this morning. This is a reform program that has been born through a very deep analysis of Defence business by Defence, assisted by an external auditor. The defence committee has met 60 to 80 times over the past 14, 16, 18 months. At almost all of those meetings we have discussed the reform program. Some of those meetings about the reform program and the savings program have gone all day. Many of those discussions have involved the workforce changes that we have discussed this morning. Defence own this reform program. This is our reform program that the government has agreed to. This has not been imposed. The strength of this reform program, apart from the work that informs it, is the fact that we own it and we are committed to seeing it through.

Senator TROOD—In relation to the personnel that are attributed to the white paper function, in this table in attachment B, I am not entirely clear from the conversation whether or not these are new people to the department or people who are redeployed from other parts of the department to the white paper implementation function.

Dr McCarthy—It is not that. That is the additional number of people who will need to join the organisation to develop and operate the new capabilities. Some of those people may be recruited from outside; some people within Defence may move to work on those issues, but that is the additional number of people to the current workforce.

Senator FERGUSON—Some of the 551 perhaps?

Dr McCarthy—That is possible.

Senator TROOD—We are talking about new people and people moved around the organisation to some extent?

Dr McCarthy—It could be both.

Senator TROOD—That is what I thought, but that was not clear from the conversation.

Mr Minns—If I may add something, one of the things that I am not sure has come across in our discussion about workforce is the sort of fundamental philosophy or premises around workforce reform that is also woven into the budget audit. The first one is that we wanted to try to treat our workforce as an integrated workforce. What is the most effective and efficient

mix of ADF, APS and contractor workforce that we should employ to get the task done? Historically we have not run our workforce that way. We have tended to have caps associated with the ADF and the APS and with our contractor workforce. That model has driven inefficiency into the system and it has driven cost into the system. That is why a contractor conversion yields significant savings for us because we have people doing jobs that we can very readily convert to full-time APS jobs and make a saving on the cost. We found ourselves in that position because we have not been running our workforce as an integrated mix. I guess from a private sector context, nirvana for us would be: 'Here is your total labour cost budget; go off and get the job the job done with the right mix.' We are not quite at that point but we are certainly moving towards it through these reforms.

The second point is to make sure that when we need the ADF to be employed because they are critical to delivering or sustaining the combat capability or they must be there to deliver military specialist competencies, we know what those roles are and the ADF is unquestionably doing those tasks. They are the two philosophies that have also been woven through the reform agenda and that is why we end up with a civilianisation measure. It is why we end up with a contractor conversion measure in addition to the lean back office which we have tended to concentrate on a bit today.

In terms of Senator Ferguson's question, there will be a bit of a remixing of our workforce that is going on for much of the next six years. There will be people in some workforce categories whose work is starting to disappear through the effect of reform and IT enablement. If we have the shared service design in place we can predict what those work categories are. We can start the process of retraining and redeployment for those who would like to engage in that and get ahead, if you like, of the structural changes that we have to make in our workforce. The point about the white paper injections into our workforce is that in many cases they will fall under that first heading, or that second premise, which is that it will be specialist military capability that we need to introduce because it is a capability acquisition project that they are working on under the white paper. Our workforce is going to grow above the end 10-year point at some point and then reduce. It is going to be this remixing process.

I think the last point I would make is that, whilst I have made the point that groups and services have plans in respect of that 551 and it is really their job to do that, I would also make the point that because we are just at this point now we have not been able to engage our workforce in the detail of the indicative savings profile for the next year and the year after. This document went on our internal web today and so we have notified staff that it is there. We have mentioned that in our staff briefings all of us—the secretary, CDF and all the group heads and service chiefs—have briefed our staff to say that we are not yet at the point of a lot of detail; we are moving to it. This represents more detail for our workforce and I think we would certainly like to talk to the workforce that is impacted in 2009-10 first before we disclose the exact specifics to this committee.

Senator JOHNSTON—With respect to attachment B, we have actually got through to 2012-13. In the budget papers, table 20 on page 35, I note our leave entitlement liability goes out to only 2013. Doesn't the growth of that figure belie these numbers? We start off at \$6.297

billion and we finish up after four years with \$6.8 billion. It seems to be growing much more than the reduction. Is there an anomaly here?

Mr Prior—I do not believe there is an anomaly here. The leave liability provisions are calculated by actuarial studies that we do every year, having regard to anticipated growths and anticipated reductions et cetera. It is something that we do each year. It changes from year to year. Interestingly, the leave liability is also affected by the movement in the Commonwealth bond rate, because the calculation is basically projecting out into the future, anticipating when people take leave and discounting it back to get a present value of that liability. As the bond rate moves around it also affects this particular calculation.

Senator JOHNSTON—It is actually \$8.3 billion if we combine civilians, isn't it?

Mr Prior—Correct.

Senator JOHNSTON—Have we projected that out to, say, 2020, our 10-year gap, to mirror this or not? Given that we have got some figures we are working with to 2018-19, have we projected it out to that time as to where the leave is going to be?

Mr Prior—We have projections well into the future for many of our line items.

Senator JOHNSTON—You have an anticipation of what that is going to be?

Mr Prior—Yes. As Mr Minns and others at the table have been saying, we are in the very early stages of these numbers and the actuarial assessments that will be done. Once the workforce numbers start to solidify, it depends on who the people are that will be coming in, going out, what their age profile is, what their classification is et cetera.

Senator JOHNSTON—And how much leave they have accumulated.

Mr Prior—Yes, it is how much leave they have accumulated. If it is person A versus person B, that will impact on what that leave liability calculation will ultimately end up being. It is fair to say that these estimates at the moment are based on current expectations, but they will certainly change as we go deeper into the reform program.

Senator JOHNSTON—I note that in paragraph 13 you have introduced a new expression to the world of public accounts. We have \$5.1 billion arising from a 'general belt tightening'. Is that measured by notches per year? What is the ingredient of 'general belt tightening'? It is a large sum of money.

Mr Warner—If I take you to paragraph 12, that is the description. That is the interpretation. That is the notches in the belt.

Senator JOHNSTON—We have got 'details of provisional savings and costs to 2019-20' in attachment A, which we will come to in a minute. Estimated gross savings across the decade are: non-equip, 4.4; smart maintenance, 4.4; inventory management, 700; information and communication, 1.9 et cetera. In addition, from other categories previously identified under the minister's savings program—

Mr Warner—I am sorry; I apologise. You are looking at the version I gave you yesterday. You should be looking at the version—

Senator JOHNSTON—I have spent the night marking my version of yesterday up, as you would expect. I have not even looked at your new version.

Mr Warner—I did apologise for the editorial changes. Your paragraph 13 is my paragraph 12.

Senator JOHNSTON—I am sorry.

Mr Warner—Same words, different number.

Senator JOHNSTON—I think same words, different number. Paragraph 12, general belt tightening.

Mr Warner—Maybe if I could explain. Our past practice was to retain some central funding provisions and these were drawn in part from past year indexation and real budget growth. We did that to cater for future contingencies. That was a practice that Defence engaged in for probably decades, actually. In the white paper process we looked, as I think you would expect, in detail at all aspects of our budget. We also looked at including appropriate levels of contingency funding in project budgets. What that led to was \$3.9 billion which we decided was no longer needed and could be reallocated. So the \$3.9 billion is the bulk of the \$5.1 billion. I can go into the remaining \$1.2 billion if you like.

Senator JOHNSTON—We will just deal with the \$3.1 billion first. If we look at paragraph 18.4 on page 137 of the white paper we have got the growth rates, the indexation rates and the savings rates. In that new model we have yielded \$3.1 billion of cash on hand for contingencies because we now move to a no-win, no-loss basis. Is that what we are saying?

Mr Prior—No, not quite.

Senator JOHNSTON—Not quite! Even if I were close I would be happy.

Mr Prior—As the secretary said, the past practice of Defence was to allocate funds to each of the groups, the components and business units of Defence that they require to conduct their business. We have been running a 10-year budget. It was called the DMFP. But within the central part of Defence, which is essentially the CFO part, there were central provisions held for anticipated costs for the future. We looked at those central provisions in some considerable detail—this was well over a year ago—and we determined that those central provisions that were being held for anticipated costs were actually not required in light of the savings and efficiency world that we are moving into.

Senator JOHNSTON—How did we justify to Finance and to cabinet in the past the requirement for a central contingency fund—what did you call it?

Mr Prior—I called it a central provision.

Senator JOHNSTON—How did we justify a central provision of approximately, in this instance, \$3 billion?

Mr Warner—As I said, I think this has been a practice in Defence for probably decades. With the exception of the CDF, I do not think any of us have been around Defence for decades. I do not know how our predecessors justified this. We are trying to run—we are running—a completely transparent budget. We are making available to central agencies, Finance and Treasury in particular, all our budget figures. There are no secrets. Nothing is hidden. We do not see it as necessary; in fact, we think it would be counterproductive to treat

budget allocations in the way they were treated in the past. This is part of our process of transparency.

Senator JOHNSTON—But at some point in the past we must have argued for a formula, protocol or process that allowed us to retain such a sum of money for contingencies.

Mr Prior—As you look into this reform program you will have heard of repairing the backbone, additional budget provisions and so on. The CDF referred to the net personnel operating cost issues that the department has had. The central provision that was held was anticipating how to manage those costs as they arose rather than identifying and articulating those costs that were required to be funded—

Senator JOHNSTON—You know why that is—because we have been very poor at doing that.

Mr Prior—Poor at what?

Senator JOHNSTON—Identifying and anticipating future costs.

Mr Warner—We agree.

Senator JOHNSTON—In the process we have lost our contingency fund; that is what I am seeing, and you are calling it belt tightening.

Mr Warner—You are calling it contingency funding and it is not.

Senator JOHNSTON—I am using the words of the chief financial officer.

Mr Prior—I am happy to retract that wording. It was a provision centrally held for costs that would arise. These are running costs—

Senator JOHNSTON—Unforeseen costs—emergencies.

Mr Prior—Unbudgeted for.

Senator JOHNSTON—Contingency costs.

Mr Prior—In the world we want to operate in now we have a clearer view about what our electricity costs might be going forward, what our running costs will be in a range of areas. That has been part of this process, to try to anticipate those costs rather than leave it to the future to creep up and catch us out.

CHAIR—Or additionally task costs set by government which were not covered off by additional appropriations; you just had to find the money from within and you had this set of funds that were there.

Senator JOHNSTON—In the process we have lost \$3.9 billion. What about the other two? What about the other—

Mr Warner—Seven hundred and fifty million came from reductions in major capital facilities and the minor capital equipment program—

Senator JOHNSTON—Could you just repeat how much that was and where it came from again?

Mr Warner—Seven hundred and fifty million dollars.

Senator JOHNSTON—From?

Mr Warner—Major capital facilities and minor capital equipment programs.

Senator JOHNSTON—What do they comprise precisely?

Mr Warner—That, I think, is in the current paragraph 13. I am being told it is in paragraph 14. It is in paragraph 13.

Senator JOHNSTON—It says that reductions are also made to funding in the major capital facilities program and minor capital equipment program to derive greater efficiency et cetera. But what programs?

Mr Warner—I do not have those details.

Mr Bowles—In relation to changes in the major capital facilities program, we have a program that obviously goes out over a number of years. It is generally a 10-year program. We looked at what efficiencies we could drive through that particular program over the number of years and came up with the figure talked about here. That obviously works over the entire 10-year period.

Senator JOHNSTON—I can see all of that from the writing but the question is: where are the cuts?

Mr Bowles—They will come from a range of issues over the years. We have a funding envelope in the major capital facilities bucket of roughly \$400 million a year and we looked at efficiencies across that program and came up with the figure included over the decade in paragraph 13. There are no specific projects, if you like, that are deleted. It is how we will actually develop the program, the funds available for the program, over the 10 years and we will work the projects from there. We drive efficiencies in each individual project over that 10-year program of work.

Senator JOHNSTON—What formula did we apply to our \$400 million to yield the \$750 million over the period?

Mr Bowles—We looked at roughly an efficiency dividend across that program and applied that to the entire program.

Senator JOHNSTON—I take it that it was a percentage figure.

Mr Bowles—Off the top of my head I think it was roughly five per cent.

Senator JOHNSTON—Where do we get that from? Why do we settle on five, not four? Not six, but five?

Mr Bowles—This was obviously done a little bit prior to the strategic reform and the Defence audit, so we came up with that view early. We have done a lot of work since that time.

Mr Warner—If I could try to help a little bit: as I said, we have been working on some aspects of this whole reform program, savings program, for about 18 months. This \$5.1 billion falls into that 18-month time period. It is part of the work we were doing, you will remember, when the minister instructed us to find \$10 billion worth of savings. Through a process of—

Senator JOHNSTON—Was it \$10 billion?

Mr Warner—Yes. It was about 18 months or so ago that the minister asked us to find \$10 billion. Through that process, through meetings of the defence committee, through discussions with group heads and service chiefs, we identified efficiencies in our budget. It was not an arbitrary process. It was a deep analysis process. It was a consultative process and these figures emerged from that process.

Senator JOHNSTON—I am still none the wiser as to why it is five per cent, not four per cent.

Mr Warner—It could have been six per cent or three per cent but—

Senator JOHNSTON—We must have a basis to arrive at five per cent, surely, that you could point me to.

Mr Warner—I do not have that material today. I am talking about a process that began at least 18 months ago. All I can say to you is that it was not arbitrary; it was a process we went through in detail, looking at our budget and trying to identify efficiencies and here we found—

Senator JOHNSTON—As much as you tell me it was not arbitrary, what you are describing to me is precisely an arbitrary determination, is it not? Why five per cent? I think it is a really simple question. It is the same with the 18 per cent. You have had McKinsey substantiate that, which I accept. I think that is a reasonable way of doing things on one argument. But here we have got five per cent for the major capital facilities program. We have got savings across 10 years and five per cent. I am just saying: what does that convert to? Where do you get it from? I think you should be able to tell me rather than say, ‘We have done a lot of work and we struck a figure of five per cent.’

Mr Warner—We do not have that detail here. Obviously we did not expect you to go into this level of questioning about this area so—

Senator JOHNSTON—I would have thought that you would have known by now that I would.

Mr Warner—There are a lot of numbers in this and we do not have that detail here.

Senator JOHNSTON—I will put it on notice.

Mr Prior—If I can help, we started the savings program, as you know, over a year ago. In the last PBS you would have seen documentation regarding that. It is correct to say, in my view, that we as management said to ourselves, ‘Okay, where do we start? What is an appropriate point to start the savings program?’ If you recall, last year \$500 million was our first year out target. We did set internally what we thought would be a reasonable amount for a savings target and it was five per cent. Where did the five per cent come from? It was the best judgment of a number of us, including me, from experiences in other organisations to say five per cent would not be a bad place to start. Then the audit came along and of course it took it further. It said, ‘Five is interesting. However, in these other spaces we think it can go further.’ As Mr Minns has shared with you, in some workforce spaces it is a bigger number. It varies. It was where management started the program. I think that is a fair characterisation.

Senator JOHNSTON—Thank you. We have settled after much deliberation and consideration, using our experience, on where we thought we could save some money on five per cent?

Mr Prior—Yes.

Senator JOHNSTON—What is the other part of the \$1.2 billion? We have got \$750 million. We have got \$110 million here. I am sorry; there are minor capital equipment programs. What are they? I am happy with the answer as to how we arrived at them, but what do they comprise?

Mr Prior—There is a budget allocation into each of the groups for what we call minor capital. Whilst we have the major capital program handled by DMO, naturally you would expect in your organisation to have in each group funds available for them to buy minor equipment and so on. This again is a management assessment of how much that minor capital—this is going back 18 months ago—of those programs we think we could free up in terms of the history of our expenditure against those minor capital programs.

Senator JOHNSTON—What is an example of a minor capital program?

Air Chief Marshal Houston—Army buy a lot of their equipment through the minor capital because they quite often are small items that do not cost a lot of money in aggregate. To give you some idea, Air Force might buy some radios for a specific purpose. There might be other small requirements. Fundamentally, the minors program has often been described to me as the glue that holds the three services together because all the bits and pieces that they need to supplement their major capital acquisitions are purchased through the minor capital program.

Senator JOHNSTON—What is the cut-off between major and minor?

Air Chief Marshal Houston—It is \$20 million.

Senator JOHNSTON—As to administrative activities, we have \$110 million. What is the percentage we have applied across the 10 years for that?

Mr Warner—To start with, that is one of the figures that I changed—embarrassingly—this morning. It is now \$70 million, not \$110 million. I can ask Mr Prior to explain how we have gone from one figure to the other, if you like.

Mr Prior—We are down into the real rats and mice now. We are down into the weeds now—not in the sense of lack of importance but in terms of numbers. This is going back to our program last year. This is not part of the audit program. We identified, again, five per cent across a number of smaller items that were in group budgets and we said, ‘Can we take five per cent of those smaller items out?’ They add up to \$70 million.

Senator JOHNSTON—And the \$350 million is what?

Mr Warner—The \$350 million comes from a productivity saving which, from memory, comes into operation after 2013-14.

Senator JOHNSTON—What is the percentage of productivity saving?

Mr Warner—It is 0.7 per cent.

Mr Prior—If you turn to attachment B—

Senator JOHNSTON—Is that figure in here?

Mr Prior—Yes. If you go to attachment B, it says ‘support productivity improvement, 0.7 per cent’.

Senator JOHNSTON—Thank you for that. Why do we stick to 0.7 per cent? Where did we get that from?

Mr Minns—It is again going back to the benchmarking work that we did with McKinsey in terms of their considered view about the differential between anticipated wage growth rates and how much productivity. The 0.7 is our workforce that is not at the pointy end of the business, if you like. That is why you see it only in the civilian space; you do not see it in the military space, if that makes sense to you.

Senator JOHNSTON—You see it in both, don’t you?

Mr Minns—I beg your pardon. When we did the analysis we established—I am relying on memory here; I can get you the correct numbers—I think something like 78 per cent of the military as being described as combat or combat related or specialist military; 22 per cent we described as support to that. The productivity dividend from 2014-15 only applies to the support component of the ADF. It applies to the whole APS. The logic for it kicking in at 2014-15—if that is the right year; I do not have the table in front of me—

Senator JOHNSTON—Yes, it is. That is right.

Mr Minns—The logic for it kicking in there is that all that we are doing in SRP in that scaling-up ramp period is in effect a harvesting of productivity gains. To apply the dividend in that harvest period would be a double count, a double dip, so it does not apply. It is an ongoing continuous improvement measure once we have got to a reformed base.

Senator JOHNSTON—Let us stay with table A. Do the ICT savings come from McKinsey?

Mr Warner—ICT savings, like all savings from all reform elements in the booklet in the reform program, come from a process of review and consultation of internal companion reviews; in particular McKinsey went only, from memory, across the surface in respect of ICT reform. They looked at the work that we had done. I think they added to it to some extent, but, essentially, like so much of this reform program, it is home grown.

Senator JOHNSTON—What is the percentage reduction? Where does the number minus 49 come from?

Mr Farr—As the secretary said, we had embarked on a program of reform and savings prior to McKinsey beginning work with us. We were able to show them quite a lot of that work. They test checked it, including in their database of benchmarks. They went back to their colleagues within the US that have had experience both within large corporations and within military and they confirmed a lot of the savings. They confirmed the savings figures that we have come up with across the years. In the first instance, a lot of the \$49 million is in fact the low-hanging fruit, if you like. As we progressively reform the environment into one, single

consolidated, standardised environment over the years, that is where the larger savings actually start to appear.

Senator JOHNSTON—This is a notional saving; it is not a targeted, direct saving where you can identify the precise low-hanging fruit. We have got a percentage of low-hanging fruit. What is the percentage?

Mr Farr—No, in some cases it is quite specific, as with the savings that we will be looking to achieve through, for example, consolidation and standardisation. We will be looking at other savings simply by revisiting contracts with the suppliers and renegotiating those contracts. We have already achieved some of those. It is a combination of working from the bottom up, if you like, and at the same time from the top down. When we got to the middle what we actually found was that there was a lot of commonality between the work we had done to the benchmarks that McKinsey applied and so we were able to confirm and agree with those savings.

Senator JOHNSTON—What is the \$49 million about?

Mr Farr—It is difficult to explain in 10 words or less—

Senator JOHNSTON—Why don't we go to morning tea and you can gather your thoughts?

Proceedings suspended from 10.32 am to 10.50 am

Senator JOHNSTON—Mr Farr, I think it was a figure of 49—the magic number. How did we get there?

Mr Farr—I would like to give some context so that we know what we are talking about. That will make it easier to describe. If we look at reform of the ICT platform, within Defence generally, it largely falls into two main categories: firstly, the remediation of what we currently have and, secondly, the reform to ensure that we have the capability we need ongoing. Although they are slightly different, it is not always easy to distinguish between the two. For example, much of our infrastructure within Defence is quite old. That means it breaks down a lot, in basic terms. One of the first things we are doing is actually bringing that infrastructure up to within its use-by date, largely. To do that there will need to be an investment in that infrastructure, but it will also release savings because it will mean there will be fewer calls to the help desk, fewer outages and callouts into the regions to actually fix things.

Senator JOHNSTON—We hope.

Mr Farr—If you look at the whole program overall you will see that in the early years of the ICT reform there is actually quite a large investment and the savings come later on. There are savings all the way through, but the bigger savings come later on. The first part is the remediation to give us a stable environment but also to make some of those savings. At the same time as we are doing that we are renegotiating some of our contracts. We have gone through some major contract renegotiations, for example, with our carriage contract for communications and with our suppliers of contract labour. With some of our licensing agreements we have been able, in some cases, to consolidate licensing of software across the whole of the Defence organisation, negotiate with the vendor, leverage off our economies of

scale a lot better and make savings on that. We have already identified well over half of that and it is actually in the bank for next year already. The rest of it we will need to finalise, but we are very confident around the \$49 million and that we will be able to make those savings from consolidation, renegotiating contracts and standardising. As we go through the remediation we will standardise it along the way.

When we start to look at deeper reform—and this will go to the savings both this year and into the future—what we have found is that we need to align our work effort much better with the priorities of Defence. It would be a complete waste of time if we were very efficiently doing something that Defence did not see as a priority. That is also in process. By doing that we will be able to look at the returns on investment that are not worth while and then focus our effort on those things that are. No IT organisation has as much money as it wants or is able to satisfy every need, so we need to be able to prioritise that.

Senator Johnston mentioned earlier about having a single group where the software was able to talk to each other. As we get a better handle on doing that, one of the other advantages is that we are able to re-use a lot of that software. We have about 4,500 identified applications in our application portfolio. A lot of those are duplicates. If we could get rid of some of those and use the ones right across Defence then there will be quite a lot of savings in that. To do that we are establishing a standard architecture that everyone will need to move towards. In the infrastructure space—and we have already begun this, which will realise savings during 2009-10—a lot of our infrastructure is underutilised. For example, in our server technology, some of our servers have very low utilisation because it has an application on it that is not shared. We will start to consolidate those and have better utilisation of our infrastructure.

We have also done a major analysis around the way we source. We have a very large number of contracts. We have not leveraged off our economies of scale. We have lots of different vendors who do not have a deep relationship with us, and so we are able to provide very good vendor management. We need to reduce those numbers and we need to look at our contracts. We worked through this and identified quite significant savings. We did some benchmarking with Boston Consulting, who helped us with where we should be going. We supplied those benchmarks from Boston to McKinsey, who verified them. We are quite confident that, by putting the strategies that we have identified in place, we can get to those benchmarks. We are also leveraging off whole-of-government opportunities, the work that Finance and AGIMO are doing in the whole-of-government space.

It cannot be ignored that ITC is also a key enabling capability for all of the other streams of reform and all of the other savings. I think you heard Mr Minns mention that ICT was critical and Mr Bowles would have said the same thing, as well as the services. We need to factor in that there will be ICT support needed to support their reform efforts.

Those are the programmatic that we are going through at the moment to say, 'What order should we do these in?' We are fairly comfortable that the savings are there for next year. That is okay. We know that we are going to take the next 12 months to look at the way we should be delivering shared services across ICT. We have put in place a whole range of different strategies to consolidate all of our infrastructure, and that will be right through to bringing the 200-odd data centres and server rooms that we have down to a very much smaller number that is much more manageable. We will upgrade our infrastructure so that there are fewer callouts.

All of those things in the initial years and the investment we will make in the longer term will actually position us for very fundamental reform, not only in cost savings but also in bringing that single Defence information environment that will allow information to be shared seamlessly and that will allow applications to talk to each other, as Senator Johnston alluded to yesterday, using modern technology.

Senator JOHNSTON—With respect to net stream savings in attachment A, in the first year we virtually cancel out any gross savings.

Mr Farr—Yes.

Senator JOHNSTON—Why do we go to minus 130 and yet through the forward estimates we have expenses of 200? How does that follow? What incident has impacted upon the calculations there?

Mr Farr—When we brought together our strategy, the work we needed to do and worked through that with McKinsey and others on the benchmarking, we could see that the strategies we were putting in place would lead us to the benchmarks. As I said, we worked from the bottom up, and McKinsey worked their way down and said, ‘Yes, we can meet in the middle.’ It was also recognised that to get to the point where we could realise those savings from where we are currently would actually require a significant investment. We have a very diverse environment. We have lots of different technologies. We do not have good governance arrangements over all of it as yet. The savings are predicated on a very high degree of standardisation and consolidation. To do that we will need to invest. The ramp-up of savings reflects that, as indeed the costs in the early part of the year reflect on how we will get there so we can actually achieve those benchmarks.

Senator JOHNSTON—Chair, I know other people want to ask some questions. I will defer to Senator Trood if I may.

Senator TROOD—Mr Warner, I wanted to ask some questions about the passages in this program regarding the defence estate. I notice the first few paragraphs talk about some of the difficulties with defence estate, the size and deterioration of some of the facilities and the need for reinvestment. The only figure that I see in that passage is the \$190 million slated for reinvestment in the estate, which is fine, but then as I move towards the latter paragraphs of the contribution I see there is a reference citing the Defence white paper principles about the nature of bases and eventually a reference to the possibility of closure of some bases. My recollection is a bit hazy, but my understanding was that we were essentially paying attention to our strategic geography, at least since the 1987 white paper from which there was a move north in relation to some of our basing, certainly air force basing. For at least 10 years we have been selling off surplus real estate and trying to consolidate bases around the country. There is \$190 million proposed for reinvestment. Is there an expectation that there will be savings from the sale or rationalisation of defence estate and, if so, what sort of figure might that be?

Mr Warner—You will see from attachment A that there are no savings figures for the defence estate. We looked at the defence estate. The audit looked at the defence estate. Some principles have been laid out. The government, though, has made no decisions to rationalise any bases and, indeed, this is an issue that remains before government.

Senator TROOD—In the context of this planning do you see the likelihood down the track that there may be opportunities for rationalisation and perhaps disposal of excess estate?

Mr Warner—It is an issue that remains before government, and clearly decisions about the closure of bases and the consolidation of bases is a decision for government. There is really not much more on that that I can tell you. It is before government still. But we have not factored any savings from estate rationalisation into the \$20 billion savings program.

Senator TROOD—I suppose there are two possibilities here. There is the possibility of some savings from sales and capital acquisition from sales and, of course, the possibility of savings from rationalisation as to the way these bases are run in some way.

Mr Warner—You mean efficiencies within bases?

Senator TROOD—Yes.

Mr Warner—Yes, that is captured throughout this reform program.

Senator TROOD—But it is not captured in relation to the defence estate?

Mr Warner—No, because that was talking about base rationalisation. Should we close base A and consolidate it with base B? That is what this section was about. As I said, no decisions have been made. The sale of Defence property is different. That is not what we are covering here, but I could ask Mr Bowles to talk to that.

Senator TROOD—You are saying defence estate is basically Defence force facilities and bases, not Defence property; is that right?

Mr Warner—No, I am not saying that.

Senator TROOD—‘Defence estate’ is not a generic term that covers all of the property that the Defence department has?

Mr Warner—No, it is. That is exactly what it is. What I am saying is that when it comes to the sale of defence estate that is not covered in here. One of these gentlemen can describe to you what that process is that is underway and what happens to the revenue from it.

Senator TROOD—Before they do that, perhaps you can tell me whether there are possible savings from that activity reflected in this document?

Mr Warner—No, there are not.

Senator TROOD—I see.

Mr Warner—There are no defence estate or Defence property savings identified in the \$20 billion. There will be efficiencies that flow through the way we operate in Defence bases.

Senator TROOD—Why would you not include those sales?

Mr Warner—Because they are captured elsewhere.

Senator TROOD—That is what I am saying. They are presumably captured elsewhere, but where are they captured?

Mr Prior—Mr Bowles can go into the detail of it, but there is a normal property sale program for Defence. It has been there for many years. It is a continuing program. It is not a

new program. The SRP is really about new programs. If you wanted more detail on what is in that property sale program then Mr Bowles can help you.

Senator TROOD—Can you tell how much the property sale program might yield from, say, 2009-10?

Mr Bowles—The property sale program, as you rightly pointed out, has been going on for quite a long time. When we do identify any surplus land we sell into the market, obviously. Those funds are returned to consolidated revenue. They do not come to fund Defence, other than through consolidated revenue and we are obviously funded through that process. The property disposal program could be as small as \$7 million or \$8 million depending on what we are selling or it could be as high as a couple of hundred million dollars depending on the properties that would be in the marketplace at any given point in time. That will vary year to year and that will slip from year to year depending on whether the sale goes through at a particular point in time. The figures vary quite markedly depending on the market conditions at a particular point.

Senator TROOD—You are saying that if there are property sales in that respect they are monies lost to Defence?

Mr Bowles—They are monies that go into the consolidated revenue of government.

Senator TROOD—They are not specifically preserved within the context of the Defence department's funding?

Mr Bowles—No. That is correct.

Senator TROOD—Are there any specific sales that you have slated for 2009-10?

Mr Bowles—Yes, there will be.

Senator TROOD—In particular, you might tell me whether there are any in Queensland. Give me a generic number and, if there are any in Queensland, you had better be a bit more specific.

Mr Bowles—There will be a range of different sites that will come up in 2009-10. There are things like Belconnen in Canberra—

Senator TROOD—That does not worry me too much.

Mr Bowles—that is likely to come up in 2009-10. Jezzine is obviously one that relates to Queensland that we have been dealing with for some time. All of that will be finalised either this year or next year. That is about the only Queensland thing I can see on my list.

Senator TROOD—Good.

Mr Bowles—You never know, do you?

Senator TROOD—You will give me notice about that, will you? Mr Warner, when you say there are no decisions that have been made about this, let me clarify what that means. Are you looking at any specific base closures in the context of this arrangement or not?

Mr Warner—This is still an issue that is before government. I cannot go into the details. We will continue to have formal communication with the government on this issue.

Senator TROOD—Thank you for that. When you say it is before government, it sounds to me—and if I am wrong please correct me—that you have put a proposal to government about some bases which is under consideration. I do not wish you to reveal the specific bases that you may be thinking about, but if that is not the case then please clarify.

Mr Warner—That is not the case.

Senator TROOD—So, you have not put any propositions to government about base closures at the moment?

Mr Warner—That is correct.

Senator TROOD—Are you doing any work within the department about the possibility of meeting some of these strategic requirements that you have put down here?

Mr Warner—Yes. We think these strategic requirements are important. As I have been trying to suggest, we will be going back to government about estate matters.

Senator TROOD—Before you do that, your department will be turning its mind to the positioning of bases and the strategic need for them. Am I right in understanding that you may be coming up with suggestions for base closures at some juncture?

Mr Warner—We will be looking at this in a holistic manner.

Senator TROOD—Are the requirements listed here in this document, which you have referred to in the context of the white paper, new principles that you have now established for dealing with these problems or issues?

Mr Bowles—I might be able to help you a little bit there. We have been working on a set of principles for quite a period, and through the white paper process we tried to refine those. These are a refinement of what has been in place for a little while, but we want to make sure that whatever decisions we make in any future time period are based on some strategic rational. These are the five principles that were developed.

Senator TROOD—Are these cumulative principles or are they prioritised in some way?

Mr Bowles—They are not prioritised at all. We will make assessments against each of those issues. Obviously, in some cases we say where possible bases are located, because there are obvious issues around some of the basing required for the Defence Force.

Senator TROOD—There indeed are issues and, in fact, some of these seem to be internally inconsistent. The reality of our geography, of course, is that the strategic priorities are in the north of the country, unless one has anxieties about what might happen across the Tasman or south. The priorities are in the north of the country, which is generally not a very family friendly area.

Mr Bowles—There is a range of issues that play into this. While the north is strategically important, how we actually train and operate within Australia is also very important to the ADF, so that is why we need to keep that in mind when we are looking at our basing principles. Just because the north might be important for one reason, we have to work out how we actually manage the entire estate at any one point in time and that is why sometimes some of these principles might look like they are a little bit internally inconsistent.

Senator TROOD—Mr Warner, in the context of this evaluation will you be giving consideration to the possibility of building new bases anywhere around the country or is the department relatively comfortable about that?

Mr Warner—I cannot go into that sort of detail. We will be putting more information forward to the government. It would not be appropriate for me to foreshadow what might be in that.

Senator TROOD—I do not seek that from you. I do not want you to tell us that you are planning to create a new base somewhere in the north of Western Australia, for example, but as a matter of principle the proposition I am wishing to explore is the comprehensiveness of this defence estate evaluation. You have told me that there may be some consideration to closing bases, and I acknowledge the caveats that you have attached to that, but it seems to me to follow that there may be some consideration that might involve the closing of a base and perhaps the opening of or the creation of a new one somewhere else. How wide is the extent of this evaluation? You have been at pains to make the point throughout this examination of the profound nature of this whole exercise. Does the whole exercise extend to a re-evaluation of all of the basing requirements that we may have in Australia?

Mr Warner—As this booklet sets out, we have a very large estate with 350 properties, 350 additional leases, and 3.4 million hectares of land that we either own or that we manage, and more than 70 major bases—all of this scattered around Australia, much of it for historical reasons rather than current strategic reasons. That is an enormous estate on which we spend a lot of money, but not as much as we should and that is why another \$190 million has been earmarked here.

In the companion reviews that I have referred to, and in the external audit, the estate was looked at in a very detailed way. As I have said a number of times, we will be going back to government at some stage with further advice for the government to make decisions, but it is not possible for me to go into the detail of what that advice might cover.

Senator TROOD—I see that. Just tell me as a matter of process do you have a group of people within the department specifically focusing on the basing and defence estate activities?

Mr Warner—There always have been and they, luckily, work for Mr Bowles.

Senator TROOD—Mr Bowles, has your staff been enhanced to undertake this task or are you essentially working with the group that you have already? We have talked about additional figures here. Are any of the additional employees going to be assigned to your part of the department?

Mr Bowles—My staffing is appropriate for what I require, and through the white paper there is a range of capability improvements in respect of which staff will come to me, for example, to build facilities where required.

Senator TROOD—I see. Thank you.

CHAIR—Senator Johnston.

Senator JOHNSTON—I have a couple of final matters in respect of the SRP. You have been the secretary now since 2006 or 2007?

Mr Warner—Could I take that on notice? It is two and half years.

Senator JOHNSTON—So, that is 2007.

Mr Warner—I am informed that it is December 2006.

Senator JOHNSTON—I thought it was. Do you perceive that these reforms that have been laid out in this document threaten or diminish the level of capability of our uniformed personnel or the productivity of our civilian workforce in Defence?

Mr Warner—Absolutely not.

Senator JOHNSTON—Good. In your estimation, how long has the department carried this level of fat?

Mr Warner—That is a big question and I will try not to bore you with the answer. If we go back 10 years when Dr Alan Hawke was secretary of the department, he made a number of public speeches that went into great detail about the problems facing Defence and the inefficiencies in Defence. Seven years ago, when Mr Ric Smith became secretary, he found himself very quickly caught up—and he may say even swallowed up—in the qualified financial statements that then beset Defence. Those qualified financial statements were indicative or symbolic of a much broader problem within Defence. I am sure if Mr Smith were here today he would agree with that.

In the two and half years that I have been in Defence and working with the CDF and the other members of the Defence committee it has become increasingly apparent to me what the problems and issues are in Defence. To some large extent building on Mr Smith's work and also the work that Mr Prior has done, we no longer have qualified financial statements. That was the beginning of fixing the problems in Defence.

I am not sure you are aware of this, but almost a year ago exactly I gave a speech to the Lowy Institute where I laid out, in a great deal of detail, what those problems were and what their origin was. In some respects the origins of the problems confronting the Defence organisation today are historical and in some respects they are issues that confront all comparable Defence organisations. I can take you back a long way. I am sure you will remember better than I do Liberal senator David Hamer, who in 1979 said, 'Defence is a disaster area', and went on to describe why he thought that was the case. A story I have often told my colleagues in this room goes back to 1953 when Sir Robert Menzies, across the cabinet table, leaned forward and said, 'Colleagues, I want to tell you something about Defence. It's a mess.'

These are longstanding issues and problems. They are problems that I would argue confront all Defence organisations. What has happened in the past 18 months, in particular, is that the CDF, the whole of the Defence committee, many hundreds of people in Defence and I, now that we have got the financial statements back in order, have looked at the fundamental issues, problems, deficiencies, inefficiencies and fat in the organisation, and have determined a way forward. It is what we are calling the strategic reform program. That reform program, I would argue—and I know the CDF would also argue; he has more experience in this than I do—is far reaching, well founded, based on a thorough analysis with some assistance from external consultants and it has the great advantage of being, as I said before, our reform

program. We have developed it. We understand it. We have provided the right amount of ramp-up. We have provided ourselves with a diagnostic period to ensure that the level of savings in each of these 15 reform streams is right, what we need and is not going to do damage to Defence as previous reform programs have done.

If you go back to the late 1990s—I was not around in the Defence then—the DER and the DRP were called reform programs, but they were really toe-cutting exercises that may have found some billions of dollars worth of savings but in the process did real harm to Defence's assurance and governance processes. And I say 'may'. This is not that sort of program. This is a genuine reform program that Defence has needed for years, if not for decades. The senior leadership in Defence is determined to push it through and confident that the reforms will be found and, in finding the reforms, we will find the savings that will allow us to deliver Force 2030.

Senator JOHNSTON—If it has been needed for so long why has it not been delivered?

Mr Warner—I cannot answer that. I can only tell you about what has happened since I have been secretary. In that time, as I said, we fixed the financial statements that underpin, in many ways, the problems right throughout Defence. We have then identified the other problems, the inefficiencies and, to use your word, the fat in Defence, and now we have a reform program to actually go into each of those areas, go into each of those inefficiencies and for once and all fix the problem.

I do not want to leave you with the impression that we think this is going to be easy. This is going to be really hard. These are ambitious targets that we have set and a very ambitious agenda of reform. But if we get this right—and we will get this right—it will fundamentally change the way that Defence does business, prioritises its resources and allocates resources. In doing that it not only will make Defence more efficient and more effective, it will actually make it a better place to work and a better institution for Australia.

Senator JOHNSTON—What happened 18 months ago to initiate the epiphany that you and the CDF have had with respect to this reform process?

Mr Warner—I do not think it was that. For my part—and I am sure CDF would like to talk to this, too—it was an exercise in learning and understanding. This is a vast business, as you know. We have 90,000 people and a budget now of about \$25 billion to \$26 billion. As I said to Senator Trood, we have 3.4 million hectares of land. We are probably the biggest restaurateurs in Australia and the biggest hotel operators, as well as the fact that we fight wars and spend rather a lot of money on buying new capability. To me, it was a process of beginning to understand the business of Defence, getting the financial statements unqualified, and then building a process of reform that would allow us to correct the historical problems and the current problems that beset this Defence organisation. For this to work requires everyone here in Defence and the other 90,000 members of the Defence family to work together, to be committed, to understand the reform program and, if I could say, it also requires your understanding as a committee, your help to us as a committee, and I would hope your support.

Air Chief Marshal Houston—Would you like a view from me?

Senator JOHNSTON—Yes, I certainly would.

Air Chief Marshal Houston—Some 18 to 20 months ago it was clear that we were going to go into a white paper process. Previous white papers have tended to be very narrowly focused on our strategic circumstances and the capability that is required after an assessment of the strategic environment, definition of our strategic interests, essentially defining some of the tasks that the ADF had to do, and then coming up with the force structure. Previous white papers probably have not concentrated on the support and enabling side of the organisation to any great extent. What we did this time was decide, right up front, that there was a need to have a look at the whole organisation, not just part of the organisation. That is why, as part of the process, we had the companion reviews, and eventually the government also wanted us to do an independent budget audit, which was done by George Pappas, with the support of McKinsey. There is a great opportunity here to have a look at the whole organisation, root and branch, and find the best way to organise the enterprise and organise our military forces to deliver the best effect. What we have done is a comprehensive and holistic exercise that has looked at everything in a very comprehensive and complete way.

Along the way we have applied the lessons learned from previous white papers and also previous reform programs. I think the reform program of the late 1990s tended to focus far too narrowly on savings in terms of saving positions and not enough consideration was given to the effects that those savings would have on governance, assurance and support functions. To a large extent some of our very important governance functions were blown away. For example, audit capability was taken because, to some extent, that was the low-hanging fruit when people were out looking for positions to save to reinvest in the sharp end of capability or to save positions to reduce the size of the force.

This time around we have had a comprehensive approach and in doing that comprehensive approach we have also looked at the most efficient way of doing business. Clearly, our companion reviews assisted with that. That was driven from inside. Along the way we also had Pappas and McKinsey, who also assisted us in finding a more efficient way to do business. I think where we have ended up is a really good outcome. Unlike previous reform programs, what we have here is a comprehensive reform program that goes out over 10 years. Importantly, it invests resources up front before we get into the business of delivering the major parts of the reform program. We have a plan, goals, timelines and a will that extends right across the senior leadership part of the organisation that requires us to deliver the reforms and the associated savings. Of course, we need those associated savings to deliver Force 2030, which is an essential part of where we are going.

CHAIR—Thank you. Following on from Senator Johnston's question to both Mr Warner and CDF in due course, you have said over the last two days that you have repeatedly taken ownership and responsibility for successful implementation of the plan from now until 2030. You have repeatedly made the point that you, CDF, your entire executive team and then down into the organisation are committed to those objectives. In that context—it is of course not just yourself—could you comment on the importance in terms of long-term reform, and hopefully permanent reform, which is what we are talking about, and the role of the political process and political oversight in that long-term reform? Whilst we can describe it as functional or operational work, it is at one level, but I would have thought you are going to need a degree of oversight, supervision and perhaps you even invite that. Without going into

areas where we both know you cannot, could you comment on the utility, if you like, of that political oversight and the political process in achieving what are now shared goals?

Mr Warner—I have been saying this is a home-grown reform program. It is our reform program and, of course, that is true. It is a reform program that the government has agreed to and has ticked off. It is, of course, the government's reform program. It will be important for the government because we are talking about large sums of money, but it will also be important for the Department of Defence that we provide government, indeed this committee and all political parties, with a complete understanding, firstly, of the reform program, which is what we were trying to do with the booklet yesterday and, secondly, with how we are going with the implementation of the reform program and the savings. We need to do that as completely as we can, because as I said to Senator Johnston, we need bipartisan support if we are to succeed in this process.

In respect of governance arrangements that help with the interface with government and with parliament more generally, we are setting up—and it is set out in this booklet—a Defence strategic reform advisory board. That board will have two key functions. One will be to advise the CDF, me and Dr Gumley, who will also sit on the board. It will be chaired by an external person, I expect a person from the business world who has had good, deep experience in reform of major private sector corporations. That board will help us undertake a complex reform task drawing on the experience of the private sector, but that board will also be an interface to the minister. It will report to the minister and the minister, of course, will report on a regular basis, and on the basis of information provided by the Defence department, to the National Security Committee of Cabinet.

As I said earlier, and I know CDF agrees with this, we want to keep this committee very much informed about the progress of this reform program, partly because you have experience that we do not that you can bring to bear and provide advice, and partly because we need the parliament, the commentariat and the Australian people, firstly, to understand what this reform program is and, secondly, to understand that it is working. If it is not working, CDF, the Defence committee and I will be held to account, and we are very happy with that part of the contract.

CHAIR—Thank you. CDF, do you have anything to add to what the secretary said?

Air Chief Marshal Houston—No, I have nothing to add.

Senator JOHNSTON—Secretary, given that you have said that this fat has been around for some time, or there has been a capacity for reform to be carried out notwithstanding we have not been able to secure audit certificates, what safeguards does the committee have that this whole exercise does not fall short of the mark and indeed the savings to be made could effectively not be even greater, given we have carried this capacity clearly for some considerable time? I appreciate your answers. The white paper has initiated a rethink. There has been consideration by both you and CDF to get this show on the road. I thank you for that and I think it is very positive. I am not convinced that the figures are not an enhanced arbitrary figure, but I think we will see that play out in due course. Why would the committee not be cynical? Why would the committee not be suspicious that these still just scratch the surface in Defence, given that track record?

Mr Warner—There are a couple of reasons. Firstly, because we have actually fessed up.

Senator JOHNSTON—I appreciate that answer.

Mr Warner—A year ago in the speech I gave to Lowy—of which I have a copy here, if you would like a copy—I stated:

Defence has been generously funded in recent years. Most of the money has been well spent. Some has not. I know there is fat in Defence.

Maybe that is my word and therefore not your word.

Senator JOHNSTON—I wonder where I got it from.

Mr Warner—Firstly, we fessed up. This organisation is now transparent. There are no hollow logs, no smoke and mirrors. You can see what our budget is and where it is going to be spent. Secondly, is there more money here or is there more fat? When the minister directed us to find \$10 billion over 10 years, which he did about 18 months ago, there was a degree of disbelief that we could possibly do that. That may have been expressed in this committee, I cannot remember, but it was certainly publicly expressed. Now CDF, the Defence committee and I have committed to finding twice that amount over the same period. That is an enormous sum of money. I said earlier, or perhaps you did, that the ramp-up is not extreme, but if you look at the savings in the final years of the decade, they are very substantial. To get to \$20 billion—I do not have the figures here—I think we will be saving something like \$3 billion a year. That is a very substantial part of our discretionary budget. Look around Canberra. Look around the bureaucracy. Look back historically. Find a department or agency that has committed to that level of funding over that time. I doubt very much that there are any examples. If there are examples, I doubt very much that they are successful examples.

The main guarantee you have is twofold. Firstly, this is a reform process that has been developed well and properly. It is well founded. As I have been saying, it is our reform program. Your second guarantee and perhaps your strongest guarantee is that CDF, I and all the members of the Defence committee, civilian and military alike are signed up to this program of reform and are signed up to these savings. This is a contract, if you like, that we have with government and after today it is a contract that we also have with you. We will introduce these reforms and we will find these savings.

Senator JOHNSTON—Thank you for that answer. Chair, I do not have any further questions with respect to the reform program. I would like to move on to another subject.

CHAIR—CDF, do you wish to add anything to the secretary's comments?

Air Chief Marshal Houston—The way I have characterised it with the people I have spoken to around the Defence organisation, and that is about 7,000 people, is that in order to deliver the white paper Force 2030 we do have a contract with government and our part of the contract is to deliver the reform program, because the reform program is part of the funding enablement of Force 2030. If we do not deliver the program, if we do not deliver the savings, we do not get Force 2030. It is as simple as that. The government will hold Mr Warner and I accountable to deliver those reforms, because at the end of the day that will deliver their force structure as laid out in the Defence white paper.

CHAIR—Thank you.

Senator FERGUSON—I would like to ask a couple of questions on the reform program about reserves. You state in paragraph 118:

Part-time members of the ADF are a key contributor to cost-effective capability within the ADF.

Over a period of time there has been a rationalisation, which is the best way we can put it, particularly in reserve organisations in some country areas of Australia. With respect to this \$380 million over a decade, where is further rationalisation likely to take place?

Air Chief Marshal Houston—It is all laid out in the white paper where we are going. I can take you to pages 90 and 91 of the white paper. You can see that we have a good strategy ahead as to the sorts of areas we want to go to. The first and most important thing to note here is that the Chief of Army has, for quite some time, as part of the Adaptive Army initiative, been working on reserves. That work will assist in informing the reserves implementation plan that will be delivered towards the end of the year. That will be the key document that drives the reforms as they apply to reserves.

As we go through the white paper document you will note that there is intent to enhance the High Readiness Reserve. We embarked on High Readiness Reserves about three years ago. It is a good concept. We want to take that further. You will see laid out in paragraph 10.16 some of the initiatives that we have in mind. I guess where we are going to really get into a different way of doing business is to deliver a more integrated approach to the way we use reserves. Rather than having reserves as a separate entity that lives somewhere else and does their own thing the intent is to bring them more into the mainstream. It might be that you have a brigade that lives in Townsville and part of that brigade—the 3 Brigade if we are talking about Townsville—will have a reserve element as part of the brigade. In other words, that element of reservists would work as part of the whole formation and would be available to do operational work from time to time.

The other area where we think there is probably scope for considerable improvement is to look at some of the high-end capabilities and perhaps looking at bringing reserves in to assist with the maintenance of those high-end capabilities, which are generally on longer degrees of operational preparedness. In other words, they are on readiness notice that goes out for many months rather than the few days that apply to the Ready Company or the periods of days that other ready elements maintain for contingencies in the region and so on.

I think overall there is also an opportunity to explore concepts such as sponsored reserves and also perhaps to work with reserves in their areas of specialty. One of the things that we have not been particularly good at in the past is using the skills that people have in their civilian employment to good effect in the military. There are exceptions. Obviously, the exception is in the medical area with surgeons, anaesthetists and so on, and also in the legal area, but there are other areas of expertise that people have in our reserves where they have not always been employed to the best effect by us to make full use of the skills that they maintain.

The other one is in terms of the Air Force and the Navy, which are slightly different. What I have been talking about up to now is Army. I think Air Force and Navy will continue to have a very integrated approach to the way they do business. As we have seen in recent times, the contribution of the navy reserve to the Navy has been absolutely invaluable. Right now we

have 500 navy reservists on continuous full-time service and many of those have deployed on our ships to the Gulf and in other areas.

There is great potential for us to do things differently, to better exploit the skills of our reservists, and to bring them more into the mainstream in terms of the way we posture them. Rather than having them in a depot that is a long way from the permanent force where they do their own thing, they actually actively work as part of an integrated force. That is what Adaptive Army is all about and that is what the reserve reform is all about.

Senator FERGUSON—I understand all of that. You have talked about the enhancement of the reserves and all of the things that are positive, but the one thing you have not said is how you are going to generate estimated savings of \$380 million in the reserves.

Air Chief Marshal Houston—We will be able to do that by making the necessary changes to gain those savings. Again, we have done a full analysis of the sorts of areas where we might be able to find those sorts of savings.

Senator FERGUSON—'Might' be able to find.

Air Chief Marshal Houston—We have been assisted by McKinsey and the Pappas independent budget audit. They have had a close look at the way we do business and they have made a judgement that we can achieve these savings. It is not just me saying it. We have expertise that has benchmarked us against similar military organisations around the world and told us that there is scope for us to be more efficient in the way that we use reservists. Of course, the three service chiefs, the vice-chief and I are also interested in getting more effective utilisation of those reserves. As we have seen in the recent past, we have started to use reserves much more effectively on operations.

Lt Gen. Hurley—I am responsible for the implementation of the reserve reform stream. I have Major General Melick here; he is the head of Reserve and Employer Support Division. Over the three services I work with the three service chiefs as we look at how we reach greater efficiencies and effectiveness with the reserves and achieve the savings that you have mentioned. People tend to think of that line as that money coming out of the reserves. That money is coming out of the ADF as we integrate reserves into the way we do business in the ADF. We are looking at driving down the cost of maintaining the ADF and its manpower levels through better use of the reserves, not stripping \$380 million out of the reserve forces across the board. It comes out of the entire uniformed workforce rather than the reserve element.

Senator FERGUSON—In many of the rural and regional areas of Australia there have traditionally been depots of reservists, but in recent years the numbers have dropped off in some of those depots. What are the criteria for the closing down of a depot?

Air Chief Marshal Houston—We have not got anywhere near consideration of that sort of aspect of the reform. As we develop our plan, we will obviously look at all aspects of the way we deploy reserves and the way we want to deploy reserves in the future, and we will go to government with a full comprehensive plan.

Senator FERGUSON—Whether or not reserves are deployable is not the only criterion for reservists existing in many parts of Australia. I know that in my own area there is a small

depot, but it has been responsible for encouraging many young people from the schools and other areas to become permanent members of the armed forces. There is more than just a deployable ability of the reserves because of their presence in an area. Sometimes, although the depot may be small, it is an almost intangible effect that they have on the area. Apart from the fact that they are highly visible at things like Anzac Day ceremonies, they do serve another purpose.

Lt Gen. Hurley—The issue you raise is one of the nubs we are dealing with with the Reserve, because it is part of the fabric of the nation. As you go around dealing with the issues we are going to be faced with, again, it is the principle: do no harm, but can we do better? If these things were black and white we would have done them 50 years ago. They are not. They will take time and thought and we will work pretty heavily with Army on this.

We are looking at more functional areas such as integrating the regular reserve career management process, career streaming, training processes and so forth to get better at it. We will look at how we deliver training to the Reserve. Can we increase the quality of the Reserve by training them differently and allow them to do some of the higher-end tasks that we have not been able to achieve in the past? We do not want to go tilting at windmills with this. We have to be hard headed about it, but we need to be conscious. Frankly, when you look at Reserve infantry battalions, do you take their colours away? It gets quite emotional. I do not want to go into those debates. I would rather get a solid answer that increases capability. Let them have the flags if that is what is important to them, but what we want out of them is capability. At the end of this, I have a target to achieve savings across the entire ADF manpower by better use of the reserves.

Senator FERGUSON—In the Australian Army and reserves is it the case that a reservist can only be deployed after volunteering?

Lt Gen. Hurley—There is a call-out mechanism.

Senator FERGUSON—Has that ever been put into place?

Air Chief Marshal Houston—No.

Senator FERGUSON—But there is a mechanism there?

Air Chief Marshal Houston—In recent times we have not used the call-out mechanism. All of our people volunteer. We have more than enough volunteers for all of our operations.

Senator FERGUSON—Thank you.

CHAIR—There are no further questions on the SRP. We will now turn to the security inquiry.

Senator JOHNSTON—What is the cost of the internal inquiry with respect to the allegations that the department was involved in somehow snooping on the minister?

Mr Warner—I have not done that work. I do not have that figure here. I did say in response to a question at a press conference last Friday, when I released the Defence Security Authority report, that I thought it would be some hundreds of thousands of dollars.

Senator JOHNSTON—Seventeen hundred people were contacted in one form or another.

Mr Warner—Yes.

Senator JOHNSTON—There were 1,300 sworn statements.

Mr Warner—Yes.

Senator JOHNSTON—There were 600 face-to-face interviews.

Mr Warner—Yes.

Senator JOHNSTON—What was the form of the sworn statement?

Mr Warner—It was a statutory declaration that asked a number of questions.

Senator JOHNSTON—Was it a pretyped pro forma that a testator would read and then either accept or reject?

Mr Warner—That is right.

Senator JOHNSTON—What did it say?

Mr Merchant—Just bear with me for a moment. I will turn up a copy of the statutory declaration. There were five points in the statutory declaration. It stated:

I have or have not conducted any information gathering against the Minister for Defence, the Hon. Joel Fitzgibbon MP.

The second was:

I have or have not conducted any information gather against Ms Helen Liu.

The third was:

I have or have not accessed the Minister for Defence, the Hon. Joel Fitzgibbon MP's, computer accounts or phone records.

The fourth was:

I have or have not accessed Ms Helen Liu's computer accounts or phone records.

The final point was:

I have or have no knowledge, apart from media coverage since 26 March 2009, of an alleged investigation of the Minister for Defence, the Hon. Joel Fitzgibbon MP or of who might have conducted it.

CHAIR—Secretary?

Mr Warner—I just thought it might be helpful to the committee if we tabled a copy of the DSA report. Yesterday we tabled a copy of the IGIS report.

Senator JOHNSTON—We distributed 1,300 of those documents?

Mr Merchant—We received 1,368 completed statutory declarations.

Senator JOHNSTON—Did any of them answer other than in the negative?

Mr Merchant—There were a number of occasions where statutory declarations provided additional information in response to those questions. For example, we have a member now in the Defence staff who previously was on Minister Nelson's staff. He obviously did some work in relation to Minister Fitzgibbon in his capacity on Minister Nelson's staff. There are also people referred to in our report who are in the area that is responsible for paying departmental phone accounts that received billing data relating to official departmental phones that are used

by the minister. There are a number of examples where we had additional information provided as a result of these statutory declarations. There was absolutely no information provided to us in these statutory declarations or through the interviews that suggested that anybody in the Department of Defence either had conducted such an investigation of the minister or, indeed, had any hint of knowledge of anybody else in the department doing it.

I might also add that, in addition to the interviews and statutory declarations, the secretary sent an email to all Defence staff on 30 March asking anybody in the Defence organisation who might have knowledge of these matters to come forward. We received three responses to that email. We followed up and none of that information was relevant to the inquiry.

Mr Warner—I can add to that, to complete the story, that yesterday we tabled a copy of the IGIS report. If you turn to paragraphs 82 and 83 and the paragraphs around there you will see that Ian Carnell issued something less than 200 stat decs or section 18 notices under the IGIS Act. This is a process that both investigations followed.

Senator JOHNSTON—Was it exactly 1,700 personnel?

Mr Merchant—It was 1,721 people who were covered by the investigation.

Senator JOHNSTON—How did we determine those who were in and those were out of the list?

Mr Merchant—Right at the outset of the investigation we looked at those people in the department and those areas in the department that we thought were most relevant by virtue of the functions that they undertook in the department and by the material that was outlined in the media allegations. From that we determined that we needed to focus on people who had formal responsibilities within the department for security investigations. There are three areas of the department that are principally responsible for investigative matters. The first of those is the Defence Security Authority, which has an area responsible for investigation of complex security breaches. There is also a small counterintelligence area in the DSA. There is also the Australian Defence Force Investigative Service, which is responsible for investigating possible breaches by ADF members of the Defence Force Discipline Act, and there is also the Inspector-General's area, which is responsible for administering the whistleblower scheme and investigates possible instances of misconduct or fraud.

In addition, we obviously determined that the staff in the Defence Signals Directorate would be of high interest to the investigation. We obviously had to coordinate our activity there closely with the Inspector-General and make sure that we did not do anything that would complicate his independent investigation. Once he announced that he would do his independent investigation of DSD, what we agreed with the Inspector-General was that our investigation would draw on the material that DSD itself would prepare as input to his investigation. That input from DSD would be provided both to the Inspector-General and to the Defence inquiry.

We also looked at the Defence Intelligence Organisation, obviously with a particular focus on relevant geographic areas of the Defence Intelligence Organisation. We also looked at the Defence Imagery and Geospatial Organisation. We also covered other parts of the group, as it was then constituted, that I was responsible for. That included staff in the International Policy Division and also staff in my Business Management Branch. We also looked at service police

areas. We did a number of checks involving staff from the Chief Information Officer Group, particularly those people who had privileged access rights—systems administrator-type access rights—to the Defence Restricted Network, because part of the work we were doing was to see whether there had been any improper access to the minister's Defence Restricted Network account. As I said, we also covered people responsible for paying telephone accounts. As the media allegations unfolded and there were a number of changes to those allegations over time, we also covered staff who were involved in handling health issues and also applications for mining leases on Defence territory, which also became the subject of later media allegations.

Senator JOHNSTON—Of the agencies or sections within Defence, how did you determine who was in and who was out? Let us take, for instance, the Defence Security Agency.

Mr Merchant—The Defence Security Authority?

Senator JOHNSTON—Authority, sorry.

Mr Merchant—In relation to the Defence Security Authority, as I said, the principal focus was on those members of the authority who were responsible for investigating potential breaches of security practice. They are trained investigators, so they would have the skills to do the type of activity that was alleged, so they were of high interest. There was also the counterintelligence area of the Defence Security Authority.

We also covered those people in the Defence Security Authority who were responsible for processing security clearances of staff in the minister's office. We only do a small number of those because the majority of ministerial staff have their security clearances processed by the Department of Finance and Deregulation, but Defence does process top secret positive vetting clearances for staff in the minister's office. We were concerned to check whether any information of a personal nature had come out in the interviews conducted during those security clearance processes of staff in the ministerial office.

We also took a very broad definition—and that is one of the reasons why there was such a large number of staff covered by this investigation—because the media allegations consistently referred to a source of it being senior security intelligence officials. We decided that to cover a very broad definition of what would constitute senior security intelligence officials we would cover everyone, basically, from executive level 1 in the Public Service up. We did the top four layers of management, irrespective of their particular responsibilities, in areas like the DSA and the Defence Intelligence Organisation.

Senator JOHNSTON—How many people in DSA were not done?

Mr Merchant—There were 112 staff covered in DSA, which represents 75 per cent of the staff in DSA in Canberra.

Senator JOHNSTON—Seventy-five per cent?

Mr Merchant—Of the Canberra based staff of DSA.

Senator JOHNSTON—The next agency would be DSD.

Mr Merchant—As I said, DSD was extensively covered by the Inspector-General's inquiry. In terms of the checks done by DSD management and the interviews that they conducted with their staff, I understand that in excess of 300 people were spoken to or canvassed by DSD's own work.

Senator JOHNSTON—Which is a percentage figure of—

Mr Merchant—The exact strength of DSD is classified, but it is a substantial number.

Senator JOHNSTON—What other agencies were canvassed?

Mr Merchant—For example, in the Defence Intelligence Organisation 131 staff were canvassed. In the Defence Imagery and Geospatial Organisation there were 117.

Senator JOHNSTON—How many people are in DIO?

Mr Merchant—DIO is about 300.

Senator JOHNSTON—About 40 per cent?

Mr Merchant—Yes. In the Defence Imagery and Geospatial Organisation about 117 staff were canvassed in that organisation of around 400. In the IP Division nearly all staff were canvassed—117. A very large number of systems administrator staff were canvassed—almost 500.

Senator JOHNSTON—What was the basis for conducting face-to-face interviews?

Mr Merchant—There was a set format for the interviews, which consisted of just over 20 questions that the interviewers could ask.

Senator TROOD—How did you select people for interview?

Mr Merchant—Again, it is a subset of what I was just describing. All of the people involved in security or other types of investigative matters within the organisation were obviously interviewed. It was, if you like, the highest priority.

Senator TROOD—There was no choice about this and the staff were required to attend for interview—is that right?

Mr Merchant—With the people that we wanted to interview, yes, we asked that they be interviewed.

Senator TROOD—I was not clear about this, either. In relation to the statutory declarations, was that a voluntary activity as well?

Mr Merchant—People were asked to complete a statutory declaration. Those people who did not wish to complete a statutory declaration were given the option of being interviewed, and a number of staff took that option.

Senator TROOD—How many people declined to sign a statutory declaration? Do you know?

Mr Merchant—There were a relatively small number of people. There were only two people who declined to either complete a statutory declaration or be interviewed as part of this process. We followed through on both of those instances with their management and we were satisfied that those people were not of relevance to the inquiry. They were in areas of the

organisation that were peripheral to the main allegations. Also, we satisfied ourselves—again through having those people interviewed by their managers—that their objection was, as they articulated to us, an in-principle objection to the completion of a statutory declaration and to the wide net that we had cast in this investigation.

Senator TROOD—How many invitations to complete a statutory declaration were extended? Was it just one or did you ask those who had not responded on several occasions?

Mr Merchant—Yes. We followed up with people who did not complete a statutory declaration. As I said, the vast majority of those people were very cooperative in agreeing to an interview and we were obviously satisfied to go through the interview process with those people.

Senator TROOD—You are satisfied that those people who did not sign a statutory declaration and were sufficiently important to your investigation were interviewed instead?

Mr Merchant—Yes.

Senator TROOD—There are no people outside the net —if I can use the phrase—who you would have thought were material to the investigation who were not in some way contacted? They were either required to complete a statutory declaration or interviewed? Is that a fair statement?

Mr Merchant—We are satisfied that everyone who was material to the investigation was covered by our investigation. I should add as well that the method we adopted for the investigation, particularly in relation to the three investigative areas, was designed to maximise the internal independence of the process. For example, the Defence Security Authority people were basically investigated by members of the Australian Defence Force Investigative Service. We did not have DSA investigating itself. We had another investigative element of the department interviewing and receiving statutory declarations from the DSA officers and vice versa.

Senator JOHNSTON—In the DSA, how many officers declined a statutory declaration?

Mr Roberts—To my knowledge, none.

Senator JOHNSTON—How many officers in the DSA were given face-to-face interviews.

Mr Merchant—In the Defence Security Authority there were 46 people interviewed.

Senator JOHNSTON—How many people have access to the restricted network?

Mr Merchant—Everyone in Defence who holds a restricted-level clearance has access to the Defence Restricted Network in a user sense. As I said, there were approximately 500 people who had system administrator rights and some of those had greater privileges than others. We were concerned to ensure that our investigation covered both the Defence employees and the Defence contractors who have those privileged accesses to the Defence Restricted Network. This entails the ability to implement patches and load new applications on to the Restricted Network. These are not normal users, if you like. These are people with privileged access to the network.

Senator JOHNSTON—Do you profess to know all the users as to their skill and ability with respect to patching and other such techniques?

Mr Merchant—I am not quite sure what the question is.

Senator JOHNSTON—Are you sure that a user cannot get access as if that user were an administrative rights holder?

Mr Merchant—That would involve somebody basically hacking into the Defence Restricted Network.

Senator JOHNSTON—If they were a user, would that be such a difficulty?

Mr Merchant—I think the point is that our investigation did not reveal any indication that there had been any improper access to the minister's computing equipment that is connected to the Defence Restricted Network.

Senator JOHNSTON—The point is that that was a foregone conclusion.

Mr Merchant—We certainly did not regard it as a foregone conclusion. We went into the investigation with an open mind. We were concerned to establish whether there had been any signs of improper access to the minister's computer associated with the Defence Restricted Network. As you can see from the Inspector-General's report, he also had forensic examination done of the minister's computing equipment associated with the Parliament House network. Clearly we did not cover that in our investigation, but the Inspector-General obtained assistance from the Australian Federal Police to do that type of forensic analysis on the minister's Parliament House computing equipment. So between the two investigations I think we covered off the issue of whether there had been any improper access to the minister's personal information held on either the Defence system or the Parliament House system.

Senator JOHNSTON—Do these accesses potentially carry criminal sanction?

Mr Merchant—If somebody had illegally infiltrated the minister's computing equipment, that would be criminal activity.

Senator JOHNSTON—We are saying there is no authority given by anybody that has the authority in Defence, so obviously if there was access then it was illegal and potentially a criminal offence.

Mr Merchant—Potentially a criminal offence.

Senator JOHNSTON—And yet you expect someone to sign a statutory declaration confessing to that or to acknowledge in a face-to-face interview that they have committed a criminal offence. These people that you have interviewed are smart people. How realistic is that?

Mr Merchant—There are a couple of points to be made in that regard. Signing a false statutory declaration is, in itself, a criminal offence and a very serious matter. I do not think it is anything that anyone should regard as trivial. As I read out in terms of the five points that we covered in our statutory declarations—and we also covered it in our interviews—we were keen to find out whether there was anybody in the organisation who perhaps had picked up a hint of such activity—people, perhaps, who were on the periphery of a group that was doing this type of activity. We did not pick up even such a hint. It is standard investigative

methodology that you cast your net pretty widely at first and then, if you pick up some scent, you obviously drill down much more deeply into it. But in this case we really did not even pick up a scent that that had been done.

Senator JOHNSTON—There are only really two explanations for that, are there not?

Mr Merchant—As I have commented to some of my colleagues, in the intelligence community—and I have some experience in this regard—we manage some very sensitive compartments that are highly protected. But people on the edge of those compartments, while they are not privy to the material inside the compartment, know that there is something there that is happening or material that they do not have access to. If this activity actually was undertaken by people in the Department of Defence, it is the most tightly managed compartment that I have ever seen in my 32 years in the organisation.

Senator JOHNSTON—That gives me some comfort—that we have people in Defence who, if they are doing something, have the capacity to do it in a way that is completely clandestine, which is what we probably employ them for in the first place.

Mr Warner—This was a very thorough and professional investigation. Its conclusions have been supported in full by the Inspector-General of Intelligence and Security. Mr Merchant referred before to the story evolving. I would say to you that it has been a moveable feast of allegations.

Senator JOHNSTON—As you would expect.

Mr Warner—I would not expect that at all. When the story first emerged on 26 March, it was described as a covert investigation by Defence officials, including a DSD officer accessing the Minister for Defence's IT systems to obtain personal contact details. By 7 May, if I have the dates right, the story was that the activity had been conducted outside business hours and without using Defence IT systems. I think that tells us quite a lot.

Senator JOHNSTON—The definition of 'using Defence IT systems' may well be remote access. There may be any number of things that I am sure you understand would fit within that description.

Mr Warner—We are talking about the Defence Signals Directorate. This is one of the most professional and highly regarded intelligence bodies in Australia, who play an absolutely vital role in Australia's national security.

Senator JOHNSTON—And they have had authorised access to the minister's computer.

Mr Warner—I am sorry; I will finish. We would know because there would be signs left behind if anybody had hacked into the Minister for Defence's IT systems, and there were no signs. That is not just, as some have said, Defence investigating itself. That is the Inspector-General of Intelligence and Security.

Mr Merchant—I was previously director of DSD. During those years we put an awful lot of work into ensuring that DSD and DSD staff understood the law. Clearly, DSD staff were very keenly aware of their obligation to act within the law. We did a lot of work to establish what I would regard as best practice education and training regimes within the organisation. That involved theory work, so we were assured that officers understood the provisions of the Intelligence Services Act, in particular, and it also involved a series of case studies which

drew on real life experiences of the directorate and took groups of DSD staff through those scenarios in great detail so that they could understand the limits of DSD's legal abilities.

We also established an internal compliance area within DSD that operates essentially as an internal inspector-general's area, monitoring, providing quality assurance over the legality and propriety of DSD's work and providing advice to staff, because clearly there are times when staff have some uncertainties as to what they are authorised and not authorised to do. There is also an in-house lawyer provided by the Australian Government Solicitor, and all that work is then complemented by the external oversight by the Inspector-General of Intelligence and Security, who has full access at any time to DSD's information data repository systems and makes regular monthly inspections of DSD's activities. DSD is a tightly managed and very well regulated organisation.

In terms of the allegation that DSD had authorised access to the minister's IT equipment in his office, I would refer you to paragraph 29 of the Defence report, where it talks about the Defence Signals Directorate and asking the relevant areas of the directorate:

... to provide details of any dealings they may have had with the Minister's offices or work that related to the Parliament House information technology systems.

There was one area, the Computer Network Vulnerability Team, that had engaged in such activity:

This involved providing advice, assistance and material support on matters related to information technology security and technical investigations. At no time did any staff access any information that related to the Minister's relationship with Ms Liu.

The nature of that work was fourfold. Firstly, it involved the provision to the minister's office of a laptop with an encrypted hard drive suitable for the storage of highly classified material. That was not connected to the internet and the minister confirmed to the Inspector-General that he did not hold any of his personal information on any of the Defence-supplied computing equipment. The second category was advice on the appropriate use, in accordance with good security practice, of mobile phones and Blackberry devices. The third area—and this is referred to in our report as well—was the examination at the minister's request of a USB stick that was given to him while he was overseas at a conference. He asked DSD to check whether there was any virus or malicious software on that USB stick. That check was done. The final area was technical advice on whether a piece of communications equipment in the minister's office had an internal auditing capability. That advice was given on the basis of an examination of the technical specifications of that piece of equipment. It did not involve any access to the minister's IT equipment. I think that from that description of those activities you can see that this notion that DSD somehow had access to the minister's personal IT equipment in his office is incorrect and, at the very least, a gross overstatement.

Senator JOHNSTON—Are you aware of an article in the *Canberra Times* today?

Mr Warner—Yes.

Senator JOHNSTON—It states in the first paragraph:

... *The Canberra Times* can reveal the unauthorised investigation came from within the department's own security agency.

It goes on to state:

... while computer forensic examinations by the Australian Federal Police found no evidence of unauthorised access to Mr Fitzgibbon's computer systems, Inspector-General for Intelligence and Security Ian Carnell's report acknowledges that Defence Signals Directorate staff did have authorised access to Mr Fitzgibbon's office IT systems for information security purposes.

It goes on to state:

Mr Camell confirmed that some of the information about Mr Fitzgibbon that was subsequently published was known to only a relatively small group of people, including people within and outside the Defence Department. "Most of the information in this category (that is, known to a relatively small number of people) is not available in the minister's electronic records, and would have been known by other means such as physical observation," Mr Carnell's report says. "There is one item which must have come from viewing the minister's records, but a number of people outside the Department of Defence had legitimate access to this record."

The Canberra Times can now reveal the allegations concerning Mr Fitzgibbon and Ms Liu first surfaced in early March in a letter from a Defence official. Among other things the letter revealed inside knowledge from the Defence Security Authority concerning an earlier Australian Federal Police investigation of reports in *The Canberra Times* concerning the activities of the Defence Intelligence Organisation.

"Reporting on classified intelligence agencies raises questions," the letter said, "but there are other questions that need to be asked about Fitzgibbon too."

It goes on and sets out on the last column:

Ten days after the letter was received *The Canberra Times* was approached by an officer of the Defence Security Authority who reiterated the concerns about Mr Fitzgibbon's relationship with Ms Litt, saying private inquiries into the matter were triggered by gossip from Mr Fitzgibbon's staff.

The official, whose identity was disclosed on a confidential basis, said the official and at least two other Defence colleagues were investigating Mr Fitzgibbon.

I take it you say that is absolute fantasy?

Mr Warner—The term I used last Friday with the media was 'pure fiction'. What we have here is an interesting, conveniently evolving story. I said before that this was a moveable feast of allegations. We have moved on from Defence officials spying on Fitzgibbon, covert investigation and DSD officers tapping into the minister's office IT systems and accessing his personal contact details to, today, a DSA official whose concerns are—I think the words are—'triggered by gossip' from Mr Fitzgibbon's staff, and then on 7 May, as I said before, conducted outside. So it is some sort of investigation conducted outside work hours without using Defence IT systems. It is a strange evolution of a story.

I do not want to trivialise this, because we have actually taken this very seriously—DSD spying on the Minister for Defence. To my mind, in Defence it does not get much more serious than that. If this government, the opposition and the people of Australia cannot trust their intelligence organisations, this country has a real problem. We did not spy on the Minister for Defence. This story has changed. This story no longer says that. This story is now saying 'conducted outside work hours without using Defence IT systems'. What does that mean? Maybe it means some bloke sitting at home Googling.

Senator JOHNSTON—It may mean that, but you have taken it very seriously, and I think quite rightly and for good reason. There is a potential criminal offence here.

Mr Warner—That is what we have said all along.

Senator JOHNSTON—Why have you not informed the Australian Federal Police?

Mr Warner—Because it is a load of bunkum.

Senator JOHNSTON—You have interviewed 1,700 people.

Mr Warner—There is no indication from a very extensive Defence investigation, supported by an equally extensive, if not more so, investigation by the Inspector-General of Intelligence and Security, that there is anything to these evolving allegations. I would recommend to you that you read both reports. Not only do they come not only to the same conclusion; they come to the same conclusion after two months of very careful analysis, review, research and investigation.

Senator JOHNSTON—You obviously did not think that the conclusion was a foregone conclusion.

Mr Warner—I thought the allegation that officials in the Department of Defence, including in DSD, had spied on the Minister for Defence were very serious and that they needed to be investigated very seriously. That is why I asked the officers to my right to conduct a thorough investigation, and I am sure that is why Mr Ian Carnell decided to have an own motion investigation of his own. The allegations were serious. They are found to be without foundation.

Senator JOHNSTON—He does not have jurisdiction in the wider Defence department, does he? He only has jurisdiction with respect to the intelligence organisation?

Mr Warner—That is right.

Senator JOHNSTON—You thought these were very serious allegations. You undertook a quite extensive internal departmental review, but not an independent review. Indeed, we now have information, rightly or wrongly, that the Defence Security Authority seems to be, suggested to be or is alleged to be the source of the information. What does that mean to the fidelity of your inquiry?

Mr Warner—All I am going to do is repeat what I have said a number of times today, what Mr Merchant has said, and what I have said publicly. This was a very thorough investigation. I recommend you read the report. I recommend you read the report of the Inspector-General of Intelligence and Security. I recommend that you read the press articles that go back to 26 March. To my mind, the conclusion is inescapable. There is no foundation to these allegations.

Senator JOHNSTON—I think the inquiry that you put forward was very thorough. It was premised upon the fact that the person or persons who were engaged in this activity would confess. I think that is naive in the extreme.

Mr Merchant—I have addressed that previously in an answer I gave. Completing a false statutory declaration is a very serious matter. I do not think that we were naïve. We certainly conducted a wide investigation that was also designed to elicit any suggestion from a person,

perhaps on the periphery of this activity, that they knew something unusual was going on and that we should talk to Bill Smith over there or whoever. That did not emerge in terms of this inquiry. Nevertheless, we conducted an extensive set of interviews. We did a range of ICT checks. We have found nothing to substantiate this. As our report said, the secretary, at the outset of this investigation, did give consideration—we discussed it—as to whether the matter should be referred to the Australian Federal Police. Certainly, the advice I gave to the secretary was that we should first establish whether there was any sign of substance to these allegations. I think it would be wrong of us to refer matters to the Australian Federal Police on the whim of a journalist, frankly.

That is why we conducted our work, and if we had found any information that suggested there was even a hint that there was credibility to these then my advice to the secretary would obviously have changed and I would have said, 'Let's put this to the Australian Federal Police.' As it has turned out—and we went into this with an open mind—we found no information. Hence, Mr Roberts, the Chief Security Officer, as you see from our report, says that we have found nothing that would cause us to refer this matter to the Australian Federal Police.

Senator JOHNSTON—Let me put this to you. The offence of swearing a false statutory declaration pales into insignificance compared with the criminal offence—that is, the substantive offence—of unlawfully using defence department equipment or unlawfully accessing the minister's private material. In order to prove a false statutory declaration, you would have to uncover the evidence of the substantial offence. It is absolutely no threat to anybody—if you had thought this through carefully, with great respect—for there to be the swearing of a false statutory declaration by someone who retains the personal confidence that they will never, ever be discovered. That is the fact, is it not?

Mr Warner—As I said earlier, the Inspector-General of Intelligence and Security also used the vehicle of statutory declarations and section 18 notices—which you know are much the same but are a vehicle that carries more authority. Perhaps you would like to direct your questions about the use of statutory declarations to him.

Mr Merchant—I might also add that there is a fairly contemporary experience that has received some publicity, not in relation to us but in relation to another individual, where the signing of a statutory declaration with false information has led to very serious consequences for that individual. I do not at all underestimate the seriousness of people signing false information into a statutory declaration.

Senator JOHNSTON—We differ on that.

Mr Merchant—I think undue emphasis, in fact, is being given to the issue of the statutory declarations. It is a normal method employed in investigative matters, but we also did an extensive range of interviews. We also did an extensive search of Defence databases and we uncovered no reference to Ms Liu, who was the subject of the media allegations. There was nothing that we encountered that would have even triggered people to take an interest in this. We did an extensive range of investigative things. As I said, we also put out an email to all staff. Again, we are not so naive as to suggest that somebody is immediately going to put up their hand, but I do think it is highly unlikely, if this activity were undertaken by people in the

department, that there would not have been some hint of it that one of their colleagues would have picked up and then reported to us.

Senator JOHNSTON—You know my answer to that.

Senator Stephens—I think it would be very helpful for you to read both reports together. I can draw your attention to two particular paragraphs in the Inspector-General's report. In paragraph 33 the Inspector-General advises:

I decided that a central element of my investigations needed to be expert IT forensic examination to identify whether or not there had been any unauthorised access to the Minister's computing facilities. Such an examination would not be limited to whether unauthorised access had been attempted from within DSD itself, but whether anyone from any location had attempted unauthorised access.

He proceeded with that, and in paragraph 37 he advises that he met with the Commissioner of the Australian Federal Police, Mr Mick Keelty, and requested assistance for the IT forensic work, and Commissioner Keelty immediately agreed. What we have in the *Canberra Times* today is continued speculation and is not substantiated by either of these reports. It is worthwhile reading them both together and getting the complexity and the comprehension of the coverage.

Senator JOHNSTON—Thank you, Minister.

CHAIR—Thank you, Minister.

Mr Warner—I wonder if I could make one further comment. Senator Johnston, in your press release of 29 May you referred to Defence sweeping these allegations under the carpet. To be quite frank, I must say that I and other officers in Defence found that statement quite offensive. I found it useful, therefore, for myself and Mr Merchant to go into the detail of exactly how this investigation was conducted. I hope that has shown you that this was a thorough and professional investigation and, as I said before, that we took these allegations very seriously and pursued them very seriously. We shook Defence pretty hard to get to the truth here, and nothing fell out. IGIS, in his investigation, shook Defence pretty hard. As you will see from his report, nothing fell out. What I found most perplexing is: what on earth do you think would be in Defence's interest in sweeping this under the carpet? We actually need to get to the bottom of this. If someone in Defence had actually been spying on the Minister for Defence—a Defence official or a DSD official—this would be a criminal offence and would be enormously serious.

Senator JOHNSTON—Absolutely.

Mr Warner—Therefore we have, and the Inspector-General of Intelligence and Security has, investigated it thoroughly and found it to be utterly without foundation.

Senator JOHNSTON—I have learnt something in the very few years that I have been in the Senate. Caesar judging Caesar never delivers a palatable, pristine result. I maintain that view.

Mr Warner—I think the Inspector-General of Intelligence and Security would be surprised to be referred to in those terms.

Senator JOHNSTON—You know he has a specific jurisdiction. I am not talking about that jurisdiction. I am talking about your jurisdiction.

Mr Warner—His specific jurisdiction is in respect of the intelligence organisations, of which there are three in Defence, of which one is the Defence Signals Directorate, and the early allegations from 26 March onwards refer to a Defence Signals Directorate officer accessing the Minister for Defence's IT systems and his personal contact details. There is no one better suited, equipped or authorised to investigate DSD than the Inspector-General of Intelligence and Security, and he found—if I can paraphrase him—that the allegations were entirely without foundation.

Senator JOHNSTON—You now know that that is not the whole story.

Mr Warner—I now know that there is an evolution of the story.

Senator FERGUSON—I do not believe that Senate estimates is the place for a public debate to take place. I think it is a question and answer session.

CHAIR—I think the discussion has come to a conclusion on the immediacy of this issue and this issue generally, as I understand it.

Senator JOHNSTON—Generally, yes.

CHAIR—The discussion is now concluded on the security matters relating to Minister Fitzgibbon. We will adjourn for lunch and return at 1.45 pm. As I understand it, we will be going to the boat issue up in the Kimberleys.

Mr Warner—What issue?

CHAIR—SIEV 36.

Proceedings suspended from 12.45 pm to 1.48 pm

Defence Materiel Organisation

CHAIR—The committee will come to order. We have a slight variation in the program for the time being. We are going to move to the Defence Materiel Organisation. Welcome, Dr Gumley.

Senator Stephens—We have some additional information to be read into the *Hansard* from questions this morning.

CHAIR—Yes.

Major Gen. Orme—Last night Senator Johnston asked a series of questions around the prohibited substance testing program and I undertook to come back and provide the answers. I seek your leave to table the Defence Instructions (General) Personnel 15-5, which is our testing for prohibited substances in the Australian Defence Force.

CHAIR—If there is no objection, leave is granted.

Major Gen. Orme—Thank you. That is under part 8A of the Defence Act 1903. Annex D of this DI(G) provides a list of examples of prohibited substances that the senator was interested in. It states the list is not exhaustive. The sorts of examples covered there are narcotic substances, anabolic agents, hormones and related substances, beta-2 agents, diuretics and other masking agents, and benzodiazepines. Moreover, it refers to the Customs Act 1901, which broadly defines 'narcotic substances' and refers to the Criminal Code Act 1995 for greater guidance. The Criminal Code Act lists 162 border control drugs and plants at

section 314.4. In addition, annex D to this instruction refers to items S1, S2, S3 and S5 of the World Anti-Doping Code 2005 and the prohibited list, which has actually been updated in 2006. It should also be noted that at paragraph 5(i) to the DI(G) it states, 'Prohibited substances means a narcotic substance as defined by the Customs Act 1901 or any other substance determined to be a prohibited substance by the CDF.'

Further to the above, our form AD403, prohibited substance chain of custody and accredited laboratory request, indicates that tests apply for the five following drug classes: benzodiazepines, cocaine, methamphetamines, opiates and cannabis. Although steroids are not listed, as there is no screening test for steroids, we send samples directly to a lab for analysis in that area.

In relation to testing for new substances, the testing regime is based on the testing standard guidance contained in the Australia-New Zealand Standard 4308, procedures for specimens collection and the detection and quantitation of drugs of abuse in urine. As our testing regime is based on your analysis, we review standard 4308 each year in order to determine whether there is any requirement to adjust the Defence policy. To date the guidance contained in 4308 has remained consistent since the inception of our drug testing program. That is all I have to update and I am happy to take any questions of detail.

CHAIR—Thank you.

Senator JOHNSTON—I have no further questions. I thank you very much for going to the trouble to present that to us. That is most helpful.

CHAIR—We now turn to the DMO. Senator Johnston.

Senator JOHNSTON—Dr Gumley, can I start off with the contract for the air warfare destroyer NQEA. How are we travelling with that? What is its financial status and do we have anything to be worried about there?

Dr Gumley—The air warfare destroyer project is on track and going well at the moment. The alliance has been tendering out a lot of work and started to award contracts for the various subsystems of the ships. Mr Warren King is here as the program manager; he will be able to help you with that question about the main ship modules.

CHAIR—Mr King.

Mr King—The AWD Alliance, which is a combination of ASC, Raytheon and the DMO, is responsible for letting the contracts. An unusual but strong feature of the alliance is that the industry participants are responsible for delivering the outcomes. What we seek is an approach where the Commonwealth has a knowledgeable interest in the process but we use the efficiencies of business to execute the program. The tender process is run by the alliance and the tender process in question relates to the outsourcing of about \$400 million worth of module construction for the air warfare destroyer. In that process approximately nine companies originally registered interest. That was down selected to six by a tender evaluation panel within the AWD Alliance. That was eventually short-listed to three and two preferred subcontractors were nominated for that span of work. One was Forgem and the other was NQEA or AIMTEK.

Subsequent to that down selection—and this is advice to you, because I am not part of that selection panel but I am informed as chairman of the alliance—AIMTEK was unable to demonstrate that it could comply unequivocally with certain aspects of its original tender. As a consequence, the AWD Alliance has decided to open negotiations with the set aside tenderer—BAE—because, in considering the probity, the basis of that selection of NQEA had been modified and it was deemed appropriate and correct probity to therefore let both remaining short-listed tenderers engage in finalising their offers. That process is under way and I would expect that to be completed within two to three weeks.

Senator JOHNSTON—What is the level of pain in moving from AIMTEK to BAE? What do we look like on the surface in terms of net figures? I do not want to know tendered documents or tendered numbers, but there is obviously a differential in the prices. What is the pain for us?

Dr Gumley—Firstly, perhaps I can explain how the alliance works. The alliance operates inside what is called a target cost estimate. It is effectively a fixed price around which there is a pain share or gain share, depending on whether there is a better performance or a lesser performance. The alliance is operating within their budget in any case, so the consequence of this price differential, if there is one, does not come back to the Commonwealth in that sense. It is being operated inside the alliance, inside the budget that is allocated. The offers are within the broad budget allocations, but because it is an ongoing matter of commercial negotiation I would not like to disclose the boundary conditions.

Senator JOHNSTON—I not asking about the boundary conditions, of course.

Dr Gumley—In the sense of reporting to parliament, it is not of a material level that parliament would want to be concerned about.

Senator JOHNSTON—No. I am not greatly concerned. I am just a little worried that we have taken a hit because I think the contract required a \$20 million performance guarantee and the original successful tenderer who was, I am led to believe, substantially below the other two, could not find the \$20 million. Am I about the place on that?

Dr Gumley—Some of the numbers are correct, but the juxtaposition is not quite right. It was an RFT and the RFT required a \$20 million guarantee. This is a substantial piece of work that we are talking about, in the order of \$300 million. It is a short-listing process, not a contract. It was a preferred tenderer announcement that the alliance made. The alliance, operating on the advice from the tenderer, had an unconditional offer from the tenderer of it being able to put in place a \$20 million financial guarantee. Subsequent to that announcement it has been revealed that they would find it difficult and they are currently working with a number of institutions to resolve that.

Senator JOHNSTON—Is the door still open for them?

Dr Gumley—Yes, of course it is.

Senator JOHNSTON—BAE, our next best preferred option, is going to do the work down in Williamstown?

Dr Gumley—That is correct.

Senator JOHNSTON—What involvement has the probity auditor had with respect to these matters?

Dr Gumley—The alliance runs its own regime. It is not a Commonwealth entity. What we expect to do and we require the alliance to do is to operate fairly and ethically, but we also expect them to operate on business principles; otherwise we would be contracting every element of the ship. Part of the original process, right from the beginning, was that we would create this alliance based structure and a principle of that structure is that the industry participants are responsible for delivering the outcomes within the budget—hopefully under—and they would operate within a business environment. But part of the business environment we require them to operate in is one that is ethical, fair and a number of other things. We require them to treat SMEs fairly, for example. We require them to chase Australian industry content.

Senator JOHNSTON—What form does the performance guarantee take? Is it a bank letter of credit? Is it actually cash deposited? What is it?

Dr Gumley—It is really up to the company to offer. It can be offered in cash, of course. Normally, though, it takes the form of a financial guarantee offered by the bank and the bank backs that up.

Senator JOHNSTON—An institution that deals with the tenderer?

Dr Gumley—That is right.

Senator JOHNSTON—Thank you. I am happy with those answers and we will probably come back to it next time to see what was resolved and whether they got their act together, which I suppose is the bottom line.

Dr Gumley—Certainly.

Senator JOHNSTON—The next one is the armouring of our vehicles in Afghanistan, broadly categorised as Bendigo, if you like. Where are we at with respect to the provision of an ambush protected vehicle—mine-resistant certainly—for both the ordinary reconstruction team and special forces? I note that we have some of the Supacat product in the field. I am interested to know what the actual background planning and thoughts are with respect to these vehicles.

Air Chief Marshal Houston—In Afghanistan we have a suite of vehicles that covers the requirements of both the Mentoring and Reconstruction Task Force and the Special Operations Task Group. You would be aware that we have one very good vehicle for the environment, and that is obviously the Australian Bushmaster. We have a large number of those over there and they are used for a variety of purposes. We also have a variety of other vehicles that can be utilised as the mission and circumstances dictate.

In terms of going into the detail of that, I would prefer not to go there because there are operational security aspects to that, and of course if we expose some of the information it would be of value to our adversary. I do not want to go there. I am delighted to sit down with you and give you an in-camera briefing, but I am content with where we are at at the moment. In terms of the new vehicle, I will get Dr Gumley or one of the others to brief you on how the project is going, but I anticipate that we will field some of those new vehicles probably at the

end of the year in Afghanistan. Obviously that is going to give us additional options in the operational environment.

Senator JOHNSTON—I accept and thank you for that.

Air Chief Marshal Houston—I will leave it at that and ask the fellows to address the new vehicle that is coming online shortly.

Senator JOHNSTON—That you very much for that. I would appreciate, at some point at your convenience, you providing us with a briefing as to what our status is on the ground there, given the evolution of the types of munitions that we are dealing with in both Iraq and Afghanistan.

Air Chief Marshal Houston—I would be delighted to do that at a mutually suitable time.

CHAIR—Dr Gumley.

Dr Gumley—We had a contract for 36 Supacats. Thirty-one have arrived in Australia. There will be five left in the UK for fit-out of communications command equipment and some system integration work.

Senator JOHNSTON—Is this the Nary? Do we call it the Nary?

Air Chief Marshal Houston—That is correct.

Dr Gumley—Those vehicles are being made available to Army on a progressive basis and we hope to be in full capability by about the middle of next year.

Senator JOHNSTON—I note that we have a collision of issues with respect to these vehicles. Our guys need to have the freedom to be able to deal with issues and yet we have these IEDs that are very laterally impactful. Are we working on any solution to that?

Mr Sharp—There are a range of solutions that we are working on. It depends on the capability of the vehicle and the trade-offs.

Senator JOHNSTON—Do you mean power-to-weight?

Mr Sharp—Power-to-weight mobility but also observation, situational awareness, and the way that the special forces prefer to operate. We are looking at enhancing as much as we can within the weight limitations of the vehicle, and particularly underbelly and undermudguard survivability enhancement kits.

Senator JOHNSTON—Do we have a project number?

Mr Sharp—It is within JP 2097 phase 1A and phase 1B, the Redfin project.

Senator JOHNSTON—When will we see something starting to materialise? I note the Americans are spending a lot of money on this and the English have done similarly. What is our timetable roughly? If there are any security concerns with these answers I would be obliged if you would just say, 'I would rather not answer that.'

Air Chief Marshal Houston—I could perhaps say a few words before we pass on to Mr Sharp. All the way through in Afghanistan we have been working on all of our vehicles. We have upgraded them in certain ways along the way. Redfin is but one aspect of that. I would like to make that clear. If you have a look at, for example, the Bushmaster, we have made a

number of enhancements along the way and, of course, there are certain capabilities within the vehicles that are upgraded on a very regular basis to keep ahead of the threat.

Dr Gumley—Perhaps I can just add a little bit of a cost dimension there. The continual upgrading of the vehicles is an expensive issue. A typical price of a vehicle now, for one going into theatre, is over double the cost of one that comes out of the factory. That just gives an indication of the amount of effort we are putting in to make sure our troops have the very best kit.

Senator JOHNSTON—I am very pleased with the answers that you have given me and I think we are doing the best we can. It is an evolving situation over there. The bad guys are getting bigger munitions and what have you. I simply wanted the confidence—and I think I am getting the confidence—that we have got a good project going that is looking to deal with the protective elements that we desperately need over there.

Dr Gumley—From a procurement point of view we have a way of doing accelerated acquisition that makes sure that the troops get their kit as quickly as possible.

Senator JOHNSTON—I see it is marked down as an accelerated acquisition project. I think that is pretty good.

Air Chief Marshal Houston—It is relevant to put this on the table at this stage. You would be aware of the other thing we are doing. We recently went to government and they authorised \$60 million to be spent on counter improvised explosive device technology. That manifests in a number of equipments that we will be fielding shortly. Again, when we give you the briefing we will detail all of that.

Dr Gumley—I made a mistake a moment ago. It is 31 new vehicles, with five in the UK.

Senator JOHNSTON—Whilst we are here—I do not know whether you are aware, but I hope you are—where are we at with both the production and export of our Bushmaster or variants thereof? Do we have an update on where that is going? The reason I ask the question is that we have not done much good exporting of indigenously produced IP in this area for some time and this one stands out as being probably the most successful in recent times.

Dr Gumley—You would be aware that the Dutch and the British have procured the vehicle.

Senator JOHNSTON—Yes.

Dr Gumley—Thales Australia has a number of other export opportunities it is looking at and pushing very hard. In DMO we have a Defence Export Unit that is designed to help Thales with its export activities. The idea is that we have very senior uniformed officials who help Thales do its marketing into the militaries of other countries. I would not want to reveal Thales's commercial positions in a number of areas, but I know it is very active and has a number of projects it is looking at.

Senator JOHNSTON—How many do we have? Do you know off the top of your head?

Mr Sharp—The total project is 737 vehicles. It comes in three production phases. The first was 299 and we got an extra vehicle for helping Thales take the production run overseas. The

second tranche was for the enhanced land force, which was for 144, and then finally as part of the Overlander Project we added another 293, making 737.

Dr Gumley—That indicates the success of the program. By starting at 300 and ending up at 737 it indicates that we are satisfied with the vehicles and have been putting repeat orders in.

Senator JOHNSTON—Absolutely. I am always looking for a good news story.

Mr Sharp—Thales has sold 58 vehicles to the Royal Netherlands Army and signed a new contract for 14 vehicles to be delivered in August 2009. Twenty-four vehicles have also been sold to the UK Ministry of Defence, and other nations continue to show interest not only in the standard vehicles but in variants. The value of the project is that we are looking at those variants also for capability enhancements in our own forces.

Senator JOHNSTON—The next question is a fairly obvious one. How are we going with respect to the colloquially referred to ‘Bushmaster light’ or ‘Baby Bushmaster’? Given the success we have had with the main product, I would have thought we would be pretty keen to leverage that success and develop something lesser?

Dr Gumley—Land 121 phase 4 is for a joint light tactical vehicle. Initially, we have engaged with the Americans to be part of a joint program. We have a couple of Army officers just about to go to the US to be part of that program, to learn about the capability and to get full knowledge of what it can do. We have just been given approval by government also to go to a request for proposal from local manufacturers to see what they might have to offer. It will be entirely a commercial decision for Thales and any other company whether they want to bid in that, but we have certainly given them an opportunity to show us what they might be able to achieve.

Senator JOHNSTON—How much money is up for grabs in the light armoured vehicle stakes?

Dr Gumley—The total tactical light vehicles is up over \$1 billion.

Mr Sharp—The budget for the total project is around \$1.8 billion. There are 1,300 protected vehicles.

Senator JOHNSTON—It sounds like a very good project for an indigenous organisation.

Mr Sharp—The capability sought under Land 121 phase 4 is the same as that sought by Land 121 phase 3 except it is a lightweight segment and has additional protection to satisfy the emerging requirement for improvised explosive device protection. There are a number of variants such as a command liaison, reconnaissance and utility, and cargo carrying.

Dr Gumley—It will be up to local industry to demonstrate that they are able to meet the capability and do it at an affordable price, of course. We hope the tender will be released some time in the next seven to 10 days. Most of the documents are ready. The release of that is imminent. It is a request for a proposal more than a tender.

Mr Sharp—Indicatively we were looking at a relatively fast process here with the request for proposal perhaps going out by the end of next week. Now that it has government approval

that would probably see responses by around July/August and an assessment completed by us around September/October, and then forwarding for government decision early next year.

Senator JOHNSTON—We will talk about it next time.

Mr Sharp—I am happy to.

Senator JOHNSTON—I would like to go to Land 17, which is the field vehicles. Where are we up to on that?

Dr Gumley—We will be taking a submission to government shortly for their decision on both phases of the project. At the moment it is one project, but there are really two components—the towed artillery guns and the self-propelled. Both of those subprojects have progressed at a different pace. We will be proposing that the two be separated into two subphases so that we can get on with the one that has moved faster and spend a bit more time evaluating the one that has moved a bit slower.

Senator JOHNSTON—Which one is moving slower?

Dr Gumley—The self-propelled.

Senator JOHNSTON—The self-propelled armoured track mounted version of the 155 millimetre?

Dr Gumley—Yes.

Senator JOHNSTON—What is the time frame with respect to the availability of both? I do not want you to give me the exact date, but broadly how many months do we need to anticipate the resolution of this particular project?

Dr Gumley—As to the towed guns, sometime in the next three to four months we would hope to have a resolution on the way forward. We are looking carefully at an FMS case with the US and to make sure we get into an off-the-shelf production as part of the US production system.

Senator JOHNSTON—For the towed?

Dr Gumley—For the towed. We are looking at the M777. For the self-propelled we are just starting an offer definition phase. There are a number of technical issues we have to resolve before we could commit to a purchase of that. We have two tenderers left in the race, the Germans and the Koreans. Both tenders are open, and through the ODRP phase we get to find out more technical information, which is intended to lower the risk. You would recall that between pass 1 and pass 2 of a project we do work to lower the ultimate risk to government in procuring the equipment, and we have some more technical risk reduction to do on the self-propelled.

Senator JOHNSTON—What is the risk driver in these particular cases?

Dr Gumley—It is convenient to think with an artillery gun that you just put a round in it and you fire it. These days they are much more complicated than that. There is the software integration system where you have to be able to program the type of round that you are firing. As I think you quipped yesterday, once you hear ‘systems integration’ you know there is some technical risk that has to be retired.

Senator JOHNSTON—This is integrating with the Excalibur, other types of munitions and things of that nature?

Dr Gumley—Yes, and the software targeting system.

Senator JOHNSTON—What is the timing on this?

Dr Gumley—We hope to have a submission before government in the next couple of months to move ahead on the phase 1, but we would probably then be suggesting to government that we not make a decision on the second part of the project until we have done more risk reduction, which might take 12 months.

Senator JOHNSTON—This is virtually a military off-the-shelf purchase, though, is it not? Obviously not. I am sorry, I made a grievous error in adjudicating that.

Mr Sharp—This is quite properly a question of capability development and I probably should defer.

Senator JOHNSTON—I saw you sitting back there. You were looking a bit bored. I thought we needed to bring you in.

Vice Adm. Tripovich—Always glad to be here. The great thing we are doing, in accordance with the first and second pass process, is properly evaluating what has been offered in the tender. The offer definition is to ensure that the system offered does meet our requirements. Part of that is to make sure that, as you say, if it is off the shelf it does meet our requirements. The government has said that we should use off-the-shelf as a benchmark and we should justify to the government, if there are changes that we feel we would need to make, what the reasons for those are and what the costs, risks and schedule impacts of doing that are. The offer definition is required to make sure that we know the answers to those questions so we can go back to government and give them the best information available. It is a proper process that we are doing to make sure that we do not jump in too early and then—after signing a contract, for example, which was how we would have done it previously—discover that there are problems.

Dr Gumley—I think it would be very silly if we bought some artillery guns and could not fire the bullets out of them.

Senator JOHNSTON—You would get absolutely no argument from me on that.

Vice Adm. Tripovich—That is a pointed example. We have to confirm that both guns can fire that round to get ground truth.

Senator JOHNSTON—Again, if you do not want to tell me that is fine, and I will accept that. But what are the differences between the Dutch systems that we have experienced and are interoperable in Oruzgan now and what we anticipate getting?

Vice Adm. Tripovich—I am not familiar with the Dutch guns. I have not deployed to the Middle East. Mr Sharp may be able to answer your question.

Mr Sharp—For both of the tenderers there are modifications that are required with the Dutch guns, which are part of one of the tenders or that build standard, and the Samsung Techwin guns. The capabilities that we would be looking at delivering include the ability to store the firable precision guided missile, so racking inside to do that; the integration of in-

service radios that will be procured under JP 2072—in other words, matching our radio systems with the procured guns; water, personal weapons and equipment storage compartments in our configuration; and the installation of wire cutters on the roof, which is a standard on those sorts of things.

Senator JOHNSTON—Is our configuration doing away with the trailer-type structure? Does the German model have a trailer?

Mr Sharp—No, they do not. I am not aware that they do, either in configuration or how they operate, to tell you the truth. In addition, we are looking at adding things for contemporary operations which are part of the first to second pass in the costings, which are additional armour and a remote weapon station to improve crew survivability. These are options to be costed. A battle-management system, a fire-control system that provides the crew with situational awareness, fire-control measures, friendly force data—these are safety things in operations to minimise fratricide. Allow them to deliver orders, reports, platform, logistics, administrative data, and the ability to execute fire missions independently. It is really bringing the guns up to the way they would operate in our tactical system. A command and control system that is compatible with forward observers, mine-blast-resistant seating and seat restraints for crew survivability. We are looking at fire suppressions systems, and crew compartment cooling—basically bringing the tactical operation of the vehicles up for crew survivability enhancements.

Senator JOHNSTON—You have just convinced me this is not a military off-the-shelf acquisition.

Mr Sharp—It is a military off-the-shelf capability. The track, gun, turret, systems, and weapon firing systems are all proven technology. What is being costed are options to bring that standard up to the Australian operational standard of safety and interoperability with our other platforms.

Senator JOHNSTON—We are probably two years away.

Mr Sharp—Two years away from what?

Senator JOHNSTON—From a decision to purchase.

Mr Sharp—The schedule does not allow that at this stage.

Senator JOHNSTON—You could not comment. It is a decision for government.

Mr Sharp—Yes.

Dr Gumley—That is why we want to get on with the towed guns a bit earlier, because these issues do not exist with the towed guns.

Senator JOHNSTON—Are the towed guns still able to use the guided flighted munitions?

Vice Adm. Tripovich—I would have to default back to the DMO, who has done the evaluation.

Mr Sharp—Are you talking about the Excalibur round?

Senator JOHNSTON—Yes.

Mr Sharp—The M777A2 is proven to fire the Excalibur round.

Senator JOHNSTON—We just do not have the armoured protection with the towed vehicle?

Mr Sharp—That is right.

Senator JOHNSTON—Unless, Admiral, you want to tell me anything more about it I am happy with that. Can we get to the Super Seasprite.

Dr Gumley—I will invite Major General Fraser for this one.

Senator JOHNSTON—Did we pay or receive \$38 million? I have forgotten. It has been so long since I have considered this.

Major Gen. Fraser—You might recall that we settled the deed of agreement last year, which resulted in a guaranteed amount to the Commonwealth regardless of whether we sell the aircraft.

Senator JOHNSTON—The \$38 million.

Major Gen. Fraser—Of the \$39.5 million. The aircraft have now been transitioned across to the US, so KAMAN has ownership of those aircraft. This was subject to US government approval. We gained that US government approval on 6 February this year. That is an unusual circumstance and the US government was very cooperative to provide that for us. On 12 February we exchanged ownership and bank guarantees for the funds. We are clearly still aligned between both parties with a pursuit to sell the aircraft and equipment for as much as we can possibly gain back for the Commonwealth.

Senator JOHNSTON—Have we got our \$39.5 million?

Major Gen. Fraser—We will get that. The first of those is in 2011, so it is over a phased time. We have a bank guarantee for that.

Senator JOHNSTON—That is good.

Major Gen. Fraser—Some of the parts have been sold and that will be a trickle flow over time. We have gained \$285,000 in those proceeds, proving the mechanism actually works.

Senator JOHNSTON—The Commonwealth is a secured creditor with a fixed and floating charge over the assets of KAMAN?

Major Gen. Fraser—That is correct.

Senator JOHNSTON—I am impressed. How much do we get in 2011?

Major Gen. Fraser—I will just confirm the precise figure.

Mr Dunstall—While Major General Fraser is looking for that information I say we do not have a fixed and floating charge over KAMAN's assets. We have a bank guarantee to secure those funds. We are able to draw down on those funds from the bank should we require.

Senator JOHNSTON—Which bank?

Mr Dunstall—I think it is JPMorgan Chase.

Senator JOHNSTON—Are we comfortable with that?

Mr Dunstall—We did a significant financial investigation of the financial viability of the bank and we were satisfied with it.

Senator JOHNSTON—What other measures have you taken with respect to the security of that guarantee?

Mr Dunstall—I am not quite sure I understand. We have undertaken ongoing financial review of the credit status of the bank and we are satisfied that the credit status of the bank remains a viable entity.

Senator JOHNSTON—Things can change. What are you doing to safeguard a rapid volatile change in the standard of the credit of the bank?

Mr Dunstall—As I said, on an ongoing basis we have our financial investigation service, which has a look at the credit rating of the bank.

Senator JOHNSTON—How often do we do that?

Mr Dunstall—I have not seen the latest credit rating. I can find out that information. I know we did it on three separate occasions.

Senator JOHNSTON—Normally I would obviously be happy with a bank guarantee, but given recent times you could see why I think we are pretty vulnerable, when Lehman Brothers and others are falling over like flies. I would ask you to have a look at what we need to do to establish security on a regular basis, and it might be some sort of trust account. I do not know how you would do it, but there has to be some sort of security the taxpayer can have for its \$39.5 million, which is not a lot in the scheme of things. This is pretty nerve-racking.

Major Gen. Fraser—I understand your issue. I will take that action and make sure we address it. I regret the incorrect advice to you previously.

Senator JOHNSTON—That is fine.

Major Gen. Fraser—I understand your issue and we will get advice as to how best address that.

Senator JOHNSTON—Have we seen the helicopters advertised?

Major Gen. Fraser—Yes, we have. We are aware of KAMAN aggressively trying to market the aircraft. We are aware of some information being sought from potential customers. I am the point of contact for Defence to address the specific issues in the event that they arise from a third party around the circumstances of the cancellation of the project.

Senator JOHNSTON—Say that again.

Major Gen. Fraser—Clearly, anyone who is wishing to buy the aircraft would do appropriate research and look to see that they were not successful in the Australian context. Therefore, we have a point of contact here in Australia to provide information, from our perspective, in the event that they need to gain that information.

Senator JOHNSTON—I hope the first words that they utter are an extensive disclaimer as to everything thereafter.

Major Gen. Fraser—That is correct.

Senator JOHNSTON—What are they advertising?

Major Gen. Fraser—It is a naval capability for operating off the ship that they are saying is based on a proven capability over many years of flying Seasprite that is now modified with an up-to-date system.

Senator JOHNSTON—It sounds like something we could have used. We will keep revisiting this. Thank you very much. Mr King, you are anticipating Wedgetail. Tell us where we are up to. I hope you have some good news.

Mr King—Yes. It is like a number of things we discussed on previous occasions; we are adhering to the plan we have laid out. Air Vice Marshal Deeble will give you some more details, but you will remember we embarked on the independent study.

Senator JOHNSTON—The Lincoln Laboratory?

Mr King—Yes, the Lincoln Laboratory, and he can report on that. We have also had the operational demonstration in Australia since the last time we met.

Senator JOHNSTON—Up in Darwin?

Mr King—Darwin and across some other regions of Australia. Both are very encouraging and we continue on. I will let Air Vice Marshal Deeble give you the details.

Senator JOHNSTON—I am very interested.

Air Vice Marshal Deeble—As Mr King has already said, there were four key elements of the deed that we agreed with Boeing at the end of last year, including the conducting of a study by MIT Lincoln Lab and the conducting of an operational utility demonstration in Australia as part of Exercise Arnhem Thunder. We are also looking at the affordability and executability of the in-service support contract and the conduct of test and evaluation. If you like, I will just step through those in that order.

Senator JOHNSTON—I am very interested.

Air Vice Marshal Deeble—The MIT Lincoln Lab study was undertaken basically to look at potential shortfalls in the radar performance, to offer up options to address those in both the short and long term and to also help us resolve some contentious issues between Boeing and Northrop Grumman in terms of the testing of the radar system.

Senator JOHNSTON—Can you tell me what the shortfall was? Again, if you think it is classified or you do not feel comfortable telling me, just say so and I will be happy, but I would be interested to know.

Air Vice Marshal Deeble—In the broadest context, the issues that we have with the radar relate to its clutter performance.

Senator JOHNSTON—Clutter and interference?

Air Vice Marshal Deeble—Yes. Clutter is effectively the ability of the radar to detect aircraft returns in the presence of ground clutter returns from the ground in the broadest possible context. Basically, the MIT Lincoln Lab study confirmed some of the issues relating to the performance in clutter. They also confirmed performance in other areas, such as performance in clear, which will be very close if not meeting specification. They also confirmed some of the tools that we had been discussing with both Boeing and Northrop Grumman. Because this is a very complex system, we use modelling and simulation to

determine performance across the operating environment of the AEW&C aircraft. They confirmed that the tool that has been offered by Northrop Grumman will meet that intent, subject to some flight testing that will be used to validate that.

Senator JOHNSTON—This is the active scanning array radar?

Air Vice Marshal Deeble—They also confirmed the operating environment in which the system should be tested. Part of the effort we undertook as part of the operational utility demonstration was testing the radar performance in the Northern Territory, which we believe is close to specification.

Most importantly, for the shortfalls in the performance of the radar that we might anticipate in the short term they identified a range of both software and hardware fixes that might be applied to radar to get us to specification or very close to specification. This is a positive outcome in terms of where we are and where we might be with that capability in the longer term. I may come back to that in a minute.

The operational utility demonstration was conducted in April as part of Exercise Arnhem Thunder. Two aircraft deployed to Darwin. One basically provided us with an opportunity to use spares or take spares off that aircraft to support the aircraft that had flown from Seattle. The aircraft conducted a couple of work-up sorties and participated in between five to six sorties during the exercise itself. While we had to employ a number of workarounds to address some of the stability issues because this system is still undergoing development and while there were some shortfalls in function and performance, the system did demonstrate its operational potential. A key measure of that is that when we were controlling our fighter aircraft the conversations over the radios reduced substantially. Flippantly, I might say, it is very hard to get fighter pilots to be quiet on occasions, but it did work. Sorry to the chief.

The conversations did reduce over the radio as a consequence of the AEWAC feeding them with the appropriate data that they needed to conduct their operations. Similarly, when the aircraft was not in the exercise there were complaints from the fighter pilots that we were not there providing them with that situational awareness. I think the operational potential has been demonstrated in a close-to-specification environment. That was a positive outcome, but there were a number of workarounds that we had to apply. There are some stability issues that we did address through a number of those workarounds.

Mr King—One of the things I was particularly concerned about—and the reason we engaged Lincoln Laboratory—is making sure we had a sound architecture for this radar for the future. The key finding that came out of that study was that we do. It is a very important base on which to build this capability.

Senator JOHNSTON—I think that is absolutely right. The little I know about it and the work that I have done indicates that that was a very crucial step along the way to delivering this capability. I am very encouraged to hear Air Vice Marshal Deeble's commentary and, indeed, yours. Who paid for the Lincoln Laboratory work?

Air Vice Marshal Deeble—That Lincoln Laboratory activity was funded by the Commonwealth. We funded that through a foreign military sales contract. Lincoln Labs is a federally funded US organisation and they can only be contracted through the US government.

Senator JOHNSTON—We had to get an ITARs approval for them to give us the results?

Air Vice Marshal Deeble—The radar is covered by a fairly comprehensive range of ITARs and third-party release, including some proprietary aspects associated with Northrop Grumman, because it is at the cutting edge of that technology.

Dr Gumley—I think it is Commonwealth money very well spent.

Senator JOHNSTON—I am not taking any issue with it. I think we are moving ahead quite well. The next question is where we go from here.

Air Vice Marshal Deeble—I might just add the last two elements, because this evaluation is important. With the in-service support contract we have done a lot of work with Boeing looking at its affordability and executability. While there are a couple of issues for us to resolve, I can report positively that I believe with some small reservations we will be able to get an affordable and executable outcome of the in-service support contract. We are currently in that tender evaluation process. We have those issues to work through, but where we were earlier when I reported to this committee has substantially changed and we have been able to work very cooperatively with Boeing in that regard. That is a positive outcome.

Senator JOHNSTON—What is the term of that contract?

Air Vice Marshal Deeble—We are looking at around five to six years for that contract. The key element of that is that we are a first of type and we are the first customers of a first of type. In doing so, we need to understand the cost of ownership and the cost of operating this new aircraft. We have many new systems, in particular the radar, and we will need to demonstrate the in-service performance, reliability and maintainability of those systems. We have chosen that term to allow us to better understand and work cooperatively with Boeing in terms of understanding the cost of ownership.

My intent with introducing the aircraft into service is to be efficient from day 1. We are looking at a contracting vehicle that would allow us to look for those efficiencies through the life of that five-year contract and to drive the cost of ownership down to an appropriate level before we enter into a different contract basis in future years beyond that. The in-service support contract is also a positive aspect.

We are currently conducting test and evaluation. We were due to start the on-aircraft testing in the January timeframe, which we did. Unfortunately, radar elements have been delayed by a couple of months. We are not achieving the radar stability levels that we would like to see, and that is reducing the effectiveness and efficiency of the test program. We are working very closely with Boeing and Northrop Grumman on those particular aspects and that is placing some schedule pressure on a November 2009 delivery. Again, we are working as closely as we can with both Boeing and Northrop Grumman to continue to assess when we can deliver the aircraft and to try to strive for an early delivery. November 2009 is the current date that we are hoping to achieve.

March 2010 was when Boeing was intending on delivering a full capability, including the electronic support measures. There is some pressure on the electronic support measures and we are working again with Boeing and BAE who are delivering that system to deliver as early as we possibly can.

The positive message that I would like you to get is that we have worked through with MIT Lincoln Labs. Mr King highlighted the fact that they identified that the basic stability and underpinnings of the radar are sound and provide a basis of our addressing the shortfalls that we expect in the short to medium term.

The MOUD gave us some great insight into the capability. I think its operational potential was demonstrated. We did apply a number of workarounds and they are the focus of our activity, future development and associated with the TAT&E program as we are progressing. Radar stability does remain an issue and we are going to have to focus our attentions on getting the radar stable to support the delivery in the November 2009 time frame. We are working through those issues.

One very critical part for us is working a commercial settlement with Boeing, and that will be the focus of our activity between now and the November time frame. That will have to address some of the shortfalls and the path forward to address those shortfalls in performance that might be associated with the initial delivery.

Senator JOHNSTON—What is the life of the capability?

Air Vice Marshal Deeble—It is currently 30 years.

Senator JOHNSTON—I thought it was. On what basis did we choose a through-life support contract for a term of six years? It strikes me that that is relatively short term with respect to the contractor's capital investment and so on. Is the contractor happy with that or not?

Mr King—The specific details are aimed at AEWAC support, but the concept was drawn from wider experience across DMO. As Air Vice Marshal was saying, it is a balance between first of type and understanding the scope of the work against entering into a very long term contract for which the contractor would have to put large amounts of risk, which would be an ultimate cost to the Commonwealth that may or may not eventuate.

I have been involved directly with Air Vice Marshal and Boeing in those discussions. Both Boeing and we are very comfortable with that period. It starts off in a very low risk mode for both parties. As we learn more about it, it becomes more performance based and more a risk for Boeing so that they can perform better and, of course, improve their returns. The bottom line is that at the very senior level we are negotiating that sort of framework and both parties are very happy with the value for money from our point of view and the exposure that Boeing have under those arrangements.

Senator JOHNSTON—So we have a commercial settlement to negotiate for predominantly the delay. I do not think there is much money involved from our point of view, is there?

Air Vice Marshal Deeble—In terms of ongoing moneys for Boeing there is a substantial amount of money.

Senator JOHNSTON—I know, but not for us.

Air Vice Marshal Deeble—No.

Senator JOHNSTON—The commercial settlement is going to be negotiated through to November? Is that the time frame?

Air Vice Marshal Deeble—The commercial settlement will have a number of elements. One of the key elements is that the current contract base is for a delivery of a full-up round rather than incremental delivery. We will need to take account of the fact that Boeing still intends to deliver some initial aircraft to support training in the November time frame and that there may be subsequent increments of capability delivered to address ESM. Currently their plan is the March 2010 time frame. That is one element that we will need to address. Clearly there is the issue of liquidated damages and how that might be addressed in the broader term.

Senator JOHNSTON—In our favour?

Air Vice Marshal Deeble—Yes. There may be short-term reductions in performance that will need to have a negotiated path to get to an operational capability. We will have to negotiate those outcomes where we think, in the short term, performance shortfalls may exist and how they may be resolved with Boeing, Northrop Grumman and potentially other elements of the capability. There are a broad range of things that we are going to have to address in the commercial settlement with Boeing.

Senator JOHNSTON—How late are we with respect to this capability?

Air Vice Marshal Deeble—For a delivery of full capability in the March time frame, that represents about 40 months. The aircraft that they are offering us in the November time frame would represent 36 months, but that is not likely to have full capability in particular ESM.

Senator JOHNSTON—As to the follow-on opportunities for the contractor with respect to this capability, I believe the Turks are interested in this capability—and who else?

Air Vice Marshal Deeble—Currently there is a contract with Turkey. They are on contract for four aircraft. The latest update I had is that their aircraft are due for delivery in the November 2010 time frame. Korea is already on contract for four aircraft. April 2011 is their delivery at this point in time. UAE is currently in a tender evaluation. There are a number of aircraft, of which AEWAC is one, that are contending for that. India has shown interest and during the air show held at Avalon there was broad interest shown from a number of other countries as well. There is an international market.

Senator JOHNSTON—The first three are the clear intending countries. Are we receiving visits from them? I take it we are the most advanced?

Air Vice Marshal Deeble—Yes, we are. Clearly the Wedgetail core capability provides the basis for Turkey, Korea and follow-on countries. We are trying to optimise the degree of interoperability that we have with those nations with the aim of trying to reduce our support costs in the longer term. It is pretty clear that it is important for us to deliver on the capability and for the core system to be demonstrated in that regard.

Senator JOHNSTON—Who owns the intellectual property in the overall command and control system?

Air Vice Marshal Deeble—At this point in time Boeing would own/have a significant say in that. There are a number of elements that are covered by ITARs. Elements, equally true, are

provided by EADS for things like the tracker, so there are a number of different component parts.

Senator JOHNSTON—Let us go on to Vigilaire, which is an important part of the matrix of early warning command and control. How are we going with that? Mr Devlin, is this your first appearance at estimates?

Mr Devlin—Yes, it is.

Senator JOHNSTON—You look terribly frightened! You should not be. It is very nice to see you at estimates.

Mr Devlin—Thank you. As you may have been aware from our previous briefing, we signed a deed of settlement with Boeing for the Vigilaire project. At the moment we are on track for delivery of some capability for later this year and conditional acceptance of the final site in June 2011.

Senator JOHNSTON—It may be a bit late, but will that dovetail with the sort of test and evaluation procedure that goes with Wedgetail?

Mr Devlin—I would have to take that question on notice. I am afraid I have not brought the Wedgetail related information with me.

Air Marshal Binskin—The systems are designed to work together, but they do not necessarily have to be tested together to accept each of the individual entities. For example, the first of the entities is actually already in operation with the Hornets, which is a Link 16 system that is currently working with the older Warden system. While we want them all to work together at the end we are comfortable that they will do that through all the design and testing that we have been through.

Senator JOHNSTON—Do we have a date when we think we will be completely network centric?

Air Marshal Binskin—We are network centric now, just not to the same degree that we want to be.

Senator JOHNSTON—To the degree we want to be.

Air Marshal Binskin—We will always continue to improve that. Can you give me the Vigilaire date?

Mr Devlin—The Vigilaire date for final acceptance is presently June 2011.

Air Marshal Binskin—And FOC of Wedgetail?

Air Vice Marshal Deeble—That was the end of year 2011.

Air Marshal Binskin—At the end of year 2011 we will have a significant capability increase. That is about the time that we bring the Super Hornets on as well, and that will in itself add another level to our air combat capability.

Senator JOHNSTON—So end of year 2011 we should be where we want to be?

Air Marshal Binskin—There is another component of that as well, which will be the tankers. The KC33 should be online then. In the years 2010 and 2011 we will start to take a quantum jump in our air combat capability.

Senator JOHNSTON—That is very good. Thank you very much. Can I go to the BAMS project? What did we do recently? I note the minister has realigned our expenditure with respect to this. Just explain to me where we are at with respect to the development of the US BAMS project.

Vice Adm. Tripovich—Defence have participated in the early part of the US BAMS program, during which we were firmly inside their project as we jointly developed the requirements. We then participated in the US evaluation of tenders that were offered and, as a result, understand why the US selected the Global Hawk aircraft for their BAMS program for further development. In that sense, we have greater understanding of what the requirements are. Indeed, what we would call essential requirements and the Americans called threshold requirements match. We also understand, through that tender evaluation exposure, why they chose the aircraft they did.

The next phase would be that the Americans would continue to develop and refine that before they would go to what we would call second pass and buy a fleet of them. The offer was on the table for Australia to participate in that part as well. Our advice to the government, which they agreed with, was in two parts. Firstly, because of the experience we had during the tender evaluation program and the involvement in the requirements, we now have good confidence that, provided the Americans deliver against their essential requirements, the resultant product would meet our essential requirements, and we also have a good understanding as to why they chose that aeroplane. We have good information as a result of that tender about what the cost is likely to be for the final product, because we understand where their program is going and how they intend doing it. In a value for money sense, if you like, it was not seen as being necessary for us to pay to contribute to the next phase. We had other ways of working with the American program to help them ensure that their program was a success, because it is in our interest for that to occur so that when we make our decision there is at least one viable option on the market that meets the requirements.

Secondly, during the American development phase the program slid about two years to the right. As a result, the introduction of that unmanned aircraft would have aligned with the transition in the ADF from the P3 to its replacement aircraft. The second compounding factor was that the concurrent introduction of those two platforms, from a manned P3 fleet to a mix of manned and unmanned aircraft, would be a very major challenge for the ADF. We saw the priority as being the transition from manned aircraft to manned aircraft and that, as a result, it was wise to separate the introduction into service of the two—that the priority should be given to changing from the P3 to the P8 and that the introduction of the unmanned aircraft could wait. The net result of all of that was that our advice to government, which they agreed with, was that there was no need to contribute and participate financially in the next stage, and that the MUAV, the maritime UAV project, should be separated from the manned platform, and in the new DCP they will be in time.

Senator JOHNSTON—What have we spent to get to the point that we got to and then left the project?

Vice Adm. Tripovich—A total of A\$35.14 million was spent between first pass and the consideration that was taken by the government.

Senator JOHNSTON—Do we know what the Americans spent?

Vice Adm. Tripovich—Significantly more. Our contribution to the US program that I described—the project arrangement we participated in—was \$17.07 million. In return for that \$17 million we got very valuable insight into the requirements. We got to influence the requirements and we got a very good understanding of what the end product is likely to be. We have also spent \$9.8 million through the Defence Science and Technology Organisation doing research and development that informed us and also contributed to the work we did with the US. There was \$4.33 million for my group, the Capability Development Group, to do our first to intermediate pass activities, developing operational concept documents and things that we do to support government decisions. There was also \$3.9 million through the DMO for the DMO work to support similar projects. So the total is \$35 million. I do not have a figure for the US program. Air Vice Marshal Thorne may.

CHAIR—Air Vice Marshal?

Air Vice Marshal Thorne—Roughly speaking, we are a 10 per cent equity partner, given that most of our negotiations with the US have been based on the out-take of aircraft. We were looking at about six aircraft against 60 for the US. That is based on our investment of around A\$17 million.

Senator JOHNSTON—Were there only two participants in the project in the US—us and the US?

Air Vice Marshal Thorne—No. I believe there were three main tenderers.

Senator JOHNSTON—There was us, and the US who were conducting the program.

Air Vice Marshal Thorne—Sorry, yes.

Senator JOHNSTON—Canada was not in it? There was no-one else?

Air Vice Marshal Thorne—That is correct—only two.

Senator JOHNSTON—What did we get for our \$17.5 million?

Vice Adm. Tripovich—Firstly, we got to participate in and influence the development of the requirements for the US project for further development—so, some of the things we saw as important.

Senator JOHNSTON—What did we see as important?

Vice Adm. Tripovich—For example, Australia would use this a lot in the maritime environment. Equally, we would have some land component, obviously, because we would only have one set of UAV and it would have to do some things. I do not have the exact details myself, but we were able to influence some of their requirements to ensure a net result such that if the aeroplane is developed to meet their essential requirements it could meet our essential requirements. If you like, there would be one system, we expect, available that would meet our requirements. There are other high-altitude long-endurance UAVs being developed by the market.

Air Vice Marshal Thorne—Perhaps I could give you some examples of the way in which we influenced the requirements. The US Navy operates in a context where there is a coastguard, for example, which is a role that our Air Force plays. The detection of small

vessels, for example, is something that we are interested in but probably not a requirement that the US Navy can put in. That is the kind of requirement that we were pushing for. There are some knock-on effects there. If you are only after surveillance of large vessels you can stay at altitude. You do not have to traverse icing layers in the tropics, for example. There was no requirement in there for the vehicle to have de-icing capabilities. Our expectation was, in order to prosecute small boats in the tropics, we would probably have to have the vehicle descend through icing layers, so through that process we were able to influence the US to put in icing requirements. In the end, the product that was offered has our requirements met. Through that process we started off with something like 80 points of difference, but there were literally only a handful of very minor points left when all was said and done.

Senator JOHNSTON—They must have been fairly disappointed when we pulled out.

Air Vice Marshal Thorne—I think so.

Vice Adm. Tripovich—We were very conscious of that. Throughout the whole process we made it clear to the US program office and the US government, at a government-to-government level, that these were definitive steps for Australia and that our participation in this first stage was no guarantee that we would continue into the next stage, which they understood; nor indeed that that would be the aeroplane that we would buy. When the government agreed with our recommendation I rang my opposite number in this sense to advise him and he said he understood. He expressed the normal disappointment that you would imagine, but it is not as though it was a bolt out of the blue. We were very careful to make sure they understood that the \$17 million did not mean we were here forever. I think that is a very important thing. They understood that we have to make these decisions.

I said that we have ways of continuing to work with the US program to ensure that it can be a success, and that is a very important thing. We can do so without spending vast amounts of money. We have regular meetings air force to air force, navy to navy, and between the DMO's Dr Gumley and his opposite number through the year, in which we can stay in touch with the project to see how it is going and to find out if they are having a problem or if there is anything that Australia can assist with in terms of perhaps defence science technology or the like. That is a very important part of the relationship that allows us to do that.

In summary, whilst they were disappointed, they were comfortable. They understood and it was not a surprise. I cannot remember the vice admiral's name, but he expressed his gratitude that that would be our intention for the remainder of the program.

Senator JOHNSTON—Did we have an anticipated unit price towards the end of the program in 2010 or 2011 dollars? Did we ever get to an analysis to that extent?

Vice Adm. Tripovich—Before I hand over to Vice Marshal Thorne, I would comment that at the end of the tender evaluation that we participated in, which obviously would be a commercial-in-confidence issue, we had full exposure to the tender evaluation and a final decision.

Dr Gumley—We are not allowed to mention those prices under the confidentiality deed with the US.

Vice Adm. Tripovich—The good thing is that the money that we spent gave us this exposure to that very deep detail about that line of development in the future, about where the BAMS project is going, and what the cost risks and schedule drivers are.

Air Vice Marshal Thorne—Just to be clear on that, what was completed for the US Navy was the system design and development phase of the project and the competition was in that context. We have some very broad costings in terms of the life cycle costs of the product that might end up there and we have some clear detail on what the SDD costs are. As this program goes through that SDD program and moves from being a paper concept aircraft, if you like, to a product, of course the price on a per item basis would evolve dramatically.

Senator JOHNSTON—You can see where I am going on this. Who were the competitors?

Air Vice Marshal Thorne—In the US program?

Senator JOHNSTON—Yes.

Air Vice Marshal Thorne—The main competitors were Northrop Grumman with the Global Hawk product, which was selected, Lockheed and General Atomics with the Mariner.

Senator JOHNSTON—Which is a Predator, yes.

Air Vice Marshal Thorne—And Boeing with a Gulfstream, an unmanned aircraft.

Senator JOHNSTON—Can you tell me whether Global Hawk was clearly preferable in the end? Are you allowed to do that?

Air Vice Marshal Thorne—Preferable to us or preferable to them?

Senator JOHNSTON—It won. They were buying 60 and we were buying six.

Air Vice Marshal Thorne—Not only did it win, but it was subject to a protest, as you might be aware from the press. That protest was examined and the original selection decision was upheld. I think that would be evidence that it was clearly the preference.

Senator JOHNSTON—Admiral, what is our plan for that particular capability, which I have to tell you I think is a very good capability for us? What does the future hold?

Vice Adm. Tripovich—As you know, the government will shortly be considering the DCP and then the intention is for the government to release the Defence capability plan. It will be laid out there. Basically, as I indicated, the Air7000 project is in two sections. There is the replacement for the P3, which is a P8 aircraft, and then there is the unmanned aircraft. They are separated in time, and together they will provide the future maritime patrol, response, surveillance capability.

Senator JOHNSTON—Are we about a decade away from getting that capability?

Vice Adm. Tripovich—Yes, from getting the second part, the unmanned section. That is right. We are very conscious of that, but the risks of trying to introduce them both at the same time would be a cultural, organisational and technological task that was assessed as being too high risk and therefore they should be separated.

Senator JOHNSTON—Do you anticipate that ultimately, if we do proceed in the future, we will have lost the unit cost advantage that I anticipate we would have got at this front end if we had continued?

Dr Gumley—I do not think that is the case. The UAV sector of the market is maturing at a very great rate at the moment. There seems to be a lot of competition out there, which spurs a lot of innovation. It would not surprise me if, in five years time, we were not in a much better position to get a good deal.

Senator JOHNSTON—Chair, I do not have any more material particularly on DMO. If the CDF is available we should just go over in the half hour beforehand, unless anyone else wants to intervene on DMO?

Senator KROGER—Yes. Chair, can I cover something on DMO?

CHAIR—Yes, Senator Kroger.

Senator KROGER—I have a question in relation to surface finishing capability. Firstly, I want to turn to comments and follow-up comments that were made in the last estimates in relation to the US joint venture Paragon. I would like to know where that company is at in relation to its capacity for that in Australia.

Dr Gumley—This is part of the Joint Strike Fighter program?

Senator KROGER—Yes. I wanted to follow up on where we were at in relation to the status of Paragon's joint venture project in relation to increasing production capacity and setting up in South Australia.

Air Vice Marshal Harvey—We are still working through that proposal. As I think you know, Paragon is working with the South Australian government and a company in the US to set up an advanced processing capability in Australia. At the moment they are working through the business case in terms of the likely work available in Australia and the total cost of investment for that. It is still going ahead, but it is not a finished deal yet.

Senator KROGER—Air Vice Marshal, are you aware of any time frame that has been structured around that?

Air Vice Marshal Harvey—There is no hard date for that, but we are expecting results on the next batch of machinery work in relation to JSF probably in the September time frame this year. That is part of the underpinning business case, how much work we win on JSF machining.

Senator KROGER—I understand the South Australian government is supporting this investigation to the tune of around \$25 million; is that right?

Air Vice Marshal Harvey—They certainly are proposing putting some money towards it but not that much. It is quite a bit less than that.

Senator KROGER—Do you know the extent of that funding?

Air Vice Marshal Harvey—I have a reasonable idea, but I am not sure that I should disclose the South Australian government's business on that. If you like, I can chase up the number for the South Australian government. It is tied up with the commercial arrangements.

Senator KROGER—If you could take that on notice, that would be great.

Air Vice Marshal Harvey—Certainly, I will do that.

Senator KROGER—I would appreciate that. I say this as a Victorian senator: are you aware that in Victoria there is a company that has developed that capacity?

Air Vice Marshal Harvey—Yes, we are aware of a company in Victoria, Electromold, which was recently successful in having some of their processes certified by Lockheed Martin. But there is not a complete match. Electromold does some processes for just aluminium and just for small parts and not for full production capacity. In South Australia people are looking at aluminium and titanium, large and small parts, and production rate capacity. They do not quite overlap, but there may be some mutual work between the two.

Senator KROGER—I do not profess to be an engineer so I will accept your word on that.

Air Vice Marshal Harvey—Nor do I.

Senator KROGER—Has there been any consideration to date of our exploring whether we could support existing companies that are quite advanced in this who may be able to extend their own capabilities?

Air Vice Marshal Harvey—Yes. There was quite a bit of study done on that. My industry team, along with the department of industry, worked with an external consultant and Australian machining companies. We looked at what was available in-country at the moment and what would be required in the future. The outcome from that was a feeling there was a need for a greenfield site/stand-up very advanced capability to do aerospace surface finishing, which has led to the current proposal with the South Australian government.

Senator KROGER—Is there a possibility that we could further explore the capacity that other companies may have now? You mentioned Electromold and the accreditation that they have now received in terms of the Joint Strike Fighter, which I think was in the middle of April.

Air Vice Marshal Harvey—It was quite recent. I think it was just after the air show.

Senator KROGER—Yes. It was around that time that they received the accreditation. I understand they are literally the only company in the world to currently have that Lockheed approval for the thin film sulphuric acid anodising. Are you aware of that?

Air Vice Marshal Harvey—To be honest, I would be surprised if that were the case, because particularly in the US they have very extensive capabilities for all processes for aerospace engineering. But it certainly was a good move that they did get accredited for that and it is great to have that capability available in Australia.

Senator KROGER—I was interested to see that the South Australian government has indicated its interest in directing funds into supporting a US joint venture company. I realise we are talking across governments here—state governments, too, of course. I am surprised that we are not trying to support local companies or indigenous companies, as Senator Johnston referred to them earlier on. It would be great if we could offer support in this regard. These are companies that are putting enormous investment on the line to advance the science, if you like, in developing these capacities. Are you aware of where we are actually supporting indigenous companies so that they can continue research and be able to further their own capacity building?

Air Vice Marshal Harvey—In quite a number of cases we have worked with the existing companies. For example, Electromold has received funding under SADI, the Skilling Australia's Defence Industry initiative. We have worked with them to build up their capacity to address, specifically in my case, JSF work as well, and we have worked with quite a few other companies. The big question now, as we step forward to production rate for JSF, is to cover that. It is a very big step forward. The company that we are working with in the US would bring their expertise, not their people, so there would still be Australians doing the job and potentially bringing in expertise that is already here. It is really bringing expertise from an existing capability in the US that is being considered here, not taking the work away from Australians. It is actually bringing skill in to cover the demands for JSF particularly.

Senator KROGER—Are you saying that we do not have the expertise within the country? Is my analysis right? We do not have the expertise in the country to develop the sort of capacity that is required for the projected production for the JSF?

Air Vice Marshal Harvey—Not in the time frame we need to do it to win the work. Our machining companies are working hard to win the work on JSF, but to win that work we need the processing capability in-country as well, and the time frame for that is reasonably tight. The approach proposed minimises the risk of that by having an established company with all the appropriate accreditations. We will still keep working with other companies who are established for the materials, the sizes and the processes that they can handle.

Senator KROGER—As I said earlier, I do not profess to be an engineer. From what I have been told, certainly by constituents, it is felt that they would have the capacity to be able to provide the production time frame that is being talked about, if they were given appropriate support. From my observation I think they could pull it off, anyway, but they certainly would be better equipped if they could get that support. It would be terrific if there could be perhaps greater dialogue with some of these companies, because I am not sure that is actually there at the moment. You mentioned support for, specifically, Electromold. If you could give some assurance that there is ongoing dialogue, that would reassure a lot of people.

Air Vice Marshal Harvey—I will certainly do that. In fact, it may be time for us to refresh our study of existing capacity to see what has changed since the original study was done. We will go back to all the existing suppliers in Australia and see what can be done to help them to step up to win the work to do processing for JSF.

Senator KROGER—Their specific capacity has dramatically changed over the last six to eight months, so it might be worth while for us all.

Air Vice Marshal Harvey—Certainly, I will do that.

Senator KROGER—Thank you.

CHAIR—Are there further questions of the DMO?

Senator JOHNSTON—I have quite a deal of questions for the DMO, but they are not the big items. They are rather small projects and things like that. If I could come back to that—and I hope it does not inconvenience Dr Gumley—I would like to talk about SIEV36 briefly in the time before we get to the afternoon tea break.

CHAIR—We can do SIEV36 and then we will resume with DMO. Senator Johnston.

Senator JOHNSTON—CDF, I am interested in the timing of signals into Canberra with respect to that event. I realise there is an inquiry. You will note that at one point the minister and the Prime Minister said that they could not assist anybody as to what, in fact, had happened and that they knew nothing more than what was reported in the media. Accordingly, that suggests to me that I should ask you: it is the normal course of operations when we have an Armidale class patrol boat intercepting a boat at about 6.30 Western Standard Time, getting on towards early mid-morning Canberra time, that there is no line of communication to the Prime Minister or the minister as to precisely what is happening?

Air Chief Marshal Houston—I think you have to understand the command and control. You are asking me about the reporting of the incident. Fundamentally, Border Protection Command has responsibility and accountability for all matters to do with border protection. That obviously includes dealing with the SIEVs as they approach Australia. In these particular circumstances the vessel was intercepted by an Armidale class patrol boat, HMAS *Albany*, and the reports of that interception would be passed back to Commander Border Protection Command, Rear Admiral du Toit. Real Admiral du Toit then reports back through his chain in Customs. I suppose the responsible minister would be Minister Debus.

Senator JOHNSTON—That is the minister I am concerned about.

Air Chief Marshal Houston—That is the way things happen. In terms of what happens in Defence, we will be aware of broadly what has happened, but what is important here is that the action chain of command goes through Border Protection Command, and that is the point I will make.

Senator Ludwig—There were two points really. It is only because of where I was sitting on Monday last. You may or may not have the transcript from when Rear Admiral du Toit was questioned in respect of SIEV36 and the chain of command. This is only from my recollection—without refreshing myself with the transcript. My recollection is that there were a range of questions asked at that time regarding the incident. I think I might have indicated at that time—but if I did not someone else at the table did—that of course the Northern Territory Police, with the assistance of AFP, are conducting an ongoing inquiry and we should be very sensitive about how we deal with the issue. In addition, there is the coronial inquiry in the Northern Territory, which is proceeding. Some of the evidence that was provided was in that frame. It was provided with the caveat that there are those two lines of inquiry going on—firstly, a coronial inquiry and, secondly, the Northern Territory Police investigation. If there are additional questions that relate to border protection, the command and the relevant minister, they should have been put at that time, to Customs. We were there and there were a range of questions put at that time to Rear Admiral du Toit. I am not sure of the process within that committee, but if there are additional questions that you have then you could put them on notice, if that is still open. You might check with the particular committee secretariat of that portfolio.

Senator JOHNSTON—Thank you. Unless Rear Admiral du Toit has suddenly become a member of Customs, which I am sure he has not—

Air Chief Marshal Houston—Perhaps I can indicate how the system works. Border Protection Command runs all of the surveillance and response operations off north Australia.

Surveillance operations, counter-illegal fishing, counter-people-smuggling, and indeed any sort of typical peacetime illegal type activities in our economic exclusive zone—all of those operations are run by Admiral du Toit as the Commander of Border Protection Command. As I said earlier, his action minister is Minister Debus for all of that. If there were to be a terrorist incident on one of the platforms and we had a situation where there was a need for a response, in those circumstances Commander Border Protection Command, Admiral du Toit, would chop to me. So, instead of working to Mr Carmody he would work to me. For all of those operations, including the ones that happened in April with SIEV36, he is working to Mr Carmody and up to Minister Debus.

Senator JOHNSTON—Mr Carmody and Minister Debus are in control of the patrol boat that intercepted the vessel?

Air Chief Marshal Houston—The way I would characterise it—and forgive me for deferring to military doctrine—is that the naval assets assigned to Admiral du Toit are assigned to him under his operational control. That means that all of the operations in regard to those operations that I described to you—all those assets, P3s and patrol boats—are controlled by Admiral du Toit working through Mr Carmody and back to Minister Debus.

Senator JOHNSTON—The responsible minister for Admiral du Toit is Minister Debus?

Air Chief Marshal Houston—In terms of the conduct of normal peacetime border protection operations. If we are talking about a terrorist incident out there, if we are talking about a situation where we have operational circumstances in which the ADF is involved in the sorts of circumstances where the government has declared a military operation, in those circumstances Admiral du Toit would chop to me or to my subordinate commander. For terrorism he chops direct to me. For those sorts of normal military operations he would chop to Commander Joint Operations, Major General Mark Evans.

Senator JOHNSTON—In this instance he did not chop to you at all with respect to SIEV36?

Air Chief Marshal Houston—No, he did not. Lest there be any confusion about it, I would retain full command of the admiral and indeed of all of the assets from the ADF that he is controlling. That is something that is a given. But for the operational activities, as soon as I assign assets under Admiral du Toit's operational control, he is left to get on with it without interference. He might inform me, usually through the Commander Joint Operations, as to what might be going on or he might inform me directly, but it is just a courtesy call that he is making.

Senator JOHNSTON—You are not privy to and have no knowledge of the time that signals emitted from the patrol boat in question, which was the HMAS *Albany*?

Air Chief Marshal Houston—Yes, *Albany*.

Senator JOHNSTON—You are not privy to any of that information?

Air Chief Marshal Houston—I am privy to information relating to the apprehension of SIEV36 and I am also privy to information in relation to the fact that there was a major incident aboard the SIEV that caused people to be lost overboard and three people to be killed.

Senator JOHNSTON—That is not my particular area of interest. I am interested in the time that the signals were sent from a Navy vessel by a Navy radio operator to a naval base.

Air Chief Marshal Houston—I see where you are going. The way it should have happened is the operational reporting should have been done through Admiral du Toit. It is my belief that is exactly what occurred.

Senator JOHNSTON—You are certain that were I to have asked Admiral du Toit the question he would not have referred me here to Navy or to you?

Air Chief Marshal Houston—I think I have answered the question. It is my understanding that all of the information that either I or General Evans got came from Admiral du Toit. That is as I recall it.

Senator JOHNSTON—Where is the doctrine of the dichotomy of command and of the dissemination of the chain of command with respect to Northern Command set down?

Air Chief Marshal Houston—Firstly, I would disagree with the word ‘dichotomy’.

Senator JOHNSTON—Between Customs and Navy, for instance.

Air Chief Marshal Houston—There is complete clarity in these command arrangements. They are set out in a number of documents, which we can obtain for your perusal. There is nothing remarkable about this. This is the way we do nearly all of our operations. For example, Special Forces in Afghanistan are assigned under the OPCOM of Commander ISAF, and National Command is retained by Commander JTF 633. Again, I retain full command. Theatre Command is retained by General Evans.

Senator JOHNSTON—That is why I am asking you the question. I think this is a vessel in theatre that is under your command.

Air Chief Marshal Houston—It is under my full command, but as I indicated earlier on for the operations that are conducted by Border Protection Command for the CEO Customs they are basically assigned under OPCOM to Commander Border Protection Command. In the exercise of that operational authority he works to the CEO Customs, and the CEO Customs obviously reports to Minister Debus.

Senator JOHNSTON—Thank you, CDF. I have no further questions.

CHAIR—My understanding is that we are going to go into the lesser items, for want of a better description, in the DCP. Can we let any other officers go?

Senator JOHNSTON—I think we can let everyone but DMO go. We have some other senators, have we not?

CHAIR—We have been advised that other senators have indicated particular areas of interest. We will advise them to be here at resumption of business at 3.45 pm. We will deal with those minor issues and then we will flip back to the DCP. If we do that we should be able to let some people go a bit earlier. The committee is suspended until 3.45 pm.

Proceedings suspended from 3.30 pm to 3.45 pm

CHAIR—The committee will come to order. I understand that some documents are about to be tabled in response to a request from Senator Ludlam yesterday. Before we go to that procedure, I would like to acknowledge the role of Mr Tony Corcoran, who I am advised is leaving the role he has been carrying out for many years as the Defence Liaison Officer and with respect to this committee and estimates more generally. I will just place on the record that this is a huge portfolio and for many years has proceeded extraordinarily smoothly, both in the time we were in opposition and now in government. One of the reasons it has proceeded so smoothly is the availability of officers and information, often at very short notice. The principal reason officers and information are readily available to committee members is the sterling role carried out over many years by Mr Corcoran. Mr Corcoran, we understand you are leaving. We regret that you are moving on to a more senior position, but we wish you well in future years. Having said that, someone is about to table some documentation.

Mr Pezzullo—On indulgence, through you, Chair, can I add to your remarks?

CHAIR—Yes.

Mr Pezzullo—Tony works in my group. He has been a very loyal servant in the area of providing support to ministers, the parliament and committees of the parliament for many years. The secretary is not able to be here at the moment, but on behalf of the department I would like to echo your sentiments. Thank you, Tony.

Senator PAYNE—I might just associate the members of the coalition on the Senate's Foreign Affairs, Defence and Trade Committee with your remarks in particular. There are a number of former chairs of the committee hanging around this room today who have all appreciated, in the same way that you have remarked, Mr Corcoran's assistance in this process. Thank you very much.

Senator Ludwig—On behalf of the government and Senator Faulkner I would like also to thank Mr Corcoran for the work that he has performed so admirably.

CHAIR—Thank you. Mr Pezzullo.

Mr Pezzullo—In response to a series of questions yesterday from Senator Ludlam, we undertook to research the background to those issues and to try to get back within these sittings. We have been able to do that. If you can bear with me. The senator asked a number of questions, which fell into multiple parts. I will go through each of those in the sequence you asked them and during the course of my answer I will table certain documents that you sought access to.

Firstly, you asked about the process and the meetings in particular that the community consultation panel that supported the white paper undertook. In particular, you asked how many times the panel met in private. We have consulted the chair of the community consultation panel, Mr Stephen Loosley, of course a former member of this place. He has indicated that the panel met regularly in private on quite a number of occasions. He said that he would have to consult detailed records but as a benchmark, which I think is a pretty sound substitute, he said that he, along with the panel members who undertook the public meetings, of which there were 30, met regularly before each of those meetings. There was always a quorum of the panel that met in advance of those 30 meetings.

They also had a number of meetings and phone hook-ups to discuss the survey questions and results, which I will come to later, as well as a number of meetings that supported the writing of the report itself. Members of the defence department secretariat were present at quite a number of these meetings, but not all of them. On our best mutual recollection and calculation there were at least 30 meetings that pertained to the public meetings plus, say, a dozen or so meetings or phone hook-ups related to those other proceedings. He and I are both confident that upwards of 40 meetings would be an accurate figure.

In relation to the community consultation panel submissions process, how many submissions from the public were received and how were some of those put online on the website, who made the decision to publish and release those submissions in that form, on what grounds were certain submissions released and others not released and so on—the answer to that multipart question is as follows. As you know, 453 submissions were received in total. The breakdown of those submissions is that 190 were received electronically and the balance, 263, were received via post or fax, and therefore deemed to be hard copy. Of that 453, 213 were published on the website, some of those having already been received electronically, and others were scanned in and placed on the website. Submissions were placed online in all cases where the authors had specifically given their authority for that to occur, authors having been asked to do so. Three submissions received of the 453 were not published and placed on the website on the grounds that they were deemed by my staff to be offensive either in relation to ethnicity or other cultures or states. Or frankly that they were just downright rude. Three respondents who had given their permission originally to have their submissions placed online later contacted my staff to say that they had changed their mind and that they would prefer that their submissions be removed, so we obviously immediately removed those. So three were not put online initially because they were deemed to be offensive and three were withdrawn.

Of the remaining submissions, some 240, which were predominantly received as the hard copy submissions I spoke of earlier, they were not posted to the website as we did not have express permission from the authors to do so. Authors of those submissions were asked to agree to the statement: 'I agree to my submission being published on the Defence website.' Unless we had an active authorisation we did not proceed.

I should add that you asked about word limits and also the criteria put around the suitability of submissions. The caveat that was put on the website when the community consultation process commenced was expressed in the following terms:

Submissions may not be published if they promote a product or a service, contain offensive language or the sentiments expressed are liable to offend or vilify sections of the community.

As I said, I made reference to a few of those that fell under that category. It continued:

Submissions that exceed the word limit may also be excluded and attachments will not be published.

I will come to the word limit in a moment. No hard copy submissions were excluded because they exceeded any word limit, because no word limit was put on hard copy submissions, and certainly none were, if you like, not published simply because they expressed views critical of Defence, which was one of the concerns expressed. Indeed, that would be obvious from

looking at a range of the submissions, a number of which are highly critical of how we go about our business.

In terms of the issue of word limits, there was a word limit placed on electronic submissions. That was simply a matter of managing bandwidth. Those wishing to make larger submissions and who did not wish to proceed through a hard copy submission, where there was no word limit, were encouraged to make multiple submissions and a number of people broke their online submissions down accordingly.

Finally, I turn to the issue of public opinion research, how it was conducted and what the process was in relation to that. The community consultation process was supported by the department initially by way of our providing copies of independently undertaken research that was not undertaken for any reason to do with Defence, namely, a report prepared by Mr Ian McAllister, of the ANU, for ASPI in August 2008, and that is referenced in the final report at page 5, and similarly a report commissioned and published by the Lowy Institute, also in 2008, *Australia and the world: public opinion and foreign policy*, which is also referenced in the publication at page 5.

In addition, as I said yesterday, some Department of Defence commissioned research was undertaken. This was done in two instalments. I will just go through that carefully. Having consulted with relevant stakeholders I am now in a position to offer that to you by way of tabling. I will just describe the two public research products, which we will table. The first piece of public research was work that had been undertaken internally and independently of the white paper process but was considered by the panel to be highly relevant to its work. Defence had, through the course of 2007, come to a view that it needed to commission some research into community attitudes to Defence, particularly in terms of gauging how the general community saw our standards, our ethics, how we went about our business, how we treated people and so on. That report was made available to Defence in June 2008. It was prepared by Erbis, which is a specialist researcher in this field. It was commissioned by the Defence Public Affairs Organisation and I have been given authority to table that report if you are interested.

A second piece of research, also conducted by Erbis, was then undertaken. This was specifically undertaken at the request of the panel. Once they read the June 2008 report and they found that it addressed many of the issues that they otherwise would have sought public opinion research on there were a couple of matters that they felt needed some further attention. Once you read the tabled report you will understand what they are. Erbis was commissioned explicitly by the white paper team to undertake some follow-up research. That was conducted in the latter part of 2008 and made available to the panel in October. I am in a position to table both reports if you are interested.

CHAIR—Thank you.

Senator Ludwig—Air Commodore Meier had some questions to answer and I wanted to correct the record. In fact, I might go before him if that is all right with you, Chair. I think I said earlier that it was Monday, but it was in fact Tuesday, 26 May when there was a range of questions during those proceedings with Customs. The predominant information seemed to

have been about the 3.30 pm slot, if you wanted to go back to the transcript to have a look at what was said back then to Rear Admiral du Toit.

CHAIR—Are there any further documents to be tabled or answers to be given?

Senator Ludwig—We can go back to Air Commodore Meier now.

Air Cdre Meier—Senator Ludlam had some questions that were presented yesterday. I believe the first one was: whose officials do the AQIS check? This refers to exercise Talisman Sabre planned for mid to end July this year. It is a joint process between AQIS and approved US officials, both US Department of Agriculture and US Department of Defense personnel. Both groups have been trained and accredited by AQIS, which is done conjointly between the Americans and AQIS.

Senator LUDLAM—This is relevant to the questions on quarantine?

Air Cdre Meier—Yes.

Senator LUDLAM—Thank you.

Air Cdre Meier—The next question was: is Defence aware of any quarantine breaches, feral weeds, plants and so on? To the best of Defence's knowledge, we are not aware of any quarantine breaches as a result of Talisman Sabre. As I said, AQIS has the lead in developing the procedures and they are happy with the procedures that are in force.

Senator LUDLAM—Thank you.

Air Cdre Meier—Your next question was to do with the cost of the Talisman Sabre exercise for 2009. The additional costs borne by the Australian Department of Defence for the exercise will be about A\$48 million. Of note, the American's additional costs to participate in the exercise will be about US\$212 million. Those numbers will be refined once the exercise is over and we actually get the fine detail of the fuel usage and things like that.

Senator LUDLAM—Would our figure be in Australian dollars and theirs in US dollars?

Air Cdre Meier—Yes.

Senator LUDLAM—Thank you.

Air Cdre Meier—Your fourth question was to do with views of Indigenous people and how they were taken into account when planning the exercise. With all of our major ADF ranges, including those being used for Talisman Sabre, we have an ongoing arrangement where we consult regularly with the local Indigenous people at all of those locations. In particular, we use the local land councils for each one and obviously the procedures vary depending on what the local land council wants, but essentially they are involved throughout the process of our preparation for an exercise. They are also involved when we are developing any of the ranges or any of the major works that we do on those ranges.

Senator LUDLAM—Thank you.

Air Cdre Meier—The next question was to do with Navy's environmental plan. I believe the Chief of Navy can answer that.

Vice Adm. Crane—I will make those documents available to you. The RAN Environmental Management Plan is, in fact, on the internet website at

navy.gov.au/environment. However, we have printed a copy and we will make that available. Also available is an Australian book of reference on RAN environmental management. That is a book of reference that is issued to all of our ships. I have included a copy of my strategic policy statement, which was released last month in relation to stewardship of the environment in our operating environment, and also an assortment of guides provided to our people in relation to environmental management issues. They are all available.

Senator LUDLAM—That catches the cetacean issues that we discussed yesterday?

Vice Adm. Crane—Yes.

Senator LUDLAM—Thank you very much.

Air Cdre Meier—You then had a few more questions. The next one was: who was the overall commander for the Talisman Sabre exercise? It is an exercise of joint command. From the Australian side, the overall command is vested in the Chief of Defence Force, and from the American side, Commander US Forces Pacific. It is then delegated down to General Evans, Chief of Joint Operations Australia, and the Commanding General US Marine Forces Pacific, who actually conduct the exercise. As part of the exercise we form a single joint task force, Joint Task Force 503. The command of that is vested in Commander III Marine Expeditionary Force US Marines, based in Hawaii. Underneath that there is a series of specific taskforces. For example, there is an air task force, logistics and special operations. Some of those are commanded by Australians and some are commanded by Americans. If there is an Australian commander then his deputy is American. If there is an American commander then his deputy is an Australian. So much so that the Deputy Commander of Task Force 503 is Air Vice Marshal Skidmore, who is Air Commander Australia.

Senator LUDLAM—Thank you for providing that.

Air Cdre Meier—You asked for the estimated total tonnage of munitions fired in the Shoalwater Bay area as part of the exercise. I am afraid I cannot give you precise information on that yet. We have asked the Americans to provide us with their estimated expenditure and we will provide that in due course when we actually know the final details.

Senator LUDLAM—That is much appreciated. Thank you.

Air Cdre Meier—Your final question was the contingency plans for trespassers getting into the live fire exercises in Talisman Sabre. Essentially, if we know there is an unauthorised person into the Commonwealth land at Shoalwater Bay, Bradshaw or any of the other exercise areas, the exercise is stopped. It is then passed over to either the Federal Police or state police to deal with. For Shoalwater Bay, in the vicinity of the training area it is an issue for the Queensland police. Once they cross into Commonwealth land, it is an issue for the Australian Federal Police.

Senator LUDLAM—Your automatic response on learning that somebody has trespassed inside or close to a live fire area is you would stop the clock?

Air Cdre Meier—Yes.

Senator LUDLAM—Thank you for that information. Those are all of my questions.

Vice Adm. Crane—There were two other quick ones, with your indulgence.

CHAIR—Now is the time.

Vice Adm. Crane—Yesterday Senator Johnston asked me a question in relation to how many reserves were currently serving in our submarine force. The answer is that there are eight submariners serving on continuous full-time service in the Submarine Force Element Group at the moment.

Senator JOHNSTON—Thank you.

Vice Adm. Crane—The other question that came up yesterday was in relation to whether there were any trusts in the Navy. The answer to that question is that there is one. We have an RAN Relief Trust Fund. It was established in 1913 to provide welfare assistance to serving and ex-serving members of the Royal Australian Navy and their families. It provides a range of financial product services in the form of home management services grants, family support loans, general purpose loans and special loans. The only source of income for the RAN Relief Trust Fund is donations from the RAN canteens fund and interest accrued from investments. The central canteen fund derives its income from a levy of three and one third per cent of all sales from Navy canteens.

CHAIR—Thank you. Senator Nash.

Senator NASH—The Department of Defence has indicated its objection to a possible route through the Newnes Plateau for an upgrade of the Great Western Highway as the 1,338 hectare Defence establishment Marangaroo covers the entire width of a section of the corridor. The department states the cost to the federal government to relocate this base would be very high. Could you advise what the figure is?

Mr Bowles—We do not have any specifics on what it would cost to move Marangaroo ammunitions depot, but it would be significant as it is a significant site for us where we operate an explosive ordnance training and demolitions area.

Senator NASH—Do you have a ballpark figure? Indicating ‘very high’ suggests there is some sort of ballpark figure.

Mr Bowles—There is no ballpark figure.

Senator NASH—It is a very loose ballpark figure?

Mr Bowles—There is no figure. But shifting a site such as Marangaroo with the capability that it provides to us would be significant, based on my experience in other activities in moving things around the country.

Senator NASH—Is it possible to provide the committee with a figure?

Mr Bowles—We would have to do a whole lot of work to provide that figure. It would probably cost a little bit too much for us to go down that particular path. We would be well and truly up in the tens of millions of dollars, if not more. It is probably a lot more than that, in fact, probably hundreds.

Senator NASH—It is probably a lot more than tens of millions and maybe hundreds of millions?

Mr Bowles—Yes, maybe.

Senator NASH—That may be indeed very high. Is the whole of the site fenced to prevent public entering onto the lands?

Mr Bowles—I would have to take that on notice. It is a reasonably restricted site, but I could not say if the entire site was fenced.

Senator NASH—Does any of the site contain contaminated lands?

Mr Bowles—Yes, it does.

Senator NASH—Of what sort?

Mr Bowles—Obviously it is a munitions and demolitions range. It would hold a lot of unexploded ordnance issues and there are also a range of chemicals onsite.

Senator NASH—Do you have any idea how much of the land is affected by that?

Mr Bowles—I would have to take that on notice.

Senator NASH—Are those lands fenced to the public? I know you have talked about the perimeter, but are the contaminated areas fenced?

Mr Bowles—Anything that is of concern would be fenced.

Senator NASH—Are there signs on display to notify bushwalkers, hikers, bike riders and others that they are nearing or entering the site?

Mr Bowles—As I understand it, that is true.

Senator NASH—What activities are undertaken by specialist personnel at the site by the Navy, Army and Air Force?

Mr Bowles—That is something I would not have much experience in. I look after the site as such. The activities that happen there would be the responsibility of the services.

Senator NASH—Is it possible to obtain that information and provide it to the committee?

Air Chief Marshal Houston—We will come back to you on notice. I do not think a lot of large activity goes on there, but it is probably best that we take it on notice.

Senator NASH—Thank you. I am assuming from what you were saying before that there is contamination, but is ammunition being disposed of on the site?

Mr Bowles—Past practices would indicate that there are contaminants onsite of a chemical and other nature, so there would be some sort of unexploded ordnance still there, yes.

Senator NASH—Apart from the fencing that we discussed, what prevents the public from coming across the ammunition if it is there?

Mr Bowles—Any facilities like this are secure in nature. We would have a whole range of security measures in place to ensure that the sites are restricted.

Senator NASH—I am assuming from that you are sure that there is no danger to the public from that?

Mr Bowles—That would be my view.

Senator NASH—You might have to take this on notice. When was the site last used by the Army, Navy and the Air Force, what future use do the Army, Navy and Air Force propose to undertake on the lands and when will that occur?

Air Chief Marshal Houston—The site is used for demolition, primarily for time-expired explosives. From time to time our reservists use it for low level training activities, but they are very small scale and fairly routine.

Senator NASH—If you would not mind taking on notice that future usage that would be useful.

Air Chief Marshal Houston—Yes.

Senator FORSHAW—I hope I am asking at the right time or the right person. I wanted to ask questions regarding the Kings Hill working party established between the Department of Defence and the New South Wales Department of Planning with regard to the Williamstown air base and future use, particularly with the JSF. Mr Bowles, are you the right person for this?

Mr Bowles—Hopefully I might know something. If not, my colleague will.

Senator FORSHAW—I would like to know where that is at. I understand there was a working party established to look at ensuring compatibility into the future.

Mr Bowles—Mr Owens can shed some light on that for you.

Senator FORSHAW—Thank you.

Mr Owens—The Kings Hill working group was established in early 2008 to address issues associated with the impact of aircraft noise on a proposed rezoning of land to the northeast of Williamstown air base known as Kings Hill. That working group has met several times to discuss the issue and to look at the issues associated with that proposal.

Senator FORSHAW—Does that rezoning relate to a proposed large-scale housing development?

Mr Owens—That is correct.

Senator FORSHAW—Can you give me any more information? Has the working party completed its work? What is it looking at that might impact upon the Defence use of Williamstown air base and on the development?

Mr Owens—The working party was really to look at the extent to which the proposed development would be affected by aircraft noise out of Williamstown, and to determine the impact that the current and projected noise levels would have on that development. The New South Wales Minister for Planning is considering that amendment. It is an amendment to the zoning of that area. The group has met several times and discussed the impact of noise on the development.

Senator FORSHAW—I appreciate it is still a work in progress, but does Defence have a position about extending the noise contours that would impact upon the development?

Mr Owens—We have formally expressed our opposition to the rezoning since late 2002 in a range of forums.

Senator FORSHAW—Opposed to the rezoning?

Mr Owens—Yes.

Senator FORSHAW—Of the whole area or part of it?

Mr Owens—The rezoning of the area, yes, so I guess it is the whole area. But it has been our position since 2002. We believe that the area would be affected significantly by aircraft noise. Obviously there are certain standards and limits in all of this, but even around those standards and limits it would be affected by aircraft noise.

Senator FORSHAW—Is that affected by aircraft noise as it is with current usage? What about future aircraft, particularly, as I understand it, the JSF that will be based there?

Mr Owens—I would probably defer to my colleague the Chief of Air Force on the aircraft noise and how various operations would impact on that.

Air Marshal Binskin—Yes, it is subject to noise now. The JSF aircraft that we are looking to put into Williamtown over the next decade is a noisier aircraft than the current Hornet aircraft.

Senator FORSHAW—It is a noisier aircraft?

Air Marshal Binskin—It is a noisier aircraft, yes. We do have the ANEF profiles for the JSF and based on that we do oppose Kings Hill, but we have provided all of that data to the New South Wales state government. It is currently with them because it is their decision.

Senator FORSHAW—What is their decision? Their decision is the rezoning?

Air Marshal Binskin—Yes.

Senator FORSHAW—What is the impact of, say, expanded noise contours as a result of the JSF if it is a noisier aircraft?

Air Marshal Binskin—On future development?

Senator FORSHAW—Yes.

Air Marshal Binskin—I cannot remember the exact department in the New South Wales government. On future development it will impact on how the New South Wales state government zones that area and the building codes that would apply in that area.

Senator FORSHAW—That is right. Just to get that clear, when I first came here one of the difficult tasks I had was to sit on a Senate inquiry into the impacts of aircraft noise resulting from the third runway at Sydney airport. I saw a lot of maps with a lot of squiggly lines on it for ANEF contours. I do not necessarily want to go there again. This issue has been raised. What you are saying is that, if it is a noisier aircraft, the contours would extend over the proposed development area at a higher level of ANEF rating than they current are; am I correct?

Air Marshal Binskin—Yes, it is different contours. It is a new aircraft that will have different profiles. In general terms, what we are seeing is the extension of the 20 and 25 ANEF contour over some of that area.

Senator FORSHAW—As a result of that higher contour it follows that there is a limit on what you can build and what you can do within that area or that footprint?

Air Marshal Binskin—That is right. That should be factored into future planning. We are a part of the community up there as well and we want to make sure that all of the decisions are made with the best information available. We funded the noise assessment of the JSF in the US at the end of last year to be able to provide accurate contours so the state government can make decisions with the best information.

Senator FORSHAW—Who ultimately is responsible—if I can use that term—for the adoption of the ANEF contours? Is that the Department of Transport?

Air Vice Marshal Harvey—As the Chief of Air Force said, we funded the noise study in the US late last year to collect the noise data on the JSF. We had consultants working for us to generate the noise maps for us. That raw data was also provided to the New South Wales government and they had an independent consultant develop their own noise maps for that. The New South Wales government will use that as a basis for their zoning decision.

Senator FORSHAW—Do the noise contour maps have a legal status that says these are the noise contours that will apply and therefore a rezoning is done in regard to that? My recollection is that way back with the Sydney airport there were disputes about the validity of some of the levels that were said to exist.

Air Vice Marshal Harvey—I cannot speak to the legality element of it. I think the commonsense part is that it is a factor in the planning for it, because the noise contours themselves are quite sensitive to a number of issues, such as use of afterburners, the number of sorties flown, and it even takes into account night versus day usage, the circuit patterns and mitigation procedures. We provide the raw data and some assumptions on usage. It is also not just the JSF; it is the accumulation of civil traffic as well, other aircraft using the facility. It is a basis for planning.

Senator FORSHAW—Will it be the JSF aircraft that will have the most impact in terms of increased noise levels?

Air Vice Marshal Harvey—It is probably the single noisiest point, but it will not necessarily be the most frequent use, particularly at night-time. This will be a ramp-up activity. We will not get up to full rate until quite a few years from now. There is a time element as well.

Senator FORSHAW—It has been indicated to me that the overwhelming majority of flights will take off to the east out to sea, which would not be over the property in question; is that right?

Air Marshal Binskin—No, I think that is incorrect. The prevailing winds do come in from the southeast when there is an onshore drift. That would mean that instrument patterns would come in across Kings Hill, but there are months where there are strong westerlies, which means aircraft will depart and head out over Kings Hill. Currently that is the clear area for them to turn to the north.

Air Chief Marshal Houston—Before we continue, we have some important information to put on the record about dog leashes and dog food, which was asked last night.

Brig. Fogarty—Senator Johnston asked a question about a military policeman reportedly required to pay for a dog leash and dog food for a service police dog. The question also

covered whether or not uniform maintenance allowance was intended to cover these expenses. With respect to dog food, SUPMAN4 is the policy document that mandates the ration scaling for service dogs, as well as for personnel. The supply of rations for service dogs is through the same process as for rations in messes. Where a service dog is required to be away from the usual supporting area, unit logistics staff make arrangements to provide foodstuffs for the service dog in accordance with SUPMAN4, the policy for ration scales. If the handler has been required to procure rations due to extreme circumstances where the unit was unable to make the required arrangements, they would normally seek reimbursement through their unit logistics staff, providing of course they have the tax invoice.

With respect to dog leashes, the entitlement to leashes for service dogs with Army is detailed on a block scale, 03/01 titled Dog Handling Equipment, and the procurement of dog leashes is recorded on SDSS. The responsible organisation is the Regional Joint Logistic Command Business Unit and they procure the leashes locally. The Unit Q store would raise the demand for the dog leash upon that unit, the Joint Logistic Command Business Unit. Again, where the member has expended their own funds, they would normally seek reimbursement through their Unit Q store, again providing that they have a tax invoice. Uniform maintenance allowance is not intended to cover any equipment or foodstuffs required for service dogs.

Senator JOHNSTON—Thank you very much.

CHAIR—Thank you for outlining the dog food and dog leash policy of the Australian Army.

Senator JOHNSTON—I am sure the complainant will benefit from that information. I would now like to go through some of these older projects. The M113 upgrade project has been around for a long time. I would like to know where we are going with that. I know the goal posts keep moving as to the intensity of the munitions that this vehicle has to withstand, but how are we travelling on that?

Dr Gumley—The project is well on the mend. You will recall that about two years ago we had a problem with the brakes. The brakes were the end of a long saga of different technical issues. The brakes were fixed and we have now moved into full rate production. There has been an issue with the company having to catch up, but they have started a second production line, so they are catching up now.

Senator JOHNSTON—How many vehicles are we going to ultimately end up with, what are they going to look like in their various variants and are they deployable should we wish to deploy them?

Mr Sharp—I will elaborate on Dr Gumley's statement. The project is in good shape. The 2002 awarded project is on schedule to recover the year's delay, which is unusual for projects anywhere. Once they get behind it is difficult to recover schedule delay, particularly where there are technical problems. In the production phase the current contractor, BAE Systems Defence, has opened a couple of parallel facilities that will deal with hull stretching, which will feed into the assembly plants both at Wingfield South Australia and Bandiana in Northern Victoria. That should see the completion of the original contracted vehicles of 350 by the original contract date of December 2010. There were an additional 81 vehicles added as part

of the Army's enhanced land force and they were due to be delivered in late 2011, which are on schedule as well.

At the moment the project is still high risk, but it is recovering. Fifty-six vehicles have been accepted by the Defence Force. Another 17 are in production. As I said, BAE Systems Defence is establishing a hull and assembly facility at Wingfield in South Australia. They are also ramping up a hull stretching facility at Williamstown in Melbourne. The hull stretching facilities will feed the Bandiana assembly plant. I think the company, at the moment, is about eight vehicles behind its recovery schedule and they are on cost too.

Senator JOHNSTON—In the scheme of things that is not something that we should probably worry about.

Mr Sharp—I worry about it.

Senator JOHNSTON—This has been a long and tortuous project, hasn't it?

Mr Sharp—It has. It has a history before this current contract with various requirements and various estimates being wrong, rebaselining in 2002 down to 350 vehicles, adding 81, and then the changeover from Tenix Defence to BAE Systems, which were all risks. I think we have seen now, in working with industry, a good collaborative spirit and we will meet the project outcomes.

Senator JOHNSTON—Can you tell me what does the word 'stretch' actually mean?

Mr Sharp—The M113A1 hulls are stretched about 600 millimetres to a metre to accommodate the various types. For example, an electric turret has gone in, so it increases the capacity. The vehicle is physically stretched. It means that a step cut is put in near the rear of the vehicle with 600 millimetres of aluminium welded in right across the hull to make it longer.

Senator JOHNSTON—Do you have the total cost of the project to this point in time and what you anticipate we will have ended up spending on these vehicles? If you do not have it on hand we can take it on notice.

Mr Sharp—At January 2009 prices the current budget is \$889.652 million. Of that, \$517.9 million is contract price. Our expenditure as at 30 April was \$444.2 million.

Senator JOHNSTON—That sounds good. We had better keep an eye on that.

Dr Gumley—You can keep an eye on it, but it is not one that is of deep concern at the moment because it is recovering.

CHAIR—In that context, was the ANAO report that came down two months ago a little bit dated? When I flicked through that I gained the impression that recovery and delivery of the newly contracted products in the near future was ambitious, if I can put it that way?

Dr Gumley—Yes. The ANAO did their report, which we do not dispute. The report was done towards the end of the recovery phase of the project and now we are moving into the deep production phase. A year from now my suspicion is that we will have produced a lot more vehicles. As you are aware, you rarely catch up schedule significantly in these situations, but you do catch up some, so the net detriment, if you like, to the ADF is getting their vehicles late.

CHAIR—You say it is off the alert list for want of a better term.

Dr Gumley—We have got to watch it carefully, but it is not in the top 10 of projects of concern.

Senator JOHNSTON—Land 125 is the next one I wanted to touch on. It is the soldier enhancement. What exactly are we doing there? I am not entirely clear as to what that project does. It is called Soldier Combat System and it is to enhance the performance of the dismounted closed combat soldier and small teams as part of a network enabled force.

Mr Sharp—Land 125 consists of three phases. It is called Soldier Enhancement Versions 1 and 2. Phase 1 was a requirements definition phase; what could we do to enhance the survivability and lethality of the soldiers.

Senator JOHNSTON—Is this like a pre-first pass? That is how old this whole thing is.

Mr Sharp—Yes, it is. It identifies the requirements. An evolutionary process was developed, so get some quick wins from technology that was already available, and that moved into phase 2, which enhanced the protection, the load carriage ability of the soldiers and, indeed, gave personal role radios, so it improved the communications and some other things. Phase 3 is more ambitious. It looks at the requirements, command and control, computer intelligence and battle management systems for soldiers that will allow soldiers to be able to pass digital information between themselves and platforms on the battlefield.

Senator JOHNSTON—Platforms in what dimension? Is it surface platforms or air platforms?

Mr Sharp—Surface platforms.

Senator JOHNSTON—Not ships, just land surface platforms?

Mr Sharp—I will have to take that one on notice. I am not aware of that.

Air Chief Marshal Houston—There is probably potential to connect with air platforms, particularly helicopters and the like, but we will take it on notice.

Vice Adm. Tripovich—You will see on page 77 of the PBS that phase 3A and 3C are due to go to government for a second pass in the coming 2009-10 year. It says that 3A is about command control communications, computing and intelligence, and 3C is about lethality weapons. If you picture that a modern soldier embarked in the vehicles that we have in the Army is networked into the network centric warfare, which I know you are interested in, via the radios and the information systems that are in the vehicle, but when he dismounts, that is he gets out of the vehicle, in the modern warfare world we have to provide him with similar sort of capabilities. 3A is about empowering him, fitting him out to be able to receive that same or similar sort of networked information, so when he is away from the vehicle he can still get data from UAVs or from his headquarters and the like. It is networking the individual soldier.

The 3C is about lethality, which is addressing the weapons that he covers. From memory, and I do not have it here, I think 3B is about his personal protection and his load carrying equipment. Mr Sharp is just confirming that. It is what allows him to carry a lot of the load in a very safe and effective way, because they do carry a hell of a lot of weight.

Senator JOHNSTON—How much have we spent on this one?

Mr Sharp—The overall budget is \$24.12 million, excluding GST. The expenditure to date is \$15.177 million.

Senator JOHNSTON—When do we anticipate that we will have completed the project?

Mr Sharp—We have rolled out a number of things. The modular combat body armour system is being delivered. Around about 8,400 sets of 14,688 sets have been delivered as at 18 May.

Senator JOHNSTON—Are they being deployed?

Mr Sharp—The modular combat body armour system has been deployed and used in operations, yes.

Senator JOHNSTON—What is the response of the wearer? Have we achieved success or are there complaints? Are we still developing this body armour?

Mr Sharp—Why I am hesitating is that there is very little in the DMO that I do not get complaints about, but in terms of project deliverables to the capability manager, the capability manager has relayed back to me that he is entirely satisfied with the project and what it is delivering. I would have to defer to the capability manager and get his opinion on that.

Senator JOHNSTON—I have to say that I have had some complaints about the body armour, its weight and what have you.

Brig. Fogarty—I will have to take that on notice and have a discussion with the Chief of Army.

Senator JOHNSTON—We have determined that 8,000 units have been completed and some of them have been deployed. Where is it manufactured?

Mr Sharp—It would be better if I started to get into more detail with Brigadier Horrocks, who is the Director General Land Combat Systems, who is very familiar with this project.

Brig. Horrocks—In relation to your question on feedback from the soldiers, the feedback we have had to date, and we have only had it in the field for a short period of time, is that they are very happy with what we have delivered to them; however, it is certainly heavy. The soldiers are concerned about the weight. They would like a lighter system. Nevertheless, for the level of protection that we are providing, it is going to be a heavy system. That is a fact.

Senator JOHNSTON—We have just got to endure the trade-off, in other words.

Brig. Horrocks—There is a trade-off, but nevertheless, in terms of the contract that we have established with Australian Defence Apparel based in Bendigo, the contract includes the ability to be able to continue with the design to meet the soldiers' requirements and also to meet the changing threat scenario. We have the ability to be able to look at the system that we have delivered to date and recognise that, where there are improvements that can be made, we can actually make those improvements. We are at an early stage, we have just delivered it and we are receiving that feedback now.

Senator JOHNSTON—Where do we make them?

Brig. Horrocks—In Bendigo.

Senator JOHNSTON—I am pleased with that. I would like to talk about the M1A1, through-life support and other issues, which is Land 907.

Mr Sharp—That is correct.

Senator JOHNSTON—Where are we at with that? I know we have got our 59 beautiful tanks. Some are down here and some are in Darwin.

Mr Sharp—I take it that you are not exploring the project at this stage, but where we are with the supportability of the tanks. Is that right?

Senator JOHNSTON—A bit of both. I do get some complaints that things are not going well with them.

Mr Sharp—The tank project 907 replaced the Leopard fleet, as you know, 59 M1A1 Abrams fleets; the seven MRD88 A2 heavy equipment recovery crew utility lift and evacuation systems; Hercules recovery vehicles and the truck tanker fuel, with eight of those; 14 heavy tanker transports and six advanced gunnery training simulators; one tank driver training simulator and ILS. All of those have been delivered. That was delivered under budget and below cost. They have been deployed. They are used at the schools. They are used for training, both on maintenance and operator training, and they are used principally in Darwin.

Senator JOHNSTON—How are those pieces of equipment performing?

Mr Sharp—One of the key targets that we would look at in the DMO in supporting this is the average availability. On the standard Defence supply system, MMM, looking at the maintenance module, they are currently around about 74 per cent operational availability.

Senator JOHNSTON—How does that compare broadly?

Mr Sharp—Broadly it is pretty good for a tank. It is much better than the Leopard. It is about standard with most tanks around the world. This takes into account the operational profile; so 100 per cent is not achievable because you are reconstituting not only crews but also tanks throughout the year. There are improvements that we are looking at. In my view, the tank is still in its burn-in period. We are still trying to discern the usage of critical parts in the Australian environment. When we set up the through-life support package we used around about four times the recommended repair parts order list for 44 tanks. That came out of Tank and Automotive Command in the US, but there are some items on the tank that failed in the Australian environment that were not picked up in the TACom area.

Senator JOHNSTON—Which one caused you the most grief?

Mr Sharp—I will just see if I have any detail on that. I am advised that there is not a particular mode of failure that we have picked up. It is spread across a number of parts.

Senator JOHNSTON—Is there any common thread between those parts? Is it air intake type parts, parts that are exposed to the atmosphere or heat parts?

Mr Sharp—Not that I am aware of.

Senator JOHNSTON—Just broadly there is a whole lot of parts. That is interesting.

Mr Sharp—Generally our demand satisfaction rate for the parts is high, but that does not necessarily mean that we are not losing some critical parts that are affecting it. We are

tracking this. The other components of maintenance are the availability of tradesmen in the area. We are providing support mechanisms through contractors to assist with unit repairs, and that is where most of the repairs are done.

Senator JOHNSTON—Are unit repairs carried out by the through-life support contractor?

Mr Sharp—No. Unit repairs are carried out in the 1st Armoured Regiment. They have significant support and facilities. Things that need to go back are back loaded. That is in Darwin. They are also supported by a contractor in Puckapunyal where the School of Armour is, so it is a mixture.

Senator JOHNSTON—What is the plan to get that 74 per cent higher? I accept that it is reasonable.

Mr Sharp—The plan is to first of all look at the way they are being used. You will expect with new equipment coming in that there is both operator and maintenance unfamiliarity. You get some damage through operator error. You get some damage in training. You also get some slower maintenance rates when you have got new equipment, so we would look to improve that, and that would be seen as a burn-in period.

The other thing is to track the proper usage of the parts and provision properly for that, so that will get some of it up. That is really where we will get most of it. The other thing is matching the workload to the capacity in the trades. We are working through that with both the contractors and Army, and that is where we will be able to get most of that back.

Senator JOHNSTON—I would be interested next time when we come back to this to look at, of the 59, how many are available on average at any given time and what the principal drivers of the non-availability are, in terms of the parts. That does surprise me, given that they had zero hours, zero miles.

Mr Sharp—That is correct. There is no doubt they are a good tank and that they were built to a high standard. Of course, now they have worked up quite a few miles. I was just looking through my notes here to find out if I have any data on how many miles we have got up. In 2007-08 the School of Armour completed 28,300 kilometres. That was 17,000 more than Army expected to do in that year, so there was reasonable availability and good use of them for training. In the 1st Armoured Regiment in 2008-09 the allocation was 40,100 kilometres and so far they are reporting track usage of 19,183 as at 3 March. That is about 40 per cent of that allocation. Some of that is affected by the downtime and the diversion of troops to operations. Regardless of the availability, the usage is getting to its allocation.

Senator JOHNSTON—That is very good. I will go on to the indirect fire computer software.

Dr Gumley—Do you have a reference?

Senator JOHNSTON—It is MINCS(L) AMP 42.18.

Mr Sharp—That is a minor project.

Senator JOHNSTON—What is minor?

Mr Sharp—It is a minor capital project.

Senator JOHNSTON—It is under \$20 million?

Mr Sharp—Yes.

Senator JOHNSTON—I note that we have got some artillery acquisitions. I see this software here and I am thinking is it relevant to anything we are doing with respect to Land 17?

Brig. Horrocks—The indirect fire control system was to be acquired and put in service before Land 17 introduction in the service. It is to provide a ballistic computation capability for the use of our indirect fire assets before we deliver Land 17.

Senator JOHNSTON—Where are we at with the project?

Brig. Horrocks—Everything that is necessary to be acquired has been acquired. However, the capability manager asked us to include a software change in terms of the ability to be able to direct the use of the indirect fire assets, to improve where the rounds are actually going to land. We have been in the process with the contractor making that software change. We would see that would be delivered in the next three months and the project would, in fact, be closed this calendar year.

Senator JOHNSTON—Is this computation system for firing solutions applicable to 105 millimetre and 155 millimetre?

Brig. Horrocks—Yes, that is my understanding.

Senator JOHNSTON—We are not going to see that again on the list after this year?

Brig. Horrocks—I hope not.

Senator JOHNSTON—Let us hope Land 17 keeps coming along. Thank you for that. Dr Gumley, you did indicate that some of these projects that I have just mentioned are not causing you any great concern. Which ones have we not touched on that do cause you concern? That is the age-old question. You always laugh like that when I ask that question.

Dr Gumley—Perhaps I will talk through a few of the projects that have made some changes since the last time we had this conversation. The high frequency modernisation project, HFMOD, you will recall six and 12 months ago was in some considerable difficulty on a commercial matter. We have had an extensive commercial negotiation with Boeing. There has been a deed of settlement, a deed of release. This occurred back on 24 and 25 April. We have some more scheduled information. The company and DMO are mutually committed now to getting the project finished over the next couple of years. Boeing is making reasonable progress now in its integration and test activities against the new schedule. There is a similarity between this and Wedgetail in that in each case we called some independent people in to have a look at the project, to work out where it was technically, because the best way to move these things forward commercially is to have a common set of understanding on the technical progress or position of the project. That happened and then about six months later you do the commercial negotiation. Obviously you have a deep discussion about what you found technically, but you move forward. A year ago we were very concerned, not only about the projects themselves, but about the relationship. I can report things are significantly better now than they were a year ago.

The light weight torpedo project is one that we have talked about over a number of years. This is where we have still got some work to do with government. We have done the

integration onto the ships, but there are still decisions to be made about integration onto the helicopters and, potentially, the P3s. The P3 is a difficult one because it gets all tied up in what happens with the project that you talked about an hour ago, the P3 to P8 transition. Do you get your investment back? Do you actually need the capability before a new aeroplane comes in? Would the new aeroplane be fitted with the same form of torpedo? All of those sorts of questions have to be asked, so there is quite a bit of work to be done there over the next 12 months on determining a way forward.

Senator JOHNSTON—Has anybody deployed a torpedo to a P8 yet?

Dr Gumley—Not the light-weight torpedo. The Americans are looking at putting their torpedo on the P8.

Senator JOHNSTON—The US Raytheon torpedo?

Dr Gumley—Yes.

Senator JOHNSTON—Our is the European?

Dr Gumley—Yes. That raises issues and questions for us. It is typically, just a very rough rule of thumb, \$100 million to put an integrated torpedo onto an airframe. It is a very expensive thing to do. Do you do that or is it cheaper to actually run a second inventory line of torpedos and have two types of torpedo in your infantry? There is a series of business calculations that have to be made about that, and it is not a trivial matter. I will ask Mr King to have a look at the FFG upgrade.

Senator JOHNSTON—The reason I have not asked about it is that I thought it was okay. I hope you can confirm that.

Mr King—It is not keeping me awake at night. I might ask the Chief of Navy to also join me on this because we are now in that transition phase. Three of the ships have now been accepted and the fourth ship provisionally accepted. Materially, the ships are close to complete, although there is some ongoing finalisation work. DMO and the Chief of Navy are closely working together to bring these ships into full operational release.

Vice Adm. Crane—In my view, we have made some progress with the FFG. Last month we achieved the first of what we determine as initial operational release. You may recall that at the last estimates hearing we talked about a phased approach. We have achieved phase 1 in the time frame that we forecast. That releases the ships in their current state for what we would call maritime interception operations. Phase 2 is programmed for August and we are on track. We have done a lot of work in that space. That is in relation to antiship missile defence capability. Phase 3 is before the end of this year. Things are moving along, in my view, very well. There are still some challenges that we have got to work our way through, but we are on track.

Senator JOHNSTON—Thank you.

Senator TROOD—The ships are not available for deployment, obviously, until these three phases are completed. Is that right?

Vice Adm. Crane—That is not quite true. The phased approach means that we can use the ships in various areas of deployment, depending on the threat that is presented. Right now I

have got one of our FFGs in the Mediterranean and, in fact, one of our FFGs, HMAS *Sydney*, participated in the interception of pirate activity on its way through the Gulf of Aden recently and was able to provide assistance there. Similarly, yesterday there was an incident in the Mediterranean where HMAS *Sydney* was able to render some assistance. It very much depends on what the threat is that determines where we can employ the ship. Release for maritime interception operations allows us to employ the vessel in that capability.

Senator TROOD—My understanding was that the ships were not available to go to the gulf previously, that we needed to keep on sending our frigates there, but it is now the case that they are able to be replaced with the frigates; is that right?

Vice Adm. Crane—It does depend on the threat. You can understand that I would wish to be a bit careful in terms of how we define that in this venue. As I say, it depends on the threat that is presented in the operating area. We can use these ships, depending on the basis of the threat, and what level of risk we are prepared to accept.

Senator TROOD—You cannot be confident about the threat when you deploy, can you, at the start of an operation, but you are comfortable in sending them to the gulf? Is that what you are saying at the moment?

Vice Adm. Crane—I am comfortable that I can deploy these ships after I have done an analysis on the threat that is present in the area of the operations. You are correct in saying that often that threat level will change. We will continue to re-evaluate the employment of the vessel.

Senator TROOD—Thank you.

CHAIR—Back to Dr Gumley as to what else is concerning you.

Dr Gumley—The concern on the current projects has dropped quite a bit this year. Earlier in these hearings you talked about real cost increases going on in projects. I just thought I would offer some data on that. Over the last, let us say, 22 months, back to the beginning of the financial year July 2007, we have had 93 approved projects that have had real cost variations and 118 that have not. Of those 93 that have had cost variations, the total variation positive, in other words more cost, has been \$388 million, but of that \$90 million related to additional scope, in other words, changing. The remaining \$298 million reflected what I would call a real price increase rather than a real cost increase. This is Wedgetail, where the inflation indices in the United States aerospace industry outstripped our deflator, which is a non-farm GDP deflator. That is something that we do not have a lot of control over. If you can put that out as an aberration, the total real cost increases over the last two years have been around about one per cent. I think that is a significantly better position than we were in some years ago. This is all post second pass.

If you ask me where is the risk in projects at the moment, it is in the area where we know least about the project, which is pre second pass. That is where the Kinnaird process is so important in de-risking the project between first and second pass and that is why I have no hesitation in, for example, spending some money on the BAMS project to de-risk it, even if you do not go ahead for the time being, because you are doing the right thing from a cost point of view.

Senator JOHNSTON—I accept that. I think that is good. I have a couple more. There are a couple of projects that concern me that we are involved in. Is it JASM that is at risk of discontinuance by the Congress?

Dr Gumley—Yes. The JASM project, the missile, has to pass a series of reliability tests in the United States this American summer. They have set a pass mark of 13 out of 16 missiles achieving what they are supposed to do. We will be waiting very carefully to see what happens with that testing program. We should know by about September or October.

Senator JOHNSTON—What is our fall-back position?

Ms Kelly—Our fallback position in terms of?

Dr Gumley—If JASM fails.

Ms Kelly—It is difficult to know. The indications from the US at the moment are that they have lost patience in the reliability issues associated with JASM because they have been going on now for just over two years. It was going to be June this year, but it has now slipped out a little bit more because the new US administration are insisting that all of the fuse and other issues are retrofitted onto the lot 6 missiles, which are the ones that are being tested. We are not expecting the testing to go ahead until later on this year. If they fail the 13 out of 16 there is a very high chance that the program will be cancelled, as others have been in the US recently for much less reason.

In terms of fall-back options, at the end of the day there are a number of fall-back options that capability development and Defence could consider. One of those could be the much less capable, but certainly much more reliable SLAM-ER, which is already integrated onto the classic Hornets. We could look at a small buy of those because, of course, the JASM missile is very important for the withdrawal of the F111s, so we would be looking at a number of options.

Senator JOHNSTON—Thank you very much for that. I appreciate your answers. I see that they are contemplating discontinuing the C17. Does that cause us any problems with our four aircraft?

Air Marshal Binskin—The C17 is a good news story for us. It has been the quiet achiever and, although it has not reached full operational capability, which is not until the end of this year, it has been delivering and delivering in spades. I have no concerns over that project at the moment or what it is giving us. It is a fantastic capability.

Senator JOHNSTON—I had the understanding that it has been a very good, low-risk acquisition of a very outstanding capability for us, but I am told that the support of Congress for that particular project is waning and there is a risk that there may be a discontinuance of the capacity to maintain the aircraft.

Air Marshal Binskin—No, not a risk in maintaining the aircraft. The current support is not to produce anymore. I would not know the exact number in service, but it is just under 200 aircraft at the moment. While they may discontinue production, US Air Force is still operating 180-plus. They will have to support it. I do not have any concerns there at all.

Senator JOHNSTON—Thank you for that. With the MRH90, how are going with our helicopters? Are they airworthy? I have one more Air Force question after we have done the helicopters.

Major Gen. Fraser—For the MRH90 we have accepted five aircraft at this point and we are in the process of accepting the sixth aircraft. The flying rate for the first year was not up to the level that was desirable and the company has taken initiatives to improve that. We have seen those results in the last few weeks with an increased rate of effort. At this point we are on schedule to achieve the Navy initial operational capability mid next year of the first flight at sea, but we are about six months behind in the Army training at this point to achieve four aircraft, deployable capability, for mid-2011.

Senator JOHNSTON—Is everything else okay?

Major Gen. Fraser—There are some issues associated with that; for example, the flooring. It is a new aircraft. If you look at the aircraft that have been delivered around the world, there are 529 ordered at this point for about 25 that have been delivered. It is very new in its cycle. We are behind the lead customers, which is a good place to be, as we have discussed here previously. Most of those countries have had an initial low flying rate that first year and then it has picked up for the remainder. We are very comfortable with the approach from the company in the way in which it is addressing the issues to resolve them with us.

Senator JOHNSTON—I am pleased to hear that. Lastly, I believe that the Hawk jet trainer has been grounded for some period of time. Is that correct?

Air Marshal Binskin—No. We had it temporarily suspend flying operations while we assessed an issue with the Rolls-Royce engine in the aircraft. It is currently flying with some restrictions.

Senator JOHNSTON—Is there a difference between grounded and temporarily suspended from flying operations?

Air Marshal Binskin—Yes. Grounded has some significant airworthiness connotations with it, so we have to go through a process.

Senator JOHNSTON—Excuse me for my faux pas.

Air Marshal Binskin—As an aircraft it was not flying for a week or two while we looked at some engine issues that have affected the Rolls-Royce fleet worldwide. We are currently flying it with some restrictions, but it is still delivering what we need on its primary task, which is training fast jet pilots.

Senator JOHNSTON—That has all been squared away.

Air Marshal Binskin—There is a remediation program on the engines that will take about 18 months to solve.

Senator JOHNSTON—I am finished. I would like to thank DMO for persisting with me to deal with that. I would like to endorse your remarks that you made previously with respect to Mr Corcoran. He is a pleasure to deal with.

CHAIR—Are there any further questions of Defence?

Air Chief Marshal Houston—I would like to read something into the record. It was for Senator Ludlam. He asked a question about numbers deployed on Exercise Talisman Sabre 09. The total number of people participating in the exercise is 22,500, of which 5,500 are from the Australian Defence Force and just under 17,000 are from the United States.

CHAIR—Thank you. We have now come to a conclusion of this busy round of Defence estimates. I would like to thank CDF, the secretary and all of your respective officers for your attendance and for the ready provision of information through this last two days. It has been difficult and interesting, but most worthwhile.

Air Vice Marshal Harvey—I just got confirmation in that the South Australian government would prefer that we do not advise the amount that they are contributing towards the processing capability in South Australia.

CHAIR—Understood. In terms of Defence, you are excused. We will adjourn until Defence Housing Australia is available.

Proceedings suspended from 5.06 pm to 5.27 pm

Defence Housing Australia

CHAIR—I welcome officers of the Defence Housing Australia for attending, particularly at such short notice.

Senator FERGUSON—There are a number of areas I would like to cover, particularly as a result of the stimulus package and the extra spending that has been devoted to Defence housing. I want to talk about DHA in Darwin in particular. After I think it was the Carey Street project which was put in place a few years ago, am I right in suggesting the DHA ventured into a joint venture in the suburb of Lyons?

Mr Del Gigante—Yes, that is correct.

Senator FERGUSON—That joint venture was with whom?

Mr Del Gigante—CIC, Canberra Investment Corporation.

Senator FERGUSON—As I understand it, it was pretty clearly stated that over a six-year period Defence wanted to integrate the Defence housing into the suburbs. Am I right in assuming that?

Mr Del Gigante—That is true. That is our practice. It depends on your definition of 'integrated'. There are Defence houses which are next door to each other and they are also spread throughout the suburb.

Senator FERGUSON—I thought the idea was that in a defined area Defence housing would assume no more than 30 per cent of the total housing in that area?

Mr Del Gigante—We do not have a set rule or target. In the Darwin joint venture we are going to have probably about half or slightly less than half of that area for Defence.

Senator FERGUSON—That is what you intend, but didn't you originally intend to have less than that?

Mr Del Gigante—Not in Lyons. In Lyons, because at the time when we began the development there was not enough land to satisfy Defence's needs, in order to meet our

requirements we had to take nearly 50 per cent of that development. That is about 350 or so residences.

Senator FERGUSON—The figures that I have show that the original intention was to have 307 houses out of 917 that were proposed.

Mr Del Gigante—I do not have that number. That may have been so. It is a duplex, so out of the one block there are actually two residences. Perhaps we are saying the same thing. In terms of actual building blocks your figure could be right. I would have to check. In terms of units of accommodation, it is slightly higher.

Senator FERGUSON—The 307 out of 917 is approximately 30 per cent—which I understand was the policy—that was the integration ratio that was the optimum for Defence Housing to work under.

Mr Del Gigante—I am not sure it is correct to characterise it as a policy. I think, if you look at other developments that the DHA has been associated with, the proportion for Defence is smaller than that number.

Senator FERGUSON—I understand that those 307 houses were to be built at a cost, I think, of \$48.6 million? Does that sound right?

Mr Del Gigante—I would have to take that on notice and check what that figure is. The program is not finished yet.

Senator FERGUSON—I understand that, which is what I am coming to. I think it says in your strategic direction that, as part of the stimulus plan brought down by the federal government, \$251 million will be provided to DHA to construct an additional 802 residential houses?

Mr Del Gigante—That is correct.

Senator FERGUSON—Are the lion's share of those houses to be built in Darwin?

Mr Del Gigante—I can tell you exactly how many of the 802 houses are going to be built in Darwin: 185 over two years are going to be built in Darwin.

Senator FERGUSON—Are they all going to be built in Lyons?

Mr Del Gigante—I think so. I think the majority are going to be built in Lyons.

Senator FERGUSON—I think there is a new suburb up there that is going to be called Muirhead; is that right? Will any be built at Muirhead?

Mr Del Gigante—It depends on whether Muirhead is going to come online. I doubt whether Muirhead will come online early enough for it to be ready within the two-year program.

Senator FERGUSON—If 185 houses are going to be built in Lyons, that means there are going to be just on 500 Defence houses built in Lyons out of a total of 917?

Mr Del Gigante—That is one way of looking at it. The way we look at it is that we have got two programs going in Darwin at the same time. We have got our business-as-usual construction target and then we overlaid on top of that the 185 out of the stimulus package. We put the two together, and that is our total program for Darwin. Having said that, we are

still aiming to build the 300-plus in Lyons and the rest in other parts of Darwin. We also have land around Palmerston and Larrakeyah where there is some on-base development which is going to take place, so you have to look at the whole program for Darwin.

Senator FERGUSON—Of the 185 new houses, how many are going to be built in Lyons?

Mr Del Gigante—At this stage, all of them.

Senator FERGUSON—That is what I am saying. You are now going to have a far higher density of Defence housing in Lyons than what I think has been the publicly stated policy of 30 per cent. This is nearly 60 per cent.

Mr Del Gigante—No, because we are going to build houses—I do not have the data. I would have to take it on notice and produce the detail. We are going to build houses in other parts of Darwin also. We will still try to maintain no greater than 50 per cent Defence housing in the Lyons development.

Senator FERGUSON—You said there is going to be 185 new houses all built in Lyons. How many other new houses are going to be built in Darwin?

Mr Del Gigante—I will have to look it up. I think it is double. I think there is another 150 or so. If you go onto your next question I will get that data.

Senator FERGUSON—My next question will depend on your answer.

Mr Del Gigante—There are 163 in the business-as-usual program and 185—

Senator FERGUSON—Is this over two years?

Mr Del Gigante—Over a two-year period it is 185 out of the nation-building program and 163 in the business-as-usual, and they are not all going in Lyons.

Senator FERGUSON—But 185 are?

Mr Del Gigante—Yes.

Senator FERGUSON—Who is going to build them?

Mr Del Gigante—We have a panel of builders in Darwin.

Senator FERGUSON—But tradesmen are as scarce as hen's teeth in Darwin.

Mr Del Gigante—True, but so far we have tendered our program in blocks of 20 houses at a time and we get at least two or sometimes three builders who bid for it, and we have three builders working for us in Darwin.

Senator FERGUSON—How many of the 307 houses in Lyons have already been built?

Mr Del Gigante—I would have to take that on notice.

Senator FERGUSON—You had better check and see whether it is 110.

Mr Del Gigante—Sure.

Senator FERGUSON—Because the figures I have been told are: 110 out of the 307 have been built. They are all scheduled to be built out to the end of 2011. You have another 200 houses there. You have got another 185 that are supposed to be built in Lyons. You have got another 160-something as part of the normal program, all to be built in Darwin in two years.

Mr Del Gigante—Yes.

Senator FERGUSON—Do you think that is feasible?

Mr Del Gigante—Yes.

Senator FERGUSON—There are not many local tradesmen who think it is feasible.

Mr Del Gigante—That is not the information that we are getting from the builders. So far the local builders have responded to our program.

Senator FERGUSON—So far they have, but you are now putting an extra 300-and-something houses into what is a normal building program. I am quite sure they can handle your normal ongoing building program, but this stimulus package has added over 300 houses in Darwin to be built in the same time period as the normal program, and that is building out to the end of 2011. Has that been taken into consideration?

Mr Del Gigante—One hundred and eighty five extra houses will be built in Darwin over the two years above our earlier program; you are correct. That is true.

Senator FERGUSON—You are quite confident that you will be able to achieve that target for the tradesmen that are available in Darwin?

Mr Del Gigante—The program is ongoing and we have ramped it up already. At this stage we are building both our normal capital program plus the nation-building program and so far, at this stage, the builders have responded.

Senator FERGUSON—What is the total amount for the new houses in Darwin? I think it is about \$75 million; does that sound right?

Mr Del Gigante—That sounds about right.

Senator FERGUSON—Will you be taking this project to the Public Works Committee?

Mr Del Gigante—It is not one project. It is for the development and construction of 185 properties. The way we deliver those is in blocks of 15 or 20, depending on how quickly the blocks of land are available. All of the finished lots are not available on one day so, as they are available for building, we tender 20 lots at a time. The actual individual projects are much smaller. But, yes, we have taken this program to the Public Works Committee and they have okayed it.

Senator FERGUSON—The whole program?

Mr Del Gigante—Yes.

Senator FERGUSON—How could they have okayed it yet? They were only announced through the stimulus package—

Mr Del Gigante—Lyons has been okayed.

Senator FERGUSON—But what about for the extra 185?

Mr Del Gigante—As far as I know they have okayed that under their medium works because each individual tender is 20 houses at a time. It is not all happening at once. It is happening over a two-year period.

Senator FERGUSON—If I were unkind, having been a member of the Public Works Committee for about 10 years up until recent times, I think the Public Works Committee could be justified in suggesting that you split the project up so that none of the individual lots come to the \$15 million, which is the amount when it has to go to public works. I would imagine that there would be some suspicion, when you are spending \$75 million in total on these 185 houses, that perhaps there is a reason why it should be considered one project, not a heap of small projects which just avoid the scrutiny of public works.

Mr Del Gigante—We have presented the whole program to the Public Works Committee and the individual projects within that program, so they are aware of it.

Senator FERGUSON—You have not presented these 185 to public works though, have you? They are a new initiative.

Mr Del Gigante—Not as one project but as a program of different projects.

Senator FORSHAW—I am sorry; I was slightly distracted a moment ago. Would you just remind me which project we are talking about, because I am a member of the Public Works Committee?

Senator FERGUSON—This is the project in Lyons where the stimulus package has announced that there will be an extra 185 houses built in Lyons—an additional 185 at a cost of \$75 million.

Senator FORSHAW—I cannot recall precisely the status of the Public Works Committee's position.

Senator FERGUSON—I think it is something we will pursue at a later date. As I said, having had Defence Housing appear before public works on a number of occasions I do get concerned when projects of a considerable size are split up into small amounts so that they avoid the scrutiny of public works.

Senator FORSHAW—I intervened there because I am aware of another project, which I do not think was DHA, where the committee had been looking at this definition of what is called repetitive works, but that is not this project.

Mr Del Gigante—The 802 houses funded by the nation-building program over two years of 82 houses is the whole program around the country over a two-year period. That program is composed of a number of discrete projects, if you like. They have to be discrete projects for a whole host of operational reasons. One reason, in Lyons for example, is that the blocks of land are not all available at the same time. DHA selects them as they are ready. It is a multistage development program.

Senator FERGUSON—Let me put it to you this way, by avoiding scrutiny of public works on a project which is going to deliver nearly 60 per cent Defence Housing houses in a single suburb, just about 500 out of 917, it does not allow the local community an opportunity to comment on it. If you are doing them just house by house by house, or by blocks of 20, by avoiding the scrutiny nobody who actually lives in the area has the opportunity to submit any concerns they might have, because they were always under the impression that in fact it would be a 30 per cent density of DHA housing in the suburb. That was the policy at the time. The stimulus package says: we are going to build another 185 houses at a cost of \$75 million

very quickly, and they are all at this stage going into Lyons, which increases the density to a far greater level than was ever planned.

Mr Del Gigante—I would have to go back, because it is probably a bit before my time, but my understanding was that the Lyons project was referred to the Public Works Committee several years ago—

Senator FERGUSON—Carey Street was; I can remember that. I will leave it there. I am conscious of moving on. Can you tell me how many houses there are to be built in each state out of this 802 stimulus package?

Mr Del Gigante—Sure. Do you want to hear them now?

Senator FERGUSON—Yes.

Mr Del Gigante—South Australia, 100. Can I give it to you by major centres?

Senator FERGUSON—Yes.

Mr Del Gigante—Adelaide is 100; Brisbane, 103; Ipswich, 133; Toowoomba, eight; Townsville, 118; Cairns, five; Canberra, 10; Darwin, 185; the total Hunter region, 30; Melbourne, 56—that is greater Melbourne, which includes Sale, so it is the Melbourne region—Tasmania, 10; Nowra, 16; Sydney, 20; Wagga, two; Wodonga, six. I hope that adds up to 802.

Senator FERGUSON—It is near enough. What is the demand for Defence housing amongst the Defence Force? How strong is the demand for new places amongst the Defence Force? Is there a waiting list?

Mr Del Gigante—DHA meets about 85 per cent of Defence's housing requirements for members with dependants, and the other 15 per cent is met through rental assistance in the private sector. That is nationally. That figure varies slightly from region to region. As Defence repositions, redeploys or grows in various areas, such as Townsville and Brisbane, it changes. In Brisbane, for example, reliance on the private rental is a bit higher than in other areas.

Senator FERGUSON—Where are you going to build the houses in Adelaide?

Mr Del Gigante—Across several suburbs, Blakeview and Hewett. There is a new development in Andrews Farm—

Senator FERGUSON—All to the north of the city?

Mr Del Gigante—Yes, within proximity to the Edinburgh base.

Senator FERGUSON—Are there any houses built anywhere else in South Australia, for instance Port Wakefield?

Mr Del Gigante—I am not aware of that.

Senator FERGUSON—The Proof Range at Port Wakefield?

Mr Del Gigante—No.

Senator FERGUSON—Are you convinced that there will be a big enough take-up that none of these houses would remain unfilled by the Defence Force?

Mr Del Gigante—Yes, definitely. As I said, there is 15 per cent across the country of Defence demand which is being met by the private sector through rental assistance; so for sure. There is a policy which we do not use very often, because there is no need to, where, if we have vacant new houses and a Defence member is on rental assistance, we could recall them into the DHA house.

Senator FERGUSON—Can you actually force them into the house?

Mr Del Gigante—I would not use that term. The policy does allow for recall, if you like, but obviously we would take into consideration convenience and so on—

Senator FERGUSON—Is the rental rate that you charge for a DHA house in line with private rentals?

Mr Del Gigante—Yes. It is a market determined rent—

Senator FERGUSON—Is it subsidised?

Mr Del Gigante—DHA does not set the rent. We use external, independent rent assessors that determine what the rental value of that property is. That is what we then charge the Department of Defence, and then the Department of Defence asks the tenant, the Defence member, to make a contribution towards the rent.

Senator FERGUSON—As to the new 800 houses that are being built, will they be available for private purchase?

Mr Del Gigante—Do you mean on a sale lease-back?

Senator FERGUSON—Yes.

Mr Del Gigante—Probably not immediately. Depending on where they are, we are looking to own them for a longer period of time.

Senator FERGUSON—Is that a change of policy?

Mr Del Gigante—No. Out of our total portfolio, a proportion of all of our stock we own for the long term, what we call investment stock, and another portion of it, which we call inventory, is available to the public on a sale lease-back.

Senator FERGUSON—I wish you well, particularly in Darwin, where you have to build 185 houses on top of the existing program. If my information is anywhere near correct, I imagine that someone in two years time will ask you how you are going with building these 185 houses. I for one will be surprised if you make it.

Mr Del Gigante—Thank you.

Senator JOHNSTON—I want to talk about the recent tendering process with respect to the Defence Home Loan Scheme. I think we got three providers in the end; is that correct?

Mr Del Gigante—I am not sure anymore. Previously DHA was contracted to do the administration for the Defence Home Loan Scheme. Now I am not quite sure who has that contract. Is it Veteran's Affairs?

Senator JOHNSTON—Yes.

Mr Del Gigante—I am not quite sure—

Senator JOHNSTON—They are the administrator. There are three providers and DVA is the administrator. DHA tendered against DVA to administer the scheme?

Mr Del Gigante—I am not sure who the other tenderers were. Defence did run a tender and we did submit a tender.

Senator JOHNSTON—I can assure you; I think it was only DHA and DVA. In those circumstances what did you tender?

Mr Del Gigante—We tendered to continue to provide the service that Defence wanted.

Senator JOHNSTON—How much did you tender the job for?

Mr Del Gigante—I do not have that number off the top of my head.

Senator JOHNSTON—I would really like it. This is a tender that was very important to you. I am told it was about \$6 million. Let's cut to the chase. I do not want to muck around and waste your time, but let us say it was \$6 million. Do you want to haggle with me on that?

Mr Groom—At a business line level, at an EBIT level, that particular set of services earned us approximately \$250,000 per annum.

Senator JOHNSTON—For what term?

Mr Groom—For whatever the term of the contract was.

Senator JOHNSTON—I am interested in multiplying it out as to what I thought the overall contract was. I am advised that the broad contract from DHA was about \$6 million.

Mr Del Gigante—That sounds right—

Senator JOHNSTON—To do any administration.

Mr Del Gigante—Yes. What Mr Groom is saying is that, after having taken that revenue and allowing for all of the expenses of the administration, the net profit or net benefit to the DHA was around \$200,000 per year. We employed, I think, three staff.

Senator JOHNSTON—The net profit is neither here nor there. You tendered a figure that you thought was adequate in line with your experience, I would have thought.

Mr Del Gigante—That is true.

Senator JOHNSTON—You do not know what DVA tendered?

Mr Del Gigante—No, I do not.

Senator JOHNSTON—Who was the minister who resolved the matter?

Mr Del Gigante—I am not aware of that, either.

Senator JOHNSTON—Who did you tender to?

Mr Del Gigante—Department of Defence, DSG.

Senator JOHNSTON—Were they the decision maker or was it a recommendation to the minister?

Mr Del Gigante—I do not know. I am not sure how the tendering decision processes are made. The entity that we deal with, not just for that but for other services we provide Defence, is DSG.

Senator JOHNSTON—Was there a tender document?

Mr Del Gigante—There was.

Senator JOHNSTON—Were the strict specifications of services set out?

Mr Del Gigante—Yes.

Senator JOHNSTON—I take it they would have been familiar to you in line with the services you were providing?

Mr Del Gigante—True.

Senator JOHNSTON—Is there a current review with respect to Defence Housing?

Mr Del Gigante—There is a new tender—if that is what you mean—not a review.

Senator JOHNSTON—I will come to that in a minute. I thought there was a review being done—

Mr Del Gigante—Not that I am aware of. No, I am not aware of any review.

Senator JOHNSTON—Let us hope you would be aware if there were one.

Mr Del Gigante—I am not aware of any review of DHA at the moment.

Senator JOHNSTON—There is a new tender coming out. What is that for?

Mr Del Gigante—It has actually gone out. It is for the relocation business—that is, administering the movement of families from one place to another place.

Senator JOHNSTON—Attending to the postings, if you like?

Mr Del Gigante—Yes.

Senator JOHNSTON—We will see how that pans out next time around. I thank you for those answers. I do not think I have anything more.

CHAIR—There being no further questions I thank the officers for attending and being of assistance to the committee this evening.

Proceedings suspended from 5.57 pm to 6.30 pm

Department of Veterans' Affairs

CHAIR—Good evening. I welcome Mr Campbell and the officers of the Department of Veterans' Affairs to this session of the Senate Estimates process. At this stage I will hand over to Senator Kroger.

Senator KROGER—Thank you, Chair. Thank you for accommodating our change in timetable, gentlemen, and getting in here a little earlier. Hopefully that augurs well and means that you will be able to leave a little earlier, but that is not always the case.

Mr Campbell—That is why we were cooperating.

Senator KROGER—We may be able to accommodate both ways. I will commence with some general matters. First, I will turn to operational matters regarding your trading terms. What trading terms do you have in your contracts with suppliers of goods and services regarding payment, as with invoices?

Mr Campbell—What do you mean by ‘trading terms’?

Senator KROGER—What arrangements do you have in terms of invoice turnaround and payment for goods and services?

Mr Campbell—Are you asking—

CHAIR—Fifteen days, 30 days?

Mr Campbell—how many are in 30 days and how many are between 30 and 60 days?

Senator KROGER—Absolutely. What is your normal practice?

Mr Campbell—The standard is 30 days but—like all agencies, I suspect—we do not meet 30 days for all of our invoices. We will have to take that on notice. But I saw some figures recently that I think had us under 30 days with somewhere between 92 and 95 per cent. Most of the remainder are in 60 days, with a small number over 60 days. So it is of that sort of magnitude. The figure in my mind for less than 30 days is 92 or 93 per cent. I would have to come back with that, but it is of that magnitude.

Senator KROGER—Please take that on notice and come back to us on it. I have been referred to an invoice from a supplier of a service—

Mr Campbell—I am sorry; I have just been given some data. We actually do have it here. From 1 July 2008 to 16 March 2009, the average processing time from receipt to payment was 22 days. For the same period—that is, 1 July 2008 to 16 March 2009—11.8 per cent of invoices were paid later than 30 days. So I was wrong: it was not 92 per cent but 88.2 per cent that were paid in less than 30 days.

Senator KROGER—Do you have a breakdown of the 11 per cent that were paid later than or beyond the 30 days?

Mr Campbell—Not in front of us. The reason I had those figures in mind is that there was a House of Reps question on notice, in response to which we have answered these questions. We will get a copy of that for the committee. That was House of Representatives question on notice No. 681. We will get a copy of that and give it to the committee.

Senator KROGER—That would be really helpful; thank you. I draw your attention to an invoice—I am pleased to say that it was paid in the last week or so—for the provision of a service from a small business. The invoice is dated 12 November; obviously the service would have been undertaken before then and, as I understand it, it was provided in October. This has caused the supplier some angst and I think it might have been followed up. As I said, the good news is that it has been paid, but hence my opening question in terms of what your trading terms were in terms of turnaround.

Mr Campbell—If you want to give me, either now or after the hearing, the name of the organisation, I will look into what happened. Sometimes it is because we seek more information and that might lead to delays; but I am not saying that was the case in this circumstance.

Senator KROGER—I would appreciate that. Turning to the dependant pension, I understand that pension ceases on September 2009. Is that right?

Mr Campbell—That is right.

Senator KROGER—Could you give me a breakdown in terms of how many recipients currently receive this pension or payment at the moment?

Mr Campbell—I will ask Mr Telford to respond to that question.

Mr Telford—I am General Manager, Policy and Development Division. I am sorry for my hesitation in announcing myself, but my title was changed just recently.

Mr Campbell—We had a restructure as a result of our Lindenmeyer report and that took effect on 1 June, so there still might be a bit of schizophrenia among some of our people.

Mr Telford—The number is 26,089. A number of children—45 children—are affected also.

Senator KROGER—What age would the eldest of those recipients be?

Mr Telford—I would not hazard a guess, I am sorry.

Senator KROGER—What would be the age of the youngest of those children who are affected?

Mr Telford—I do not have an age break-up of the individuals.

Mr Campbell—It is many years since we have had a new grant of these pensions—would that have been 1984? I am just seeking information from my colleagues—therefore, when we speak of ‘children’, they would not be young children. Perhaps I could also help here with the amounts. For children, per fortnight, the minimum payment is 29c and the maximum payment is \$2.86. For adults, per fortnight, the current minimum is 84c and the maximum is \$8.42.

Senator KROGER—So aggregating that all together, what would be the annual cost—without asking you to do any quick math on the spot?

Mr Campbell—My guess is that it would be under \$2 million. The payout figure for this year, based on three years at the current rate, is going to be \$5.3 million. Therefore, for three years, the annual cost would be about 1.7—1.8.

Senator KROGER—What would be the administrative cost in managing that? Would you be able to quantify that?

Mr Campbell—No. We have quite a few systems, but the ongoing annual cost of paying that would not represent a lot of money.

Senator KROGER—Turning to the budget measures in total outcome 1, on page 21 there is table 1.2. In that table, the departmental expenses declined sharply from the budget levels in the financial years 2008-09 and 2009-10 through to the 2012-13 period. Why have you projected that departmental expenses will decline so sharply in those forward years?

Mr Campbell—I will just make sure that we understand. You are talking about table 1.2 on page 21 and about the figures at the bottom of the table—

Senator KROGER—Absolutely.

Mr Campbell—where the department was 8.993 and then 9.7 and then 3, 3 and 4. Are they the figures you are talking about?

Senator KROGER—Yes, I am.

Mr Campbell—The best way to explain this might be if you go to the various items on the whole table, which are on the two pages. You will see there that, for each of the budget measures, there are departmental expenses and they are mainly in the early years because that is when quite a bit of the administration is done for new budget measures. So it is not unusual for budget measures to have the departmental costs in the early years.

Senator KROGER—Why is it that an up-front administrative—

Mr Campbell—It is the usual costs of building systems: doing systems changes, guidelines, training of staff, documents, pamphlets, brochures, forms and all of that stuff. Most, although not all, new initiatives have a front-end cost. That is particularly so if systems are involved, most of which have quite substantial costs.

Senator KROGER—Again in table 1.2, what I guess you would call ‘postscript point 5’ states that additional departmental funding of \$15 million has been allocated over all outcomes. What does that supplementary funding refer to?

Mr Campbell—The same.

Senator KROGER—So it is ‘1.2: Agency, 2009-10 budget measures’—

Mr Campbell—I am sorry; this is quite a long table because of all the budget measures. I am having trouble. Which one are you—

Senator KROGER—I am sorry; it is page 27, I have called it postscript 5, but it is point five down the bottom. I wonder what your supplementary funding appropriated in April 2009 refers to.

Mr Campbell—I now know where you are at. I might ask the Chief Finance Officer, Mr Rochow, to respond to that question.

Mr Rochow—This \$15 million pertains to what was a DVA approved operating loss through the department of finance, which we sought and received approval for from the finance minister. This \$15 million relates to a government decision to provide additional funding to supplement that loss.

Mr Campbell—That is in respect of 2008-09, but it is being paid in this appropriation. So it is in respect of 2008-09 running costs and not 2009-10.

Mr Rochow—That is correct.

Senator KROGER—That obviously begs the question: what caused that operating loss? What was that through?

Mr Rochow—The DVA were subjected to a funding agreement with the department of finance that has just ceased over the last four years. It was during that time that, basically, DVA had to position itself to reduce its expenses in line with reducing client numbers. A lot of endeavours were made throughout that four-year period, but the cumulative effect became such that, as a department, we were unable to meet those targets applied by the department of finance. So we have sought agreement for a one-off injection of funding, just to help get us over the end of that funding agreement. We will be making every endeavour to ensure that we stay within the published forward estimates from here on in.

Mr Campbell—Perhaps I could add to that answer. As Mr Rochow has pointed out, we are a bit unusual in Commonwealth agencies—although he did not say this—in that we are getting smaller. I say, ‘Thank goodness for that,’ because the fact that we are getting smaller means that we have fewer people being deployed, when compared to World War II. Really the issues that Mr Rochow refers to started before 2008-09. Indeed, in the year 2007-08, the organisation ran at a loss of about \$30 million. So in 2007-08 there was a \$30 million loss; that was covered by cash reserves in the agency. In regard to 2008-09, the loss is far less than the \$30 million. As Mr Rochow says, we have been allocated \$15 million, but the provision is that we are to balance our budget next year. I am pretty confident that we have done that, given the activity that we have already put into place this year.

Senator KROGER—So you do not anticipate that there will be a requirement to have supplementary funding in subsequent budgets?

Mr Campbell—I certainly do not.

Senator KROGER—You certainly hope that supplementary funding will not be required in ongoing budgets. I will get you to turn to page 47 and I will try to be a little more descriptive of where I am heading. On page 47, program 1.2, veterans disability support, you have a line item under ‘administered expenses’ that says ‘repayments of maintenance deductions’. Do you have that? I am hoping that you can furnish me with details as to what it means. If you would like to take that on notice, I would be very happy for you to do so.

Mr Campbell—It is \$67,000 and it is a ‘consistent’ maths. I think we will take it on notice rather than try to—

Senator KROGER—Which is why it begs the question because it is obviously a consistent amount over that five-year period. On the same page, there is your Vehicle Assistance Scheme. How many people would access that scheme?

Mr Douglas—I do not believe that I have to hand the number of people in receipt of vehicle assistance. I would have to take that on notice.

Senator KROGER—Do you get any feedback on that scheme? Do you receive any complaints about it?

Mr Douglas—From time to time, over the long period during which this scheme has been available, I am sure that we would have, but I am not aware of any complaints of substance that have been raised that have not been able to be effectively dealt with.

Senator KROGER—I guess I am raising it just as a question. I understand that rumours have been swirling that it was to be, if not abolished, certainly downgraded. Is there any substance to that?

Mr Douglas—No decision has been made by the government or the commission to change any access to the scheme or any provisions of the scheme.

Senator KROGER—So there has been no discussion about terminating the scheme.

Mr Douglas—I am unaware of any, unless someone else has a proposal to put to us.

Senator KROGER—Rumours are rumours.

Mr Campbell—I think I probably should come in here and say: any rumour that you have heard on that basis is totally and utterly without foundation.

Senator KROGER—Thank you. I am sure that those who have heard such rumours will have their concerns allayed by that assurance. I will get you to cast your eye over page 51. Please expand on whether the department, either directly or through the Military Rehabilitation and Compensation Commission, spent any moneys on legal challenges to claims that have been lodged by veterans.

Mr Campbell—I might ask Ms Spiers to come to the table and give a response to that.

Ms Spiers—I am sorry; could you repeat your question, please?

Senator KROGER—Certainly. How much has the department spent on legal challenges to claims lodged by veterans?

Ms Spiers—In which jurisdiction? Are we talking about the AAT?

Senator KROGER—Yes, to start with.

Ms Spiers—We spend a significant amount on litigation per year, but the majority of that money is spent on responding to an appeal by the veteran, in effect, in both the Administrative Appeals Tribunal and the Federal Court. So, for the last financial year, of the total litigation budget—which was \$7.4 million—just over half a million dollars was the department challenging a decision. The balance of that money was where the department appeared in responding to an application from the veteran. That is a total figure in terms of the Veterans' Entitlements Act, the Military Rehabilitation and Compensation Act and the Safety, Rehabilitation and Compensation Act.

Senator KROGER—So it is close to a fifty-fifty split in terms of litigation costs, whether initiated by the department or by—

Ms Spiers—No. Last financial year, total litigation in its entirety was \$7.4 million, of which just over half a million dollars was where—if I can refer to it generically—the department initiated that appeal. So the vast majority of the litigation costs were where the department was responding to an application from the veteran community.

Senator KROGER—So over half a million dollars was spent on action being initiated by the department; how many of those actions were successful?

Ms Spiers—I have the number of matters that are before the tribunal at any point in time, but I have not brought with me the outcomes of those matters. So I would be happy to take that on notice and give you a response on that.

Senator KROGER—Thank you. Are any other legal costs not indicated in the budget?

Ms Spiers—In terms of the totality of the legal costs?

Senator KROGER—Yes.

Ms Spiers—We are required every year to publish the total legal costs that the department spends; that is in-house legal costs and external legal costs. The figure from last financial year is a total of \$10.3 million. That is a combination of our in-house legal function and our external legal function. That comprises \$7.3 million, which is the external costs—that is the

costs of engaging solicitors and/or barristers on some of our litigation matters—but it is also for seeking external legal advice, where appropriate. So the residual of those two figures, which is just on \$3 million, is the in-house legal costs.

Senator KROGER—Can you assist me and give me an understanding of what ‘defective administration’ means?

Ms Spiers—I certainly can. The minister for finance is responsible overall for the Compensation for Detriment caused by Defective Administration scheme, which is what it is called. But I would be happy to call it by its short name, which is ‘DA’ or ‘defective administration’, as that will save a little time. It is a requirement under the FMA Act for all agencies to have set up an administrative scheme to deal with any administrative deficiencies in terms of their decision-making. That can be a combination of a delay in making a decision, making the wrong decision, avoiding making a decision and giving the wrong advice. They are the sorts of broad categories that you would normally see in a claim for defective administration. It is then the responsibility of the agency to deal with those applications. So you need to fit within a certain criteria and, as a result of that, suffer detriment. Then there is the liability for the agency to pay compensation to counter that detriment.

Senator KROGER—You may want to take this question on notice also: how much would you spend per client?

Ms Spiers—In respect of defective administration? The numbers are very variable. I can give you an overall number of defective administration claims that we have received; but, in terms of the outcome, it is really specific to the case. For example, just from memory, I processed one recently which was as little as \$53; others can be more substantial.

Senator KROGER—What about the legal costs per client? Do you do a breakdown or an average or a median of what each case would cost?

Ms Spiers—I think you are adding in civil litigation issues with defective administration. The defective administration scheme is, by its very nature, an administrative scheme where you do not have to engage with lawyers to get involved. In fact, pretty much the guidance provided by the minister for finance encourages individuals to contact the department and have that discussion. So it is not that it is litigated in a traditional way, as with the Administrative Appeals Tribunal or the Federal Court. For instance, the numbers are very small for the department. In the last full financial year, we received 19 claims for defective administration. For the year to date, which I think is to May, it is 18. So the numbers are very small.

Senator KROGER—How many act of grace payments would have been made?

Ms Spiers—An act of grace is a slightly different arrangement than a defective administration claim. Once again, it is under the authority of the Minister for Finance and Deregulation. It is a scheme administered by that minister. The decision-making process is with the minister for finance; however, each agency may be liable for the payment that has been determined by the minister for finance or his delegate. I do not have the various amounts to hand, but I can give you the total number of claims that we have received. In the last financial year, we received 13 act of grace claims and, for this financial year to date, we have received nine. I say ‘nine’, but we could have received those from the department of finance.

The claim may have been lodged with them, but it is referred back to us to do a submission; or we might have received those directly from individuals seeking an act of grace.

Senator KROGER—Could you give me some indication of what those claims would have been for?

Ms Spiers—A range of issues can be raised, but I do not have with me what those issues would be. We did have a number of cases some time ago with ladies who were formerly married to veterans and who had been divorced from those veterans, whether they or the veteran had initiated the divorce. Those ladies had been seeking the equivalent of a war widow's pension on the death of their former husband. I do not have a sense at the moment about the current types of claim we have.

Mr Campbell—Perhaps I could talk about defective administration for a moment. Of the very small number that Ms Spiers has talked about, probably about half get approved and half do not. They are very different. Often they are a case where a veteran or a veteran's family has said that they did not know about some provision and they believed that the department should have told them about that provision, as they incurred a loss from not knowing about that provision. It is often that sort of thing. It might be that they believe that they should have been entitled to something like a service pension et cetera and the department, through poor administration, did not pick up that they had qualifying service. Some of the cases that we see now—indeed, a couple that I have seen in recent times—have gone back to 1990s decision-making. So the decisions were taken in 1990 and now they are coming back. But we have a very wide range of programs, particularly funding programs, that we administer, and these cases spread across the lot. But, with small numbers like that, there is not one area or one thing that comes out that says you have something systemic.

Senator KROGER—On what sort of basis do you make the judgements for the act of grace claims?

Mr Campbell—The act of grace is made by the minister for finance and not by us.

Senator KROGER—Presumably they would be given advice or recommendations.

Ms Spiers—We are not in a position to make that recommendation to the minister for finance; his department does that. We are obliged, under the act of grace requirement, to give them the full facts. So our submission sets out all the facts that we know of the particular circumstance, and we will then explain how the law operates in terms of that particular case. The act of grace scheme runs on a different sort of model to that of defective administration; it runs on an unintentional consequence or result of administration of the law. So we do not make recommendations to the minister for finance at all; his department is in the position to do that.

Senator KROGER—What sorts of payment sizes are we talking about here?

Mr Campbell—Are you talking about defective administration or act of grace?

Senator KROGER—Act of grace. I understand that they are quite different.

CHAIR—Act of grace decisions are administered by the department of finance. Is that right?

Ms Spiers—The decision-making is done by the department of finance; however, it becomes a liability of the individual agency, once that decision is made. Senator, I do not have a recent memory of this sort of case. It has been a while since we have had a return from the department of finance with a decision in favour of an individual, so I do not have a figure at hand.

Senator KROGER—I am not sure whether you will have this at hand and I am happy for you to take it on notice. Do you have a year-to-date costing of the Prime Minister's advisory council.

Mr Campbell—No, we do not have that with us.

Senator KROGER—Please take that on notice. Please break that down also with the four new forum committees that are providing input to that council; that would be helpful.

Mr Campbell—There are five other committees. There is the ex-service organisation roundtable, which has only met once, which was on budget day in Canberra; we can provide you with costings on that. The other four subcommittees have not yet been constituted. We have only just got the nominations for those back from organisations. So there will be no costs for those in this financial year.

Senator KROGER—Has any structure or determination of the roles of those different committees and so on been put together—how often they will meet? Has a framework for those other four committees been put together?

Mr Campbell—There is a framework; there are broad terms of reference. But our intention is that, for all four committees, most of their meetings will be held by video conference, because we have quite extensive videoconferencing facilities in our organisation. So the intention is that the costs of those committees will be quite low because we will be holding the meetings by videoconference.

Senator KROGER—Has the composition of those committees been determined?

Mr Campbell—No. If we are talking about national interest in those four, I wrote to the ex-service organisations. They came back late last month with their nominations and I am now in the process of considering those. As has been stated publicly, I am considering those in consultation with the minister and I envisage that we will be announcing who is on those committees in the near future.

Senator KROGER—I turn to budget measures on page 20, where we have outcome 1, program 1.3. How many individuals within the veteran community did not receive either the first or the second stimulus package?

Mr Campbell—Mr Sean Farrelly will answer questions about this topic.

Senator KROGER—Thank you. Perhaps I could pre-empt that with another question: what groups within the veteran community may or may not have received it?

Mr Farrelly—Yes, I think that is the best way to tackle it. The first package was aimed at people on income support and, if not on income support, over age-pension age. So everybody in the veteran community who met those requirements received a payment. Those who were not specifically covered would have been people who were under age-pension age—for

example, those receiving a disability pension and had been income tested out of either the service pension or the age pension. So they would have been under age-pension age and would not have been eligible for income support.

Senator KROGER—Would you have any knowledge of how many people we are talking about here?

Mr Farrelly—No, I do not have a specific number; we could find out.

Senator KROGER—Would those affected be a small group?

Mr Farrelly—It would be a comparatively small group—maybe five to 10 per cent. The vast majority of people on disability pension will be over age-pension age.

Senator KROGER—How many individuals in the veteran community, do you believe, did not receive the increase to allowances?

Mr Farrelly—This is the household package?

Senator KROGER—Yes.

Mr Farrelly—That package, in the Veterans' Affairs case, was aimed at students predominantly. There are around 4,000 recipients of payments from the Veterans' Children Education Scheme and the military rehabilitation equivalent and they would have been eligible. They could have received those payments through their eligibility for fringe benefits tax A, Youth Allowance and Abstudy; there was a hierarchy of eligibilities. The second one, the household stimulus package, was focused on, as far as we were concerned, those recipients. Of course, there would have been payments to taxpayers, and veterans would have been taxpayers.

Senator KROGER—I think you have covered this, but I am just trying to get it clear in my mind: which allowances, whether in the range of veterans' entitlements or compensation packages, have increased? Also, how many would have received those increased allowances?

Mr Farrelly—I am not sure that I understand the question; I am sorry.

Senator KROGER—With the compensation packages, have any of the allowances in the range of VET entitlements increased?

Mr Farrelly—Did any of the economic stimulus payments increase those allowances?

Senator KROGER—Yes, the allowances.

Mr Farrelly—No, not beyond the payment itself. The economic stimulus packages, both the first and the second, were a series of one-off payments, so none of them had the effect of increasing an allowance.

Senator KROGER—So they have not changed the status quo of those allowances at all?

Mr Farrelly—No.

Senator KROGER—I am sorry; I did not explain myself well.

Senator FERGUSON—Did none of them benefit from the stimulus package?

Mr Farrelly—No. The payment would have been of benefit, but that did not change the base rate of the allowances in the Veterans' Entitlements Act, et cetera.

Mr Campbell—As Mr Farrelly has pointed out—take the case with the first stimulus package—it was directed to people on income support. So any veteran who had a disability pension from us and had income support got the payment. So you cannot say that all those on a disability pension did not get some of the stimulus payment. If they were on income support, they got the payment. If they were not on income support, it would be because they had been income tested out of it.

Senator KROGER—In other words, it has applied to all others in the same way across the board and in no way has it affected the allowances that they are eligible for.

Mr Campbell—That is right.

Senator KROGER—How many partners are now required to apply for Newstart as at 1 July? This was a particular issue that seemed to affect my constituents.

Mr Campbell—We are now very close to 1 July and Mr Telford will answer your question.

Senator KROGER—Although I have to assure you that the communications have totally dropped, which is probably a good sign. You have been communicating well with all of them.

Mr Telford—It is 180 that are expected to cease their partner service pension. Not all of those will go to Newstart. We would expect around 20 to go to either Newstart or the widow allowance, which are equivalent payments, at least in terms of the amount. They are still estimates at this stage, but that is the sort of number we are expecting.

Senator KROGER—Perhaps you, Mr Telford, or you, Mr Farrelly, could explain the criteria by which you determine whether or not the separated partners are exempt from applying for Newstart, in particular due to separation by illness.

Mr Campbell—This is the special domestic circumstance, yes.

Mr Farrelly—There are a couple of different things. I will deal with separation due to illness first. If a couple are living apart because they are ill—let us say that one is in a nursing home and one is not—they would be approved as living apart and would both get the single rate. A number of people are in that circumstance. Special domestic circumstances, on the other hand, is a new provision that passed through the parliament in December. Under that new provision, if the partner and the veteran separated, the veteran had a mental health illness and there was reasonable evidence of physical, mental or emotional abuse, or a reasonable apprehension of that, they would satisfy those circumstances.

We have had some 341 applications under special domestic circumstances; it is most likely that 322 of those will be accepted. The formal date for acceptance is 1 July. But people who we believe have satisfied or will satisfy those arrangements have been written to and had indicated to them, ‘Yes, if circumstances stay as they are, we will accept that you are in a special domestic circumstance and you’ll remain on the partner service pension.’ Of the balance, there are about 19 who were refused or who did not satisfy the test. Four of those, in the end, will stay on the partner service pension in any event, two because they were widowed prior to the commencement date of the legislation and, I think, two others having been found to be ‘illness separated’.

Senator KROGER—In the lead-up to February, I was receiving a lot of correspondence locally. The ones that stood out—and I still recall some of them because of their nature—were where they may have been separated by illness and the partners were, to put it nicely, not cooperative in seeking diagnosis; in other words, their illness was undiagnosed. In fact, in one case, the partner was particularly uncooperative. How do you approach those?

Mr Farrelly—Is this a psychological illness?

Senator KROGER—Yes.

Mr Farrelly—Our main gauge, of course, is that a person would have to have a mental health illness that is accepted by the department as being due to service. If there has been no such acceptance, we are in a bind, I think.

Mr Campbell—Of course, in a number of the cases you are talking about, even if the veteran was not cooperating in the way you are implying, he may still have had an accepted disability with us on mental health issues. So lack of cooperation would not necessarily rule it out; it would depend on what his accepted disabilities were.

Senator KROGER—So that could be taken into account in considering the application for Newstart, anyway.

Mr Campbell—That is right.

Senator KROGER—This is a follow-up question also from estimates in February: have you had many who have not responded to the communications?

Mr Farrelly—I do not believe there have been many.

Senator KROGER—I think just over 50 per cent—I cannot remember the exact number—had responded at that time.

Mr Farrelly—I guess the way to gauge that is that 414 people requested the special domestic circumstances form and have been in contact with us. I think we would have been dealing with a number of around 570 of that pool. Many of the balance of that group who did not request the form will have reconciled, divorced or resolved the matter one way or another; I think there might be 50 or 60. Those people have been written to again though.

Senator KROGER—So you are satisfied that all those who should be responding and applying have done so and that no further follow-up is necessary?

Mr Farrelly—Yes.

Senator KROGER—Has the department adjusted the estimated savings from this?

Mr Farrelly—Not at this stage. It would be better to wait until 1 July and not rely on estimates about what payments people might go to with Centrelink. We would just see what happens at Centrelink and then establish the impact on the estimates.

Senator KROGER—Moving to staffing on page 44, at table 2.1 you show a staff reduction of 47.

Mr Campbell—That is for outcome 1.

Senator KROGER—Yes.

Mr Campbell—Perhaps I could handle this more generally, because it is an issue that has been raised more generally in the media. Comments have been made that the DVA has to lose 91 to 94 staff from 2008-09 to 2009-10. People have drawn that out of the budget papers. In effect, they are looking at what average staffing level the department had in 2008-09, which was 2,100, and what we are saying will be funded in 2009-10, which is 2,000; so that is a 91 or a 94 decrease. What does not come out in the budget documentation, because we are using annual averages, is that we are already down to next year's level. We have done quite a bit of hard work in the agency over the last six months and our staffing level now is down to the level of 2,000, which is what we are expecting for next year.

Senator KROGER—Has that happened through natural attrition or other measures?

Mr Campbell—Yes, partly natural attrition and probably two major decisions. One was that we were having quite an extensive IT development with a Grummon-BAE application going on to what we call an 'advanced base'. We have, if you like, put a moratorium on those developments. That is not to say that we will not continue with IT developments in the coming years; indeed, we will. But we put a moratorium on that because we felt that we were expending a lot of money and not necessarily getting all the strategic outcome that we wanted. That was the first thing that we did.

The second thing that we did was, in effect, to put in a recruitment freeze. Recruitment freezes are such that you always have exceptions. I can assure you that, since that freeze has been in place, I have been getting bids from my colleagues—including those in the room—for exceptions to that, and every so often there is an exception to that. So it is not a hard and fast freeze; but it is one where, if we go back to the conversation that you and I and Mr Rochow were having about our operating loss, I had to take action to ensure that we would be able to live within next year's budget. That action has already been taken and, I am pleased to say, I think it has been done quite well and without any impact or diminution on services to veterans.

Senator KROGER—So, in terms of response to veterans, you do not believe that it will impact on the services that you provide.

Mr Campbell—That is right.

Senator KROGER—If that is the case, all departments should exercise your discipline and sound judgement; that is all I can say.

Mr Campbell—It has not always made me a loved man.

Senator KROGER—Moving to aged care, how many eligible veterans have moved from low-care and no-care residential to high-care residential aged care in financial year 2008-09?

Mr Douglas—We do not administer aged care. The funding for the government subsidy for access to aged care is charged against our portfolio, but we do not have any role in administering aged care.

Senator KROGER—So you would not have any figures of how many Gold Card holders have moved into aged care facilities?

Mr Douglas—We have estimates of the number of people who are veterans in aged care at points in time, but we do not get necessarily all individual details. We certainly would have

some information. For example, some people might approach us to conduct their assets test prior to their entry into an aged care facility, but they might also approach another organisation. So we are not involved in the administration of aged care for veterans.

Senator KROGER—I raise that because I understand that Gold Card holders lose some of the entitlements they have when they go into high care. How would that affect them?

Mr Douglas—A person entering into high care, by definition, would require a high level of care from the aged care facility and, of course, the aged care facility is funded to provide or meet the needs of anybody who is in high care. So, by and large, that is correct. In some cases, some appliances might be retained by someone who, for example, might already be in an aged care facility and who undergoes a reclassification from low care to high care. But the basic principle is that all of the needs of a high-care resident in an aged care facility are funded through the funding arrangements for an aged care facility.

Senator KROGER—The question arises from some family concerns where entitlements they were entitled to as a Gold Card holder in their own home were not covered once they moved into a high-care facility. That high-care facility was not able to provide the same level of entitlements, so they felt there was an anomaly there.

Mr Campbell—With these representations that have been made to you, have they given you examples of what services they are talking about?

Senator KROGER—In one particular instance, it was incontinence pants.

Mr Douglas—Incontinence products should continue to be supplied and would be supplied by the high-care facility. It would be very unusual for someone with incontinence needs not to have those met by the aged care facility.

Mr Campbell—If that is still the situation, if your office or the family could contact us, we will go to our deputy commissioner in the state and we will talk to the aged care facility. While Mr Douglas has outlined quite clearly the responsibilities of health and ageing for the administration and funding of nursing homes, we still take a very close interest in the welfare of our veterans while they are in that facility. It is not our responsibility in the sense of delivery care; however, if they are having problems, we would want to know about it and we would raise such matters with health and ageing.

Senator KROGER—It is a bit tragic when you get to that stage and you cannot have the services you require.

Mr Campbell—If you can forward the information on to us, we will follow it through.

Senator KROGER—Thank you very much.

CHAIR—Have we completed outcome 1?

Senator KROGER—Yes.

[7.30 pm]

CHAIR—We will move to outcome 2: Health.

Senator KROGER—I will go to page 64, outcome 2, program 2.2. On that page it is noted that the costs and fees in public and private hospitals are expected to increase with changes in

contract rates. Could you advise what the anticipated increase in costs will be and tell me whether veterans will have to pay any of the gap?

Mr Douglas—No. The reference there is to the fact that the costs the department will pay for veterans accessing hospital services are expected to increase over time. Notwithstanding decrease in usage, it is simply a matter of cost increases that apply in a healthcare institution over time. The department meets the full cost of hospital services for gold card holders and for the accepted disability of people who are white card holders. So there is no gap to be paid by veterans.

Senator KROGER—What is the department's policy on veterans being given priority over other patients in private or public hospitals?

Mr Douglas—The government's arrangements for treatment in public and private hospitals are that veteran cardholders are treated as though they are private patients in a public hospital or, obviously, as private patients in a private hospital. However, a veteran undergoing admission will need to be assessed by the admitting hospital for appropriate categorisation under the national triage arrangements for access. So the healthcare needs of that individual are assessed against others for emergency care. For elective surgery, of course, it is a matter of scheduling determined by the specialist in conjunction with the hospital.

Senator KROGER—Can you provide a copy of the policy statement in the state and territory COAG agreement in relation to veterans being treated in public and private hospitals?

Mr Douglas—I am not too sure. You might need to help me here with what you are looking for. Off the top of my head, I do not have a document per se that would meet your needs.

Senator KROGER—I understand that there is a policy statement.

Mr Douglas—There are agreements with each of the state governments which underpin the payments which we make for access to treatment in public hospitals. Also, the Repatriation Commission approves treatment principles for VEA clients. Equally, the Military Rehabilitation and Compensation Commission approves treatment principles in relation to MRCA people, which govern the sorts of treatment provided. From memory, they are published on our website.

Senator KROGER—So there is one document that would—

Mr Douglas—I am not too sure which question you might want an answer to. As you would imagine, health care covers a very, very broad range of services, from acute hospital entry through to access to aids and appliances and home care. I am trying to help here by being a little more—

Senator KROGER—It is more in relation to public and private hospitals.

Mr Douglas—But which aspect of hospitals? 'Hospitals' covers everything from emergency through to elective surgery, discharge arrangements et cetera.

Mr Campbell—I would take you back to a comment that Mr Douglas made very early on. In effect, gold card holders and white card holders are treated as private patients in public

hospitals. I think that is what you are after. They get the same service and the same level of service as a private patient.

Senator KROGER—Are they given a choice of single beds or single rooms?

Mr Douglas—No. The provision is generally for a shared room. If they access entitlements over and above that, they elect to pay that additional fee themselves—for example, to get access to a private room.

Mr Campbell—But, of course, if there is a medical need—

Mr Douglas—If there were a clinical need, absolutely, they would be given a single room.

Mr Campbell—That, of course, is not too dissimilar to how private health fund operations go as well.

Senator KROGER—But the entitlement is for a shared room.

Mr Campbell—Yes.

Senator KROGER—I turn to page 72. Would you furnish me with details in relation to travel? Do you have a figure on how many people would have lodged claims for travel for medical purposes, such as to and from doctors and/or hospitals?

Mr Douglas—From memory—I would have to take this on notice—it is of the order of 180,000 claims each year.

Senator KROGER—What would be the average cost of those?

Mr Douglas—Around \$15. I will take that on notice to give you a more thorough answer.

Senator KROGER—As I understand, it is one of those services that there are few complaints about—if I may say so—because there seems to be a fairly quick turnaround of claims.

Mr Douglas—With respect, I am pleased to hear that; however, I should say that we do get the occasional complaint. Our service charter publishes an intention to make those reimbursement payments within four weeks. It is fair to say that in some places we have provided a service far and above that four-week time frame. As we have sought to make sure that we meet our four weeks, we have perhaps cut down on those resources that might be providing a more premium service of, say, two to three days. So there have been the odd one or two that have said, ‘I am not getting it as quickly as I used to.’ But, by and large, you are correct: we do not get many complaints.

Senator KROGER—So you do not have a problem in terms of resolution of complaints in that particular area.

Mr Douglas—That tends not to be an area where we receive a large number of complaints, no.

Mr Campbell—And the resolution is fixed when the payment is made, I think.

Senator KROGER—The resolution is expedited by the fact that it can be fixed very quickly.

Mr Campbell—That is right.

Senator KROGER—I think it is a service that is greatly appreciated. Could you explain the new arrangements regarding the payment by Treasury for the Home and Community Care program as it relates to veterans?

Mr Telford—I am not quite sure what you are asking.

Senator KROGER—I am looking at page 68, program 2.4: Veterans community care and support. Is that a new arrangement?

Mr Telford—I am with you now. In the past, these particular special purpose payments were paid by individual departments and we would make these payments to the states, in accordance with our agreements with them, in respect of the services they were providing. But, as from this year, the payment of these particular special purpose payments will be made by the Treasury, as opposed to being made by individual departments. There is no difference in outcomes; it is just a difference in where the dollars will come from.

Senator KROGER—If that is the case, will that provide a coordination issue in ensuring that appropriate funds are maintained?

Mr Telford—No, I do not anticipate any change at all.

Senator KROGER—It does not affect the implementation side of it at all. Are there people on a wait list for community care and home nursing at the moment?

Mr Telford—No, not to my knowledge.

Senator KROGER—There is no-one at all?

Mr Telford—Not that I have been informed of. Certainly, home care—Mr Douglas can talk about community nursing—is an area where we get very, very few complaints. I am sure that we would have heard something if there were any waiting list for veterans, and I have not heard of anything.

Mr Douglas—There is an inevitable waiting list, of course, between the time you ring up and have an assessment done by the assessment agency and the time the assessment agency posts the order for the service provider to make contact. Inevitably there is a slight delay, by and large, just with the normal turnover provision.

Senator KROGER—What does the term ‘joint venture grant’ mean? What is that?

Mr Douglas—This is one of the grant categories or sources of funding that we administer our Veteran and Community Grants for. Organisations can lodge applications for small grants.

Senator KROGER—I am sorry; could you expand on that?

Mr Douglas—The department administers, on behalf of the government, a number of grants applications programs, one of which is called Veteran and Community Grants. The joint venture grants are a source of that funding. Through the year, there is a call for applications for grants and people apply for funding.

Senator KROGER—I will get you to turn to page 61, on which outcome 2 shows a staff reduction of 38.

Mr Campbell—When I gave the earlier answer about the 90-odd, I was going right across all outcomes. I think the first one that you had for outcome 1 was 40-odd. If you add them up, the whole thing is 90, and that was my explanation.

Senator KROGER—Okay, that was aggregated. What sorts of areas are the diminished numbers coming from—receptionist or the front desk?

Mr Campbell—‘Receptionist’ is probably not quite a job description that we have, although we do have people at the front counter of our VAN offices. They are spread around various functions and around the country. They have already taken effect, so it is not a prospective thing. I think it would take quite a bit of work to go back and say where staffing was on 1 July this year and where it is now. It is spread right across the agency.

Senator KROGER—Would there be many from management levels, such as directors?

Mr Campbell—Yes. I think at the last estimates we talked about the review that I had of the one DVA in the structure. As a consequence of that, there was a decrease, from memory, of four SES positions, which is the most senior level in the agency. There have been decreases at all levels in the agency, so it is not concentrated at one particular level. But senior management numbers have decreased.

Senator KROGER—Then you would have decreases of staff in the front line.

Mr Campbell—No, I do not think I would accept that—and I am not sure of what the front line is, anyway. But if you are asking whether I have had decreases in staff that have impacted upon service delivery to veterans, the answer is no.

Senator KROGER—I am very pleased to hear that. Moving to page 58, what ex-service personnel do your outreach programs target? Who do they cater for?

Mr Douglas—It is a general description that is used for two main things. The first is that we will take a small number of staff to a country town, after advertising our intention of visiting that country town. That means that people who live in that country town can come and make inquiries about DVA’s services. The second type of outreach services we do is in sending some staff occasionally to defence bases, particularly larger ones. Once again, we offer a service that answers questions or handles initial discussions about claims. Clearly, those outreach services are very strong in the army bases of Darwin and Townsville and are less active in some of the smaller bases.

Senator KROGER—How many people would get the benefit of those outreach programs?

Mr Douglas—As many as will put their hand up and say that they would like to come and access such a program.

Senator KROGER—How many would that be?

Mr Douglas—That would vary on any given day at any given base. We do not keep that kind of record. It is a service that we offer and people come and take it on an advertised basis.

Senator KROGER—Do you have any Indigenous liaison officers?

Mr Douglas—We have one senior one.

Mr Telford—We have one Indigenous policy officer who is responsible for a range of activities around the country. We do have—but they are not designated as such—individuals in our state offices who act as points of conduit for inquiries from Indigenous veterans. We estimate that we have something in the order of 3,000 Indigenous veterans on our books. We do not have numbers, because we have not recorded that.

Senator KROGER—How many did you just say?

Mr Telford—About 3,000. We have not recorded that information routinely up until now, but we do have individuals who identify as Indigenous and assist in that process. But, for the numbers of people we get, it is really about the coordination of some various community activities. Our national liaison officer is doing an exceptional job and is handling that well, in being a point of contact into various parts of the department.

Senator KROGER—I want to move to compensation now. Would you like to answer questions on that, Mr Campbell?

Mr Campbell—Yes.

Senator KROGER—What compensation payments were made in finalising the claims outstanding from the HMAS *Voyager* and HMAS *Melbourne* collision?

CHAIR—Which claims?

Senator KROGER—What compensation payments were made in finalising the outstanding *Voyager* and *Melbourne* collision?

Mr Campbell—While there may be servicemen who were on *Voyager* and *Melbourne* who are in receipt of compensation payments through the VEA, I think you are referring to the common-law claims that have been made. The Department of Defence was responsible for meeting those and not us.

Senator KROGER—What was the total of the claims that you have settled, then?

Mr Campbell—We do not keep those statistics. We are talking here about our compensation payments under the disability pension, under the VEA. We do not keep statistics of what might be coming from particular incidents, such as the *Voyager* and *Melbourne* disaster.

Senator KROGER—Non-veteran ex-service men and women: what DVA programs are budgeted for them? Do you have general programs?

Mr Douglas—We administer the Safety, Rehabilitation and Compensation Act and the Military Rehabilitation and Compensation Act, which are two primary pieces of legislation that refer to injuries or illnesses that happen to people while in service, even though they may not have been deployed overseas. Those schemes are fairly extensive.

Senator KROGER—They would cover a broad group of people, wouldn't they?

Mr Douglas—Basically, any serving member or former serving member of the Australian Defence Force who has an injury or illness that can be attributed to their service is covered under the provisions of the Veterans' Entitlements Act, the Safety, Rehabilitation and Compensation Act and the Military Rehabilitation and Compensation Act. There are then

different provisions that apply in relation to whether those illnesses or injuries were caused in a theatre of conflict or during peacetime service, for example.

Senator KROGER—I am ready to move on to outcome 3, Chair.

CHAIR—Are there any further questions on outcome 2? There being none, we will move on to outcome 3, Commemorations.

Senator JOHNSTON—Mr Campbell, I do not know whether you were here when I was talking to the Defence Housing Authority. With this insurance scheme, we have two tenders: one from them and one from your department. What was the tender figure for the ultimate winner—namely, you?

Mr Campbell—I might ask Mr Douglas, but I think the answer he will give is what we are going to be paid by the Department of Defence. I was here, and Mr Douglas has these figures.

CHAIR—What was your question again, Senator?

Senator JOHNSTON—There was a tender competition between two government agencies for the administration of the defence housing loans insurance scheme; it is my understanding that they bid \$6 million and you bid \$22 million, and you got the gig.

Mr Campbell—I think your sources have misled you quite substantially. There will be a bit of clarity here, as Mr Douglas will give you the figures.

Mr Douglas—The reference is, in fact, to what is called the Defence Home Ownership Assistance Scheme, DHOAS. The payment that will be made to DVA for the administration of that scheme will depend on the volume of applications and, subsequently, the volume of certificates issued to those applicants; the certificates are then used to access the loans. Our estimate for the payment to be made in 2008-09 is of the order of some \$6 million, which comprises a management fee and a separate fee for variable workload. The workload fee, we estimate, will be in the order of \$4.5 million.

Senator JOHNSTON—Mr Douglas, it has been a very long series of estimates. I think there was a tender process. I think there was a contest between DVA and DHA. I think there is a gross number that panned out over the life of the administrative contract. I think the numbers that I have given you are about the place because the CEO of DHA said that they bid \$6 million. What did you bid?

Mr Douglas—I am reporting to you what we are receiving.

Senator JOHNSTON—I am not interested in that, because it means nothing to me.

Mr Douglas—We are a tenderer. We did not assess the tenders; those tenders were assessed by the Department of Defence.

Senator JOHNSTON—No, I know.

Mr Douglas—We lodged a bid on the basis of a certain assumed level of workload.

CHAIR—What was the life of the tender—

Mr Campbell—Perhaps I can come in here. This answer might be unfortunate, given that this is the last night of estimates for this period, but I think the questions that you are asking should be put to the Department of Defence and not to us.

Senator JOHNSTON—I do not agree with you.

Mr Campbell—We have told you the details of the contract we have. There are issues about who the tenderers were and how many there were. I did hear your questioning of—

Senator JOHNSTON—There were only two tenderers.

Mr Campbell—I am not aware of that.

Senator JOHNSTON—I am.

Mr Campbell—Okay. But the issues of the whole tender process—who approved the tender and who did the tender assessment, which are the questions you ask—clearly, to my mind, are all within the responsibility of the Department of Defence and they should be put to the Department of Defence.

Senator JOHNSTON—This is where you and I are going to have a difficulty. You are a government agency that put in a tender. There is no commercial-in-confidence; this is a commercial matter that the taxpayers are entitled to know about. I think it is a very important issue. You bid three times what the loser bid and as you are both government agencies; I think we are entitled to know what you bid. I am going to go back to Defence when you tell me because I want to know why, but I just need you to give me the facts.

Mr Campbell—No. I think you should go back to the Department of Defence and ask them for all the details. For example, I have no idea about how bids might have been put together over annual periods or a whole period of the contract. I have no understanding of that. I believe that the whole tender—the tender process, the assessing of the tender and the granting of the contract—is the responsibility of the Department of Defence and, with respect, I think you should go to the Department of Defence.

CHAIR—Mr Campbell, what is the life of the contract that has been awarded?

Mr Douglas—Off the top of my head, there would be provisions for a period and then a possible extension of that period.

CHAIR—The first period.

Mr Douglas—I think the first period is of the order of three years but it could be five. I need to take that on notice.

Senator JOHNSTON—Mr Campbell, this is not a good look. It is late in the day.

Mr Campbell—But we are talking about a tender process administered by another agency.

Senator JOHNSTON—No; hang on.

Mr Campbell—No, it is a tender process—

Senator JOHNSTON—It is within the department, is it not?

Mr Campbell—The Department of Veterans' Affairs is not part of the Department of Defence.

Senator JOHNSTON—No, but it is subservient to the minister, under the Minister for Defence, isn't it?

Mr Campbell—I am responsible for the Department of Veterans' Affairs. The issue that you are talking about was an administrative function where a tender was let, tenders were received, tenders were assessed and a contract was given. All of that was the responsibility of the Department of Defence. I am not trying to hide anything, but the details—particularly with the questions I heard you ask of DHA before the dinner break—are ones that only the Department of Defence can answer.

Senator JOHNSTON—No. I asked—

Senator Stephens—Senator Johnston, I do think that you have really drawn a very long bow here.

Senator JOHNSTON—Do you think?

Senator Stephens—Yes, I do. I think the officers here have tried to provide you with the best information. Put the question on notice.

Senator JOHNSTON—Minister, since you put it that way—I am always convinced by you, as you know, and I have had a good run—I will not persist.

Senator Stephens—It has been a long day.

Senator JOHNSTON—But it is all because you have told me not to.

Senator Stephens—Thank you very much, Senator Johnston.

CHAIR—We are now moving to outcome 3, Commemorations.

Senator IAN MACDONALD—I want to follow up on two issues. These are two issues that I have been following, as you know. Perhaps we can start with the details of the upgrade to the Hyde Park memorial. As you know, I have been critical of this because the water never seemed to flow; now it seems to be flowing too well and washing all the insignia off. General Stevens, perhaps you could update me with where we are at with that.

Major Gen. Stevens—Certainly. At the moment we are in a contract, which started in early May, which is to replace all the paintwork in the lettering on the front of the memorial. That is about a 14-week process, so it should be finished by about September.

Senator IAN MACDONALD—What is the value of the contract?

Major Gen. Stevens—I do not have the actual detail of the contract, but we estimate the total cost to be \$300,000.

Senator IAN MACDONALD—Has the water problem been fixed?

Major Gen. Stevens—I think the water problem has been fixed. There were a number of problems and over time we have fixed those. The water is not on at the moment, because the paintwork is being replaced, but I think the water has been fixed.

Senator IAN MACDONALD—Was that done at the expense of the Australian taxpayer, or was it a guarantee or warranty job by those who installed it?

Major Gen. Stevens—It was done at the expense of the Australian taxpayer. Some of it was because it was work that was not part of the construction of the memorial. For example, when the water was flowing down the slope and overflowing in front of the memorial, we had to put pumps in—which we did—because it was not part of the original construction work.

We did the repairs to the inside of the memorial itself and we paid for them. We did those and we have not pursued a legal or contract outcome to that, based on the potential cost of that versus the cost of repairs.

Senator IAN MACDONALD—It does seem unfortunate—I appreciate the difficulties in contracting overseas, particularly in France—because we do seem to have had an unfortunate run of bad construction and bad design that has really ended up costing us a lot of money, much more than the original capital cost. Is that of concern to your organisation or to the department?

Major Gen. Stevens—It has been a great concern to me and to the department. So, in the contracts we are putting in place at the moment, we have taken every step we can to prevent those sorts of things happening.

Senator IAN MACDONALD—Are you quite satisfied that the new paintwork will not require redoing in a few years time at a cost of \$300,000?

Major Gen. Stevens—It is like all paintwork. Even the original paintwork had a life and this paintwork will have a life. We have been advised that the life of the paintwork will be somewhere around 10 years and may stretch out to 15 years, as long as we have an annual maintenance program to touch up bits, which you would normally expect. So, yes, because there is paintwork on the memorial, it will require periodic replacement, but the life should be in that span of 10 to 15 years.

Senator IAN MACDONALD—Some architect never thought that perhaps it ought to be embedded in cement or lead or whatever? I do not know what they do. Were alternatives to painting ever considered? We could put gold in it at the rate we are going.

Major Gen. Stevens—With a lot of these granite memorials, once you etch them and polish the surface, the etching and the surface are a different colour and there is sufficient contrast for them to be read without any infill whatsoever. The Air Force memorial on Anzac Parade would be an example of that.

Mr Campbell—Perhaps I could add a point here—you would be aware of this, but perhaps other senators are not. The memorial was announced, I think, in mid-2000 and it was opened in November 2003. There was a design competition and, I think, 18 planning bodies in London had to be negotiated and consulted through. The London memorial is unique in the amount of paint there is because it displays not only a significant number of battle places where Australian troops fought in World War I and World War II but also about 23,000 names of localities where Australian servicemen of World War I and World War II were born. Because of the nature of its design, with or without the water, with the letters there—I think it has 23,000 place names—paint will be an issue. But, as General Stevens says, with the testing that has been done, we are quietly confident that this paint will last much longer than the paint that was applied in 2003 and, indeed, it will last the length of time that most people would expect paint to last.

Senator IAN MACDONALD—It is certainly a unique design; but one would hope that, when we pay a lot of money to get people to design and construct these things, we at least get them to do it so that it works.

Mr Campbell—I think we accept that point and we are disappointed, but I was reacting to your question about paint. Paint is an integral part of the memorial because, as you know, when you step back, a lot of the small letters make up the battle places.

Senator IAN MACDONALD—Thank you for that, but I just wonder if perhaps a good designer might not have thought of some means of etching them in that did not require painting every few years. That is the only point. It has happened; it has been and gone and there is not much that we can do about it now, except hopefully learn from that experience and learn from the experience at Le Hamel.

Mr Campbell—I think, as my predecessor might have said in this committee some time ago, any memorial with working parts, water or lights is not going to be looked on with favour in future—and I think I would endorse that.

CHAIR—And your successor bar two, actually.

Senator IAN MACDONALD—The water is an attractive feature. I have been to the memorial several times and not once have I ever seen the water flowing over it, so I still do not know what it is like. I have not been for a while, but no doubt I will be back at the time it is next being maintained and again the water will not be running. An announcement was made during the year that, as I recall, instead of a major interpretive centre at Villers-Bretonneux or elsewhere on the Western Front, we were now just going to upgrade a series of existing ones and perhaps extend them. Can you elaborate on exactly what is happening? Have those decisions been made by now and do we know what they are? Do we know what the costings are and what, in fact, is intended?

Major Gen. Stevens—Yes. In the last budget there was a \$10 million allocation over the forthcoming four years for what has been termed the Western Front Interpretive Trail. Essentially, that enables us to work in partnership with French communities, Belgian communities and regional authorities in both of those countries to, as you said, upgrade or extend existing community facilities that are already enjoyed by Australians, help the community keep them going and insert in them Australian interpretations. So a visitor will be able to go to one of these or all of these and learn about the Australian contribution at that place and along the front.

Senator IAN MACDONALD—Sure, and I am not entering into the debate. I would have preferred something else, but the decision has been made and so that is it. But I am really asking: is there a schedule of works intended such as a room at one town or—

Senator KROGER—Yes, at various sites?

Major Gen. Stevens—There are two sites in Belgium, one in the town of Ypres itself and one outside the town in the community of Zonnebeke, in which there is a very large war cemetery at Tyne Cot. We already have in those facilities interpretive material, and the plan allows us to refresh that interpretive material in due course.

Senator IAN MACDONALD—In view of the time, perhaps I can ask: is there somewhere that I can see a list of what work is proposed in which town and at what cost? Is that currently available?

Major Gen. Stevens—We can certainly give you a list of the work that is proposed, but we cannot tell you the cost at the moment, because we do not know the cost. We have made estimates of cost; that is how we were able to say, ‘This is how much money we think we’ll need.’ But we are currently working with all the communities to refine the concepts and the costs. We are currently working with those same communities and their regional authorities to see how much they are contributing to the cost. So the final costing is a bit difficult at the moment, but we can certainly give you a list of the proposed works.

Senator IAN MACDONALD—Are your estimates public? Can the committee have details of those? I am really after a list of which town, what is proposed and what your estimated cost is.

Mr Campbell—We will come back to the committee with a listing of each of the communities that we are proposing and where we are at with our current discussions with the local communities and the provincial government over there. It will cover Ypres, Zonnebeke, Villers-Bretonneux, Fromelles, Pozieres, Perone and Bullecourt.

Senator IAN MACDONALD—Will it say what we are proposing, what we estimate the cost to be and—

Mr Campbell—No. Probably at this point in time it will not go quite that far, because we are still in discussions with the local communities and the provincial government. But we will go as far as we can. For example, at Bullecourt, with Jean Letaille and the museum there, it is being proposed that that gets remodernised, if you like. We are still in lengthy discussions with the community at Villers-Bretonneux and the community at Fromelles. So that is not quite as clear-cut as to what the final product or final elements will be.

Senator IAN MACDONALD—But surely you must know whether you are going to add a room, construct a toilet or put in seating and that sort of thing? I do not really want to know how many seats will be there, but—

Mr Campbell—Perhaps we can use Fromelles as an example. Have you been to Fromelles?

Senator IAN MACDONALD—Yes.

Mr Campbell—There is a museum upstairs in the council chambers.

Senator IAN MACDONALD—Yes.

Mr Campbell—Fromelles is where Professor Wood is and it is where the new Commonwealth war graves cemetery is going to be. We are in detailed discussions with the local community and the provincial government about how we might move with the elements that are in the current museum upstairs—a very nice museum but quite cramped, as you would recall—so that we can enhance that museum with the local community. At Villers-Bretonneux, we are discussing with the local community what sort of activity we can do, particularly with the museum above the Victoria School. This is a situation where we know the sites and we have some very good ideas but, because we are dealing with the local communities, as General Stevens has rightly said, we are looking at them not as sole, individual projects but as to how they might fit into a trail that Australians, New Zealanders and others can follow around.

Senator IAN MACDONALD—Thank you for that. I gather from that that you do not want any consultation with anyone in Australia who might have a very heartfelt view on what might happen in those areas.

Mr Campbell—No, certainly you do not read that. I am saying that, because it is a trail, it is a number of sites and we are working with local communities in other countries, we cannot say to you at this stage that in town X we will have this design there at a cost of Y dollars.

Senator IAN MACDONALD—It is good of you to consult the people of France and Belgium—that is essential and should be done—but, quite clearly, those communities will know more than any person in Australia who might have a very deep interest in those things. That is what I am trying to get at.

Mr Campbell—I understand what you are saying and I do not think that is the case.

Senator IAN MACDONALD—Prove me wrong. Not now but on notice, give me a list of what you are proposing and what you have money for. If you have done some estimates, you must have a bit of an idea of what you are going to do in every community. Australians then can say, ‘Well, look, I disagree,’ or, ‘I think we should do that,’ or, ‘Perhaps we could extend that there.’ I think it would be useful to—

Mr Campbell—We will give the committee a paper that outlines, as best we can, where we are at. But my point is that this is something that is developing. It is not a design—I do not know whether you used this example—of a toilet block. It is something that we are developing and it is being developed in a number of communities. But we will give you as much detail as we have now, with the caveats about the discussions we are having with the local communities.

Senator IAN MACDONALD—I understand about the discussions and that is good, but Australians should be able to have a bit of an input as well. But they will not if they do not know generally what you think you might be able to do with \$10 million. I mean, \$10 million is not a lot of money. At one stage there was some thought of a major new interpretive centre costing hundreds of millions of dollars, so \$10 million is certainly a bit of a come down; but the decision has been made.

Mr Campbell—I thought the figure that was talked about was in the thirties, not hundreds.

Senator IAN MACDONALD—In the past?

Mr Campbell—The one that you are talking about at Villers-Bretonneux, I think, was estimated at 30 but not funded.

Senator IAN MACDONALD—It certainly was not funded, but that was being proposed.

Mr Campbell—It was proposed.

Senator IAN MACDONALD—It was a work in progress, as you or your predecessor well knows. As I say, I am not arguing about that. The decision has been made. But, that decision having been made, I would really like to know what was in the minds of the makers of the decisions when they made them and allocated the \$10 million.

Mr Campbell—We will come back to you with a paper, as an answer to a question on notice.

Senator IAN MACDONALD—Thank you. Could someone point out to me where in the portfolio budget statements the \$10 million is allowed for? I could not see any mention of it.

Mr Campbell—Page 26.

Senator IAN MACDONALD—Why would I look at outcome 3?

Mr Campbell—But the beginning of table 1.2 has all the budget measures. The actual budget measure that General Stevens and I have been talking about is in outcome 3, Expense measures, at the top of page 26.

Senator IAN MACDONALD—So that is 900, 1.2, 3.1. Is it that line?

Mr Campbell—That is it, yes. It is both administrative and departmental, yes.

Senator IAN MACDONALD—That adds up to \$10 million. An expenditure of \$900,000 last year or this current financial year—

Mr Campbell—No, next year: 2009-10.

Senator IAN MACDONALD—No: 2008-09 is \$900,000 and 2009-10 is \$1.2 million.

Mr Campbell—No. Go back to the top of the table. The first one at the top of the table—you are looking down at the bottom—says ‘Commemorations—Western Front Anzac Trail’, program 3.1 and then two lines: administrative expenses, departmental expenses. The sum of those four totals is \$10 million. Yes: 1.282, 3.140 et cetera.

Senator IAN MACDONALD—To what does the 900 refer below, under outcome 3, ‘expense measures administered departmental’?

Mr Campbell—That was money that the department had to do preliminary work on what was going to be in France.

Senator IAN MACDONALD—Again I am conscious of time, so I will leave that and briefly look at page 78 of the portfolio budget statements, where the staffing levels look to be—as I interpret this, but I seek your assistance—down from 125 to 120. Is that correct? What area are the savings coming from?

Mr Campbell—I answered a similar question of Senator Kroger’s earlier in the night. The short point of that answer was that we are already operating at the proposed numbers for 2009-10. These are average figures for the year and, because of changes that I have put in place in the last six months, we are currently operating at the level that is envisaged for next year. So we are currently already operating at about 120.

Senator IAN MACDONALD—Where have the savings come from in this year enabling you to be down at 120?

Mr Campbell—I would not be able to say tonight where the five came from with regard to that program. I would have to take that on notice.

Senator IAN MACDONALD—Thank you for that. What do the figures at the bottom of page 79 refer to?

Mr Campbell—The total program expenses?

Senator IAN MACDONALD—Yes. Is that the total funding for war graves and commemorations?

Major Gen. Stevens—It is.

Mr Campbell—Yes.

Senator IAN MACDONALD—I see that it is falling gradually each year: from \$39 million to \$34 million. Does that suggest less interest in war graves and commemorations, or are you expecting a downturn in costs over that period? What is the explanation for the ever-decreasing fund? I would have thought it would be going the other way, actually.

Major Gen. Stevens—I think the majority of the fall occurs under the war graves care and maintenance vote. In that vote are the project funds that we get to build memorials. So 2008-09 has some money in it that we have spent on Le Hamel, so there is no requirement to spend that anymore. There is some money in there for us to build a memorial in New Zealand, which has not eventuated yet, but that money will be programmed in the next couple of years and then there will be no requirement for that. So the base level of the funding is around that \$14 million to \$15 million mark.

Senator IAN MACDONALD—Coming down from \$19 million to \$14 million, yes. You are quite right.

Mr Campbell—The \$19 million has the rebuild of Le Hamel in it, of course.

Senator IAN MACDONALD—Then I assume that you will tell me next year that the other figures have the \$10 million in them. Is that correct?

Mr Campbell—They will have it in them already.

Senator IAN MACDONALD—Similarly, can you tell me what the figure at the very last line on page 80 is about? It says:

International commemorative events (excludes Gallipoli, includes Villers-Bretonneux) ...

And it says, '977812', which I assume are in thousands of dollars—9,000 down to 7,000; 7,000; 8,000; and 12,000. Is that correct?

Major Gen. Stevens—On the contrary, I think they are an estimate of the actual number of events. If I go further up the table, the number of war graves in Australia is 19,816. That is the number of graves; it is not any amount of dollars. I think that may be an estimate of events that will occur.

Mr Campbell—That would include such things as an Anzac Day service in Papua New Guinea.

Senator IAN MACDONALD—Perhaps on notice you could tell me what will not be done in 2009-10 and 2010-11 that is done this year and what is proposed for 2012-13, which I assume is getting along to the 100-year anniversary. Are the general expenses for this program encapsulated in that figure we were talking about previously at page 79, which you said included some capital cost reconstructions? I am speaking of the ones I was talking about a minute ago, going down from 40 to 34. Is that the total budget for the war graves and commemorations?

Mr Campbell—No. You then have to go to 3.2 as well, which is over on page 82.

Senator IAN MACDONALD—Which figure is that?

Mr Campbell—Probably it is the first table there. These are Gallipoli related issues, and I think you would agree that is in commemorations. For 2008-09, it is \$2.45 million up to \$4.486 million.

Senator IAN MACDONALD—So, if I add those together, we get the total spend—

Mr Campbell—You will get the total for war graves and commemorations.

Major Gen. Stevens—Just before you move on: part of the difference between 2008-09 and the future years is that that money for the first time for Gallipoli has been taken out of war graves and commemorations and put in its own separate category.

Senator IAN MACDONALD—Who manages that?

Major Gen. Stevens—The commemorations area manages it, but in previous accounts the actual money has been included along with war graves and commemorations, so it has inflated the total, if you like.

Senator IAN MACDONALD—Are you still in charge of that overall?

Major Gen. Stevens—Yes.

Mr Campbell—It is more the way that the documentation has been presented, as a result of some new ways of presenting figures and information, than anything else.

Senator IAN MACDONALD—The ways keep changing so that no-one can ever follow them in the committee here. I would never suggest that that is done deliberately, of course.

Mr Campbell—I need to correct something that I said to you a moment ago. When we were talking about page 26 and you asked about the 900, I was referring to moneys that we had to do the developmental work in France. But that is not the same 900 that is there. That 900 is the share, for outcome 3, of the \$15 million mentioned at footnote 5 on page 27.

Senator IAN MACDONALD—Which says?

Mr Campbell—I can repeat that, if I have to.

Senator IAN MACDONALD—What does the footnote say?

Mr Campbell—The footnote says:

Additional departmental funding of \$15 million has been allocated over all outcomes ...

We covered this I think before you joined us. It was to cover an operating loss. So the outcome 3 share of that \$15 million is the 900,000 that you were questioning on page 26.

Senator IAN MACDONALD—So the 900,000 covers—

Mr Campbell—It is the pro rata share—

Senator IAN MACDONALD—of current losses in your—

Mr Campbell—We have a projected operating loss this year, and that has been funded and that is just covering that. I am sorry that I misled you earlier.

Senator IAN MACDONALD—Okay. I look forward to getting the answers that I seek.

CHAIR—As there are no further questions, we thank you.

Senator KROGER—I have some further questions, but I am happy for them to be taken on notice, if you are happy with that.

CHAIR—I am happy with that. That is very good.

Senator TROOD—I have questions that are not necessarily on commemorations. I just want to ask some questions of Mr Campbell, if I may.

CHAIR—On what?

Senator TROOD—It might be regarded as being general administration of the department.

CHAIR—No, we have done that. I called it at the beginning and I went back to it on three separate occasions. We have done overview. We have done outcomes 1, 2 and 3.

Senator TROOD—I think these are important questions.

CHAIR—You could have asked them at any time during the hour and a half we were asking questions. We are now on the Australian War Memorial.

Senator TROOD—If you will not let me ask those questions, Chair, I certainly have some questions about the Australian War Memorial.

[8.24 pm]

Australian War Memorial

CHAIR—Welcome, General Gower, and officers of the War Memorial. Senator Trood.

Senator TROOD—Thank you, Chair. General Gower, good to see you again. I have some questions which I will put on notice with regard to your program 1.1 deliverables. With regard to staff matters, I note that there is a reduction in your staff and I want to ask a question about that. I also have some questions which I will put on notice about exhibitions. I have some other matters that I want to raise with you this evening. The first is as to whether or not you can give us an update please on the progress of the Peacekeepers Memorial?

Major Gen. Gower—The Peacekeepers Memorial is not my responsibility. Because it is in Anzac Parade, it falls outside my area.

Senator TROOD—Okay. I want to go to some of the construction developments that have taken place around the War Memorial, in particular the work that is going on with regard to the building of your new car park and bus park that I think is around the site of the memorial. Can you tell me in the first instance how many buses are to be accommodated in the new bus/car park?

Major Gen. Gower—It is not for bus parking as such. For the bus parking that takes place immediately adjacent to the eastern side of the main building, there are enhanced drop-off spots for students to ensure their safety so that they are not dashing across roads when they are getting out of buses. The buses will then go up to Treloar Crescent to a new car park which will open in a few weeks time. The car park you are alluding to will hold about 200 spaces for cars. It is underground. Construction work has started and that whole precinct once the underground car park is finished will be the site of the National Service Memorial. That will be adjacent to the main building. Further out to the east will be a new food outlet, replacing the one which had to be knocked down so we could start work on the car park.

Senator TROOD—My question is about both of the construction activities you are alluding to. Firstly, in relation to this bus drop off, it is at the back of the building as I understand it, and there is to be created or has been constructed a 20- to 30-foot wall. I am not sure what it is in metres. But there is a large retaining wall at the back of the building; is that correct?

Major Gen. Gower—I am not quite sure to which wall you are alluding. On the eastern side in front of the CW Bean Building there is a precast concrete wall. It would be no more than two metres high, but that runs on the eastern boundary. It terminates before the existing car park, which is immediately in a quadrangle to the eastern side of the main building.

Senator TROOD—Unfortunately I have not been up to the site. I have not been to the memorial for a while. But I understand there is a new stone wall being built on the watercourse on the western boundary of the building; is that right?

Major Gen. Gower—I have no idea about the information you are referring to.

Senator TROOD—If I cannot explain it to you then you cannot identify it—

Major Gen. Gower—Nothing along those lines is planned for the western side, so I am at a loss to understand what the information is about.

Senator TROOD—We might pass on that. You have mentioned also the underground car park. It is obviously quite a large car park and construction has begun now. I understand that quite a few trees had to be removed for the purposes of this construction; is that correct?

Major Gen. Gower—It all depends what is meant by ‘quite a few’. Twenty trees have been removed but I understand of the order of 120 like trees will be replanted in terms of the beautification and the landscaping of the area. I might emphasise that consultation did occur with the local residents. That was part of the Public Works Committee process. That matter of some trees being cut down was specifically raised at the residents’ meeting. Subsequently, as you would have seen, there was some limited discussion in the media here in Canberra about those trees being cut down. In fact, there was a piece of hyperbole that the tree of the kookaburra that sings on Anzac Day after the bugle call has been cut down. I do not know what that is all about but I can assure you particular care has been taken in looking at that entire area. Indeed, we decided not to extend the car park further to the east to save I think four trees which are on the eastern boundary. We are mindful of that precinct—indeed, the whole precinct. We have taken very good advice off landscape architects. In fact, we have been advised by Richard Johnson, who is a leading Australian landscape architect, as to the whole site.

Senator TROOD—These are quite old trees, I gather. They are 50, 60 years old, so they are obviously well established trees. They are very beautiful trees. It is not easy to replace those trees; you have to plant smaller ones. Obviously it takes a long while for them to grow. I also understand that there has been quite a profound effect on the general environmental ambience around the memorial as a consequence of these trees being removed. Is that not the case?

Major Gen. Gower—I think it is difficult to ascertain what the ambience is. It is a construction site. Over the top where the buses are going it is behind cyclone fences with

hessian. There are information boards there for the information of any visitor or local resident. Down the bottom where the excavation is taking place, likewise, it is a construction zone with site sheds and the controlled access. There are bulldozers there. There has been demolition of the existing restaurant. It is very hard to assess what the ambience is. I would say this, if I may, we have not taken this action lightly. It is a facility that is very much needed not only for amenity of our many, many visitors but also for the safety of visitors alighting from buses. We took every care to ensure that the minimum number of trees was cut down. We have got a very sensitive replanting program. Perhaps it was exacerbated by the ACT government removing trees from Treloar Crescent at the same time, but that is their call, not mine. But the minimum number of trees was taken down and we have been very mindful of that.

Senator TROOD—Of course any construction site looks pretty chaotic, to say the least, and I am not surprised that there is no environmental ambience unless you happen to be a building worker. But I think I am referring to the way the site once was prior to all the construction work being undertaken and trying to preserve as far as possible the unique nature of the area around the building.

CHAIR—This project has been exhaustively examined by the Public Works Committee and it also had extensive site examination by that committee which comprised no less than three members of your party this year. It was exhaustively examined and approved by that committee.

Senator TROOD—I, of course, have not had the advantage of being on the committee.

Senator FORSHAW—You would confirm that is correct?

Major Gen. Gower—I would say that is correct.

Senator FORSHAW—I know that because I am on the committee. We were there. I appreciate Senator Trood is not on the committee but these issues were the subject of questioning by members of the committee, briefings at the site and in the private briefings in the committee hearings back here in the parliament and also at public hearings.

CHAIR—There is a report on this as well as on the *Hansard* public record.

Senator TROOD—I will not go to the proceedings before the Public Works Committee because that is there on the public record and two of my colleagues—

CHAIR—Buses, car parks, trees, entrances was what the point of the inquiry was—

Senator TROOD—Please let me continue. Can I just clarify the extent of the public consultation that took place in relation to this matter?

Major Gen. Gower—I understand there was a letter drop and media advice. There was a public meeting which was held in our theatre and people were invited to come along. Unfortunately I had to go interstate but one of the assistant directors who is responsible for this project conducted it. She assured me that these matters were aired and any questions were answered during the course of that public meeting.

Senator TROOD—Do you know how many people attended the public meeting?

Major Gen. Gower—I could advise you. I do not know offhand. But it was a proper consultation public meeting plus there were the sign offs beforehand as one expects out of the

normal PWC processes. We were very sensitive to that environment. Of course we are. It is not what you would call pristine countryside whatsoever. If you have a look there was that drainage off Mt Ainslie sort of wending its way through the site that destroyed the ambience to start off with. There was a place where there was rubbish dumped by various people over the years. I would not call it a lovely site at all. In fact, I think if we hold our horses, if I may suggest, and wait until we see the results of the construction there, which has been approved by the PWC with one of Australia's leading architects, I think we will be favourably impressed by what has been produced.

CHAIR—The PWC held public hearings in Canberra on this issue. If you know what the Greens and the environmentalists are like in Canberra, they come out of the woodwork, as they did, on this project.

Senator TROOD—Thank you for that information.

CHAIR—Of which three of your members were there.

Senator TROOD—You have said that several times.

CHAIR—Yes, because they were.

Senator TROOD—I understand the point. I comprehend the point.

CHAIR—There was a written report on what was said by members of the public at the public hearing.

Senator TROOD—You have already said that as well and I have heard that point as well. Perhaps I can move on to other matters that I want to discuss with you. Can you tell me whether there are any guidelines or protocols in place with the memorial for its use as a picture opportunity or anything like that? Are there any restrictions on the use of the memorial or the grounds of the memorial for picture opportunities or photo opportunities and things of that kind?

Major Gen. Gower—There is. We do not allow, for example, people having wedding shots or things like that. There is a protocol which I think is on our website. It is something that the senior management has reviewed from time to time and we do not allow that. That is not to stop a person pulling up in their stretch limo and popping out underneath the Lone Pine because of someone's grandfather. It would be churlish then, of course, to demand that they exit from the site. But as a principle we do not allow it. It is not in keeping with the site.

Senator TROOD—Indeed. Does that protocol apply in the external grounds around the memorial or with regard to the internal part of the memorial?

Major Gen. Gower—The internal part—

Senator TROOD—Once you go inside the building; does that protocol apply to once you enter the building or does it apply to the grounds outside as well?

Major Gen. Gower—It applies to the whole site, inside and outside. I have read nonsense from time to time that we allowed a bank to hold a Christmas party in the Hall of Memory. It is absolute tosh, but it is on someone's website. It is absolute nonsense. We are very sensitive as to who may conduct a function in Anzac Hall, which we will hire out. It is in the museum part, and I dare say you have had the privilege of attending a dinner there. But we are very

mindful of the type of person to whom we may hire that area. We do not allow inappropriate functions, activities or whatever to be conducted in the entire precinct. I give you my personal assurance directly on that.

Senator TROOD—I do not know anything about Christmas parties being held there or anything of that kind. But I would like to ask you whether or not it is usual practice if the memorial is being used for a photo opportunity that permission has to be sought from you or from one of your officers to use the—

Major Gen. Gower—I understand that is the protocol. I have not personally reviewed it for about a year but bear in mind, if someone comes in, I do not think it is proper conduct to have our security people hound people off the premises for a special occasion such as a wedding, or someone from the Australian Defence Force Academy or a military person, but you would tell them it is improper and you wish that they leave. You have to have some sensitivity on that, but as a matter of principle it is not available.

Senator TROOD—I agree with you that decorum ought to be maintained in such a reverent place.

Senator FORSHAW—You would not hire it out for a joint party meeting, would you?

Senator TROOD—There's a possibility!

Senator FORSHAW—That is a statement. That is not a question.

Senator TROOD—I should think not. Can you tell me whether or not you gave permission for the premises to be used for a picture opportunity at the time that Trooper Donaldson was given his VC, prior to that event, which I think took place—

Major Gen. Gower—I am not quite sure what you mean by a photo opportunity. We were very honoured that Trooper Mark Donaldson VC wished to lend his Victoria Cross to the Australian War Memorial so that not only other defence members in eastern states could see the Victoria Cross, which as you know is the first Victoria Cross for Australia that has ever been awarded, or the members of the public could have the opportunity of seeing that medal and being inspired by his example. It was handed over at a ceremony to me as director and on behalf of the memorial I accepted it. Subsequently, for our own purposes and in our *Wartime* magazine there is a photograph indeed of Trooper Donaldson alongside one of those long-range patrol vehicles that the Special Air Service uses in Afghanistan. They may have used them in Iraq as well. Trooper Donaldson had a particular link with that vehicle because when that was damaged he was in another vehicle behind it. I thought it was entirely appropriate and it is entirely appropriate that a photograph exist or be taken of Trooper Donaldson looking at his medal in that environment.

Senator TROOD—Was this a ceremony that the War Memorial itself organised?

Major Gen. Gower—Certainly.

Senator TROOD—Did you organise a ceremony for the handing over of the medal; is that right?

Major Gen. Gower—Yes, I was very honoured to organise that and invite members of the public, RSLs and so forth to come and be part of a wonderful occasion.

Senator TROOD—Absolutely, and of course—

CHAIR—It is absolutely remarkable that the War Memorial would organise an activity for a return hero who received the Victoria Cross—absolutely remarkable! I am so surprised that you had the foresight to do that. It is so remarkable!

Senator TROOD—Chair, if you want to get out of here sooner rather than later, I would respectfully suggest—

CHAIR—You just ask questions for as long as you like, because what comes around goes around and it will be coming to you, so you ask questions for as long as you like. You go right through to 11 pm if you like and it will come right around to you.

Senator TROOD—It would assist me if you would keep quiet and let me proceed.

CHAIR—If you asked a sensible question, you might get some silence.

Senator TROOD—I think my questions are perfectly appropriate in the circumstances—

CHAIR—The War Memorial hosted a VC winner, gee whiz!

Senator TROOD—The War Memorial organised the ceremony, as I understand it. Were there any official guests invited to the ceremony?

Major Gen. Gower—Yes. I cannot tell you who off the top of my head but it was a function covered with proper decorum and dignity.

Senator TROOD—I do not doubt that for a minute. In fact I would be surprised if it were anything else but that, given the sanctity of the grounds of the War Memorial and your own experience as a soldier and your own responsibilities as the director of the memorial. I do not doubt any of those things at all. All I am seeking to do is to ask whether or not this was a ceremony organised by the memorial, and you have given me an answer to that question, thank you. I assume there was a guest list for this particular ceremony. You have said that is the case. Could you perhaps provide me on notice with a list of the guests who were invited to attend the ceremony, please?

Major Gen. Gower—I will be very happy to do that if the records still exist; I do not know if they do. I am happy to do it.

Senator TROOD—Please do what you can to provide me with that information. Maybe you can answer this question from your recollections of the event. I wanted to know whether or not there was a representative of the opposition who had attended the ceremony on behalf of the opposition and whether or not, if there was not a person there on behalf of the opposition, a person was invited from the opposition. Can you answer that question?

Major Gen. Gower—I will sweep that up when I produce the list. I cannot recall. Trooper Donaldson was returning back to WA at the time. It was only about a day after his investiture at Government House that he expressed the wish to present it. I will have a look, but I cannot answer that. I am not quite sure.

Senator TROOD—I am sure it was all entirely appropriate. In fact I regret that I was not invited to attend because I would have done so. It would have been a wonderful moment. Can you recall whether Sir Michael Jeffery was invited to attend?

Major Gen. Gower—I do not think Major General Michael Jeffery was. I cannot recall.

Senator TROOD—He is the honorary Colonel in Chief of the regiment; is he not?

Major Gen. Gower—Yes, but I am not sure if I can recall whether he was at Government House the day or so beforehand, so he may not have been in town. But I cannot comment on that.

Senator TROOD—Perhaps you could search your recollection and your records to see whether or not you can discover whether Major General Jeffery was there and, if not, whether or not he was actually invited to attend the ceremony, if you would not mind?

Major Gen. Gower—Certainly.

Senator TROOD—Could you also on notice provide me with a list of occasions for which you have given permission—if there are any—for ceremonies or photo opportunities or things of that kind inside the War Memorial, please?

Major Gen. Gower—Can I be clear on what you are seeking? You said ceremonies in the ground. Do you mean private, non-war memorial related ceremonies?

Senator TROOD—My understanding of your information this evening is that the event with regard to Trooper Donaldson was a ceremony which the War Memorial itself conducted and organised, but prior to you telling me that I also understood you to say that you did on occasions give permission for organisations to come to the memorial to take photographs in certain parts. Perhaps I misunderstood that evidence.

Major Gen. Gower—I think you have misunderstood me completely; either that or I have not explained it sufficiently to you. I cannot recall when I have been approached to give permission for the circumstances that led to your questions. I cannot recall. Perhaps I did not explain myself clearly enough. I did say we do allow approved bodies to hire Anzac Hall, which is the museum part, not the commemorative part. There is a distinction: commemoration, museum, archive. It is unique in that respect, and the separate parts must be balanced. However, the Anzac Hall functions are quite separate activities as part of normal museum activities.

Senator TROOD—Your attempt to raise some revenue?

Major Gen. Gower—Yes, and which is reflected in the financial statements. But as to the thing which prompted your question, I cannot recall my giving approval on any occasion. Whether someone thought they could act on my behalf I will investigate, but there is a clear instruction on this matter and we do not allow ad hoc types of activities. As to the Trooper Donaldson VC activity to which you referred, that is an official function as far as I am concerned. We run all sorts of official functions if people wish to present, on behalf of their family, medals, artefacts, relics, books, you name it. There might be three or four of these a week. There are visitors who come. For example, today the AIS Cricket Centre of Excellence visited with Greg Chappell. That is quite normal. The day before there were schools visiting for wreath laying. These things go on all the time, but they are all part of a program of visits, activities and events which we look at and control and for which we have a program. They are all coordinated and managed. We have a visitors section which controls that. I suspect you are talking about unofficial activities of an ad hoc nature where people might say, ‘Gee, that is a

beaut place to take a photograph,' and slip in there. That is not on, and I think I have explained that.

Senator TROOD—I understood you to be saying that but I also understood you to be saying that there were occasions when people sought permission to come in and take a photograph, and this might be at level of government otherwise, but you are telling me that is not the case and that is fine.

Major Gen. Gower—We do have some people who presume that they can move in and have media interviews and we try to move them on. But we have had quite a few examples of people thinking to add validity to their assertions and they come to the memorial and you find the cameras rolling on the front steps. We do not agree to them using it for their own purposes.

Senator TROOD—That has clarified that. If you provide me with that information with regard to that ceremony in January and perhaps you would be good enough also to provide me with a copy of the protocol which applies to these. I think at the very start of these questions you said there was a guideline or a protocol.

The final thing I wanted to raise with you was the completion of the final volume of the Vietnam official history, the first volume of which I think was Dr Edwards's volume in 1997. I noticed since that time there has been a reference to this in each of your annual reports. In 1997-98 the volume was to be completed towards the end of 1998 for publication around October 1999. In annual report 1998-99 the volume had actually been submitted to the publisher. In 1999-2000 the volume had not been submitted to the publisher but it was being completed, according to your report. In 2000-01 there was a reference to Mr Ekins working on schedule to complete the volume. In 2003 a decision was taken to split it in two and one portion of the volume was actually published, as I understand it.

Subsequently the research continued. In 2002-03, regrettably, Dr McNeill was by that time the late Dr McNeill and the volume was actually completed and in press. I have had some experience in publishing from my own career. When reference is made to things being in press, of course it means it is with the publisher and they are in the process of actually publishing the volume for release to the public. In your annual report of 2002-03 it was stated that the volume was to be published in 2004. In 2003-04 it was close to completion. In 2004-05 work was continuing, as it was in 2005-06, to be published in 2007. In 2006-07 it was expected to be published in 2008. In 2007-08 it was expected to be published in 2009. I notice from your PBS this year that in program 1.7 deliverables there is a reference to the official history *Fighting to the Finish* to be completed. Can you explain to me, please, what is happening with this volume after over 10 years? At the very least it seems to me this is an embarrassment. It may even be more than that.

Major Gen. Gower—I will be delighted to enlighten you, if I may. Firstly, Dr Edwards had left the Australian War Memorial as official historian before I was appointed as director in 1996. Edwards left because he believed the last volume of the Vietnam War was essentially well underway and close to completion. I think in 1996—or it may have been 1997—the then author, Dr Ian McNeill, had a heart attack. He came back to work after a long period of convalescence, assured me that completion was imminent and all he was doing was tidying it

up. This is not a criticism of Dr McNeill, but I think it is important to be frank because you have put a lot of dates to me. Sadly, he died in, I think, 1998. Edwards was gone of course. He had one research assistant—

Senator TROOD—I think it was actually earlier than that—

Major Gen. Gower—It might have been 1997. I think it was 1998 actually but, whatever, one year—I will give my narrative. Ashley Ekins was the only person left. He was the research assistant. We thought that it would be a simple task to take what McNeill had completed, ostensibly, and with Ekins adding in the final chapters it could then go to the press. Ekins had a very good look at it; bear in mind as a research assistant you are not privy to the detail; he was doing research as directed by the author, the late Ian McNeill. After probably six to nine months he came to me and said that he was shocked to find that notes and interview material—bearing in mind there is a massive amount of interview material that has to be done—was all that existed of this alleged final volume.

He was told to get on with it as best he could. He came back about a year later and said that to do justice to the men and women who had served in Vietnam for the six-year period—and we are talking about the Army, which had most of the casualties and most of the troops in the Vietnam war—two volumes and not one should be published. Management and council looked at that and agreed there would be two volumes. Two volumes of course needed a complete new plan and scope. He did not have any research assistants. He had to do it all by himself. The first volume, I think *Province for a Battlefield*, was published and you quoted that. The second one has gone to the publisher last year and will be printed and available for launch next year.

I know this is only a small point: I do not believe I used anywhere in my report that something is in press. That is not my language. I do not remember that at all. It is true at various times optimistically based on advice by McNeill, or Ekins initially, or because we were then having the first volume of two being published, I gave some optimistic forecasts. I think it is just unfortunate. But I will add a couple of points just to elaborate. You said it is an embarrassment. You would be aware that the redoubtable CEW Bean was going to roll over all nine volumes in a matter of a few years. It was during the Second World War that the final volumes were published for the official history of Australia in the Great War. You would also be aware that Gavin Long died before his was finished and that took a long time, including—I will point out—that two volumes in that series took 10 years to produce. If Ekins can produce two volumes, having been a research assistant and having taken over an unfinished task not of his own choice, can do two in 10 years, I think we owe him a debt of gratitude.

Far from being embarrassed, I am very pleased he had the gumption to pick up the job, undertake it and put up with a lot of abuse from historians here in Canberra and elsewhere. For example, this is the sort of thing I refer to that is a disgrace—I will not mention the name of the historian—another person years ago, after Paul Ham put out his Vietnam history, had the audacity to say of a first class honours graduate in history, Ekins: ‘He does not even hold a journeyman’s ticket as a historian.’ That is the sort of nonsense which has distracted him. He has required great encouragement. I am delighted he has produced what he has and it is not an embarrassment. I do not see people queuing outside waiting for the last volume to come off the press. That is my view as director. I think we ought to be very grateful to Ashley Ekins for

picking up this project on behalf of the Australian people and finishing it. Not only that; he is most mindful that he is doing this for the 50,000 Australians who served in Vietnam. It is their story he is telling. It is their story he must research, analyse, check with other sources, government and otherwise, and produce the written document. I have been asked by him to read the odd chapter because, being a Vietnam veteran, there are areas I can throw some light on. I am very impressed with what he has produced, and I think it will be critically acclaimed. That is all I wish to say on the subject. It will be published next year.

Senator TROOD—I know you are a Vietnam veteran and I am familiar with the difficulties that the official historians have sometimes had in Australia in producing their volumes. I acknowledge that they sometimes take a long period of time. All I am seeking to do is to clarify the matter with regard to this particular volume which has been, as you will I am sure acknowledge, referenced in each of the annual reports. There has been a succession of promises, a succession of expectations created as to when the volume will be published, some the year after the annual report of your organisation, and yet it still has not appeared. I can only say that I am delighted if the project has reached the point where it is now completed, where it is now with the publisher and it will now appear in print in 2010. If that is the status of the project, I for one am delighted to hear that. I will very much look forward to seeing the volume on the shelves and in the shops next year some time, if that is the case. I was merely seeking to explore whether or not we were close to a conclusion here. If that is the case, I am delighted.

Major Gen. Gower—Therefore, your feelings about embarrassment are withdrawn?

Senator TROOD—I do not withdraw my remarks. On the evidence that has been before me there is at least some reason for concern about the project.

Major Gen. Gower—I accept that and I will accept responsibility for those reports. They were provided, written in good faith in the interests of open reporting.

Senator TROOD—I am sure that is true.

Major Gen. Gower—I have been as disappointed as others, but I will stand by Ekins's performance as the author of those two volumes. I am very grateful that he was prepared to undertake this important task on behalf of the Australian people.

Senator TROOD—Just to finish this point, it has been said that Mr Ekins, whom I do not know, is a research assistant. I am concerned that the memorial was unable to find the resources which were necessary to provide Mr Ekins with the kind of support that would have allowed him to complete the volume rather earlier than he has been able to do. That is a matter of perhaps wider concern to us.

Major Gen. Gower—I am glad you raised that, because you will recall that the Australian War Memorial decided to seek approval for the writing of the peacekeeping and humanitarian volumes. No money was forthcoming. We ended up undertaking that through Professor Horner, sponsored by Defence, and an ARC grant from the ANU, and we provided two historians and two research assistants out of hide. That is one of the problems we had trying to meet the requirement of having a peacekeeping official history, at the same time finishing another one. Yes, it has taken longer than any of us anticipated. That is true.

Senator FORSHAW—When was that request or application made?

Major Gen. Gower—That would have been made in about 2001 or thereabouts.

CHAIR—Who was in government then? Don't answer that question.

Major Gen. Gower—We were very keen to get a peacekeeping history because we had people involved in Indonesia from 1947 onwards, in the Good Offices Commission and in Kashmir and elsewhere—

CHAIR—Mr Howard's government could not fund it, despite applications.

Major Gen. Gower—so we wanted to have that written before people had passed on. The important thing about an official history is that you can interview the very people who served and get that personal touch, corroborated with official documents. I would say I might be guilty of overreaching myself in the enthusiasm of getting that project off the ground. I do not resile from being pleased it is functioning with Professor Horner as the official historian. But I can tell you that it will not be on time, apart from Horner's volume. That is the way of official histories.

Senator TROOD—Professor Horner is always extremely diligent in meeting his deadlines.

Major Gen. Gower—A very diligent man and he has produced his volume.

Senator FORSHAW—You need not worry, I think we are still waiting for the bicentennial coach. I am not sure if the Queen will ever get it.

Senator TROOD—Did you think to seek funds for that project in either this budget or the last one?

Major Gen. Gower—The short answer is no.

Senator TROOD—This being an unlikely—

Major Gen. Gower—The project is working under these arrangements I outlined. We all know how difficult it is at the moment. All Australians know that. We are working to finish and we will get it done. It is as simple as that.

Senator TROOD—Thank you, General Gower, and thank you, Chair, for your patience.

CHAIR—I have been overly patient. Thank you, General Gower, for you and your staff coming along this evening and participating in the conversation and being of great assistance to the committee. Thank you, Minister, for attending throughout the last three or four days and for your assistance. I also wish to thank the staff of Hansard, who have as always provided a quiet and capable assistance to the committee. Thank you very much.

Committee adjourned at 9.05 pm