



COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION
COMMITTEE

Consideration of Budget Estimates

MONDAY, 29 MAY 2000

CANBERRA

BY AUTHORITY OF THE SENATE

SENATE

FOREIGN AFFAIRS, DEFENCE AND TRADE LEGISLATION COMMITTEE

Monday, 29 May 2000

Members: Senator Sandy Macdonald (*Chair*), Senator Hogg (*Deputy Chair*), Senators Bourne, Ferguson, Payne and Schacht

Senators in attendance: Senators Faulkner, Ferguson, Hogg, Hutchins, Sandy Macdonald, Quirke, Schacht and West

Committee met at 9.04 a.m.

DEFENCE PORTFOLIO

In Attendance

Senator Newman, Minister for Family and Community Services

DEPARTMENT OF DEFENCE

Portfolio overview and major corporate issues

Portfolio overview

Budget summary

Capital investment: Major capital equipment projects and major capital facilities projects

Defence Reform Program

Financial statements

Dr Allan Hawke, Secretary

Admiral Chris Barrie, AO, RAN, Chief of Defence Force

Mr Rod Corey, Acting Deputy Secretary, Resources and Management

Dr Ian Williams, First Assistant Secretary, Resources and Financial Programs

Air Vice Marshal Peter Nicholson, AO, representing Vice Chief of the Defence Force

Output 1: Defence operations

Air Vice-Marshal Robert Treloar, AO, Commander, Australian Theatre

Air Commodore Kerry Clarke, AM, Director-General, Joint Operations and Plans
representing Head, Strategic Command Division

Mr Terry Smith, Director-General, Resource Analysis and Management

Mr Ken Anderson, Business Manager, Headquarters Australian Theatre

Air Vice-Marshal Peter Nicholson, representing Vice Chief of the Defence Force

Output 2: Navy capabilities

Vice Admiral David Shackleton, AO, RAN, Chief of Navy

Rear Admiral Peter Briggs, AO, CSC, RAN, Head Submarine Capability Team

Output 3: Army capabilities

Lieutenant General Frank Hickling, AO, CSC, Chief of Army

Mr Peter Lush, Director-General, Corporate Management and Planning-Army

Output 4: Air Force capabilities

Air Marshal Errol McCormack, AO, Chief of Air Force

Mr George Veitch, Assistant Secretary, Resources Planning-Air Force

Output 5: Policy advice

Mr Rod Corey, Acting Deputy Secretary, Resources and Management
Air Marshal Peter Nicholson, AO, representing Vice Chief of the Defence Force
Mr Terry Smith, Director-General, Resource Analysis and Management
Mr Hugh White, Deputy Secretary, Strategy
Mr Shane Carmody, Head, International Policy Division
Dr Ian Williams, First Assistant Secretary, Resources and Financial Programs
Mr Greg Harper, Head, Management and Reporting Division
Mr Claude Neumann, Inspector-General
Ms Jenny McKenry, Head, Public Affairs and Corporate Communications
Mr Jason Brown, Assistant Secretary, Security
Mr Martin Brady, Chairman, Defence Intelligence Board
Commodore Anthony Flint, CSC, RAN, Director, General Maritime Development
representing Head, Capability Systems
Commodore Syd Lemon, Director-General, Organisational Effectiveness Unit

Supplementary information**People and business process initiatives**

People and learning

Major General Peter Dunn, AO, Head, Defence Personnel Executive
Brigadier Wayne Ramsey, AM, CSC, Director-General, Defence Health Services

Acquisition and logistic support/interaction with industry

Mr Mick Roche, Under Secretary, Defence Acquisition
Major General Peter Haddad, AM, Commander, Support Australia
Mr Gil Watters, Acting First Assistant Secretary, Capital Equipment Program
Air Vice-Marshal Ray Conroy, AM, Head, Systems Acquisition (Aerospace)

Information systems

Mr Patrick Hannan, Head, Defence Information Systems

Corporate services

Mr Ross Bain, Acting Head, Defence Estate
Mr Ian Clark, General Counsel

Discretionary Grants

Defence Housing Authority

Mr Paul Cain, Finance Manager
Mr Richard Bear, General Manager, Development and Sales

Department of Veterans' Affairs**Portfolio overview**

Dr Neil Johnston, Secretary
Mr Ian Campbell, Deputy Secretary
Mr David Mackrell, Division Head, Corporate Development Division

Outcome 1: Eligible veterans, their war widows and widowers and dependents have access to appropriate compensation and income support in recognition of the effects of war service

Mr Peter Reece, Division Head, Compensation and Support
Dr Keith Horsley, Senior Medical Adviser, Compensation and Support

Mr Bill Maxwell, Branch Head, Disability Compensation

Mr Bob Hay, Branch Head, Income Support

Mr Paul Pirani, Branch Head (Legal Services)

Mr Bruce Topperwien, Executive Officer (VRB)

Output 1.1: Mr Bob Hay, Branch Head, Income Support

Output 1.2: Mr Bill Maxwell, Branch Head, Disability Compensation

Output 1.3: Mr Bruce Topperwein, Executive Officer (VRB)

Output 1.4: Mr Barry Telford, Branch Head, Housing and Aged Care

Outcome 2: Eligible veterans, their war widows and widowers and dependents have access to health and other care services that promote and maintain self-sufficiency, wellbeing and quality of life

Mr Geoff Stonehouse, Division Head, Health

Dr Graeme Killer, Principal Medical Adviser

Ms Narelle Hohnke, Branch Head, Health Services

Ms Kay Grimsley, Branch Head, Younger Veterans and Health Support

Mr Barry Telford, Branch Head, Housing and Aged Care

Output 2.1: Ms Narelle Hohnke, Branch Head, Health Services

Mr Barry Telford, Branch Head, Housing and Aged Care

Output 2.2: Ms Kay Grimsley, Branch Head, Younger Veterans and Health Support

Outcome 3: The achievements and sacrifice of those men and women who served Australia and its allies in war, defence and peacekeeping services are acknowledged and commemorated

Air Vice Marshal Gary Beck, AO, Director, Office of Australian War Graves

Ms Kerry Blackburn, Branch Head, Commemorations

Output 3.1: Ms Kerry Blackburn, Branch Head, Commemorations

Output 3.2: Air Vice Marshal Gary Beck, AO, Director, Office of Australian War Graves

Outcome 4: The needs of the veteran community are identified, they are well informed of community and specific services and they are able to access such services

Mr Barry Telford, Branch Head, Housing and Aged Care

Output 4.1: Mr Barry Telford, Branch Head, Housing and Aged Care

Outcome 5: Current and former members of the Australian Defence Force who suffer an injury or disease which is causally related to employment in the ADF are provided with compensation and rehabilitation benefits and services

Outcome 5 and Outputs 5.1-5.4: Mr Bill Maxwell, Branch Head, Disability Compensation

Output Group 6: Provision of services to the Parliament, Ministerial services and the development of policy and internal operating regulations-attributed to outcomes 1 to 5

Mr David Mackrell, Division Head, Corporate Development Division

Mr Murray Harrison, Manager (Information Management)

Mr Sean Farrelly, Branch Head, Resources

Mr Michael Guilfoyle, Director, Budget Section

Mr Geoff Kavanagh, Director, Running Costs

DVA corporate/general matters

Dr Neil Johnston, Secretary

Mr Ian Campbell, Deputy Secretary

Mr David Mackrell, Division Head, Corporate Development Division
Mr Murray Harrison, Manager (Information Management)
Mr Sean Farrelly, Branch Head, Resources
Mr Michael Guilfoyle, Director, Budget Section
Mr Geoff Kavanagh, Director, Running Costs
Mr Terry Fahey, Project Director, GST Implementation Team

Australian War Memorial

Outcome 1: Australians remember, interpret and understand the Australian experience of war and its enduring impact on Australian society

Major General Steve Gower, Director (AWM)
Mr Mark Dawes, Assistant Director Corporate Services
Mr Mark Whitmore, Assistant Director National Collection
Ms Helen Withnell, Assistant Director Public Programs

CHAIR—I declare open this meeting of the Senate Foreign Affairs, Defence and Trade Legislation Committee and I welcome Senator Newman, Minister Representing the Minister for Defence, Admiral Barrie, Chief of the Defence Force, Dr Hawke, Secretary to the Department of Defence, and officers of the Department of Defence and other officers. I note that you, Adsmiral Barrie, have to leave at 11 a.m.

We understand that this is the first time that the secretary and the CDF have appeared at an estimates committee hearing and we appreciate your attendance and look forward to a productive session. The committee will consider particulars of proposed expenditure for the Department of Defence, the Defence Housing Authority and the Department of Veterans' Affairs, in that order.

The committee has before it the particulars of proposed expenditure for the service of the year ending 30 June 2001, documents A and B and the portfolio budget statement for the Department of Defence. The committee will first consider the portfolio overview and major corporate issues, as is generally the case. We will then move on to outputs and the supplementary information.

I remind colleagues that the Senate Finance and Public Administration Legislation Committee is continuing to monitor the format and contents of the portfolio budget statements. If you have any comments you wish to make about these documents, please place them on the public record during these estimates hearings or direct them to that committee.

The committee has agreed that the deadline for the provision of answers to questions taken on notice at these hearings is Thursday, 13 July, 2000. In order to assist *Hansard* in the early publication of the transcript of these hearings, the written questions on notice will not be incorporated in the proof *Hansard* transcript. The Chair will state for the record that written questions have been received from a particular senator and that these questions will be forwarded to the department for an answer.

When officers are first called upon to answer a question, they should state clearly their names and positions. Today's hearing will be suspended for lunch between approximately 12.30 and 1.30 p.m. and for dinner between 6.30 and 7.30 p.m. We will take tea breaks at approximately 10.30 a.m., 3.30 p.m. and 9.00 p.m. as required. Tea and coffee are available all day in the waiting room, as is generally the case. Finally, I remind everyone that mobile phones are to be switched off during the hearing and in the hearing room. Minister, do you have an opening statement?

Senator Newman—No, I do not, but the department does, Mr Chairman.

CHAIR—Thank you.

Dr Hawke—I think we will start with CDF, if that is okay with you, Mr Chairman.

Adm. Barrie—Thank you, Mr Chairman. I welcome this opportunity to appear before the committee. It is some years, as I think some of you know, since I last had the pleasure of appearing here.

In the context of the committee's deliberations, in the next 12 months the department is facing some very critical decisions. The government and the people of Australia quite rightly have very high expectations of the Australian Defence Force, and I think those expectations are based on our excellent operational performance record. However, when we consider our enduring geostrategic factors, security responsibilities for one-tenth of the earth's surface and a very small population, we have to have one of the best defence forces in the world to achieve the outcomes we desire for our future security. To be the best requires good leadership and management and to meet our particular challenge of ensuring that our business processes match our excellent operational performance.

First, however, let me highlight the significant events and achievements of the last 12 months, particularly our successful leadership of the international operation in East Timor and our continuing commitment to the United Nations peacekeeping force there. In addition to East Timor, there is the deployment to Bougainville, as well as contributions to a number of other peacekeeping activities in the Middle East, the Persian Gulf, the Sinai and Bosnia. Furthermore, we will also be making a very significant contribution in the form of security tasks and general support for the Sydney Olympics and the Paralympics which will be in the same order of magnitude as our commitment to INTERFET.

There is no doubt that the Australian Defence Force is currently experiencing a marked increase in our strategic and operational tempo. Our productivity has increased dramatically by any measure and all Australians can be proud of the way the Defence organisation has met these challenges. There is an emergence of what I have called expectation creep. As a simple indicator, the operational tempo set in 1999 surpasses that set in any year since 1972. I suspect that our ability to meet these challenges so far, underpinned by the reforms and the improvements in the way we do business that we have implemented over the last few years, stimulates a perception that we are capable of sustained performance at an ever-increasing level with the current force in being. I wish it were so. Of course, we will continue to implement reforms and embed a philosophy of continual improvement in our organisation. However, there are enormous tensions being played out in our operations, capabilities, strategies and budgets that do need to be addressed in a more fundamental way.

There is no change in the policy framework to support the increase in demand on our organisation, which the government recognises. This is driving the white paper process where the government will examine the future role and shape of the Australian Defence Force. The government must make some very serious decisions about the level of investment we make in the current force, that is, today's force, and balance that off against a level of investment we make in the force of tomorrow.

The decisions our community and our government are about to make about the Australian Defence Force are critical because they will fundamentally impact on the nation's security over the next few decades. Limitations in our force structure will always put limits on the options available to government and its ability to respond to uncertainties in a military way. Our security challenges are becoming more complex and diverse. They require flexibility and adaptability as well as providing government with a range of military options to deploy as

necessary. As we have just seen in East Timor, there are sound professional war fighting capabilities that are fundamental to achieving success.

There is no doubt that white paper 2000 has to address an increasingly demanding strategic environment and that there are some fundamentally difficult choices to be made about military capabilities. Decisions such as these cannot be based on some short-sighted criteria. They must be firmly based on a very clear vision of Australia's future role and place in the world and, of course, the defence's place in Australia's future and the broader definition of security.

These and other issues are driving the white paper process where we will fundamentally examine the future role and shape of the Australian Defence Force. The outcomes of the discussion paper and the extensive consultative process that is envisaged will enable the government, with our considered advice and support, to make some very fundamental decisions. The aim is a professional, capable, properly resourced and viable Australian Defence Force, designed to meet the challenges of the next decade and beyond.

It will be important to ensure that our Defence Force is flexible and agile enough to be able to support a potentially broader range of government's objectives. In my view, this will require an ADF that demonstrates leadership and the ability to make decisions at every level throughout the organisation—an Australian Defence Force that develops and promotes the skills and talents of all its people, an Australian Defence Force that has well-developed and unique doctrine for its unique circumstances underpinning its operations and an Australian Defence Force that has well-developed, joint capabilities and a balanced force structure.

I will close by saying that, of course, we seek at every opportunity to improve our performance, to cut waste, increase safety and manage risk. But the profession of arms is an intrinsically dangerous profession. We must continue to remind ourselves that our Australian Defence Force has at its heart many exceptional young Australians who are willing to do extraordinary things to give the Australian people the security they deserve. In return, they deserve all our efforts, both from within the defence organisation and the wider Australian community, examine our security challenges closely and constructively and provide them with the best and most appropriate capabilities and organisation so they can continue their excellent operational work. They must do this for all our sakes. Thank you.

CHAIR—Thank you, Admiral Barrie. Do you wish to make an opening statement, Dr Hawke?

Dr Hawke—Yes, Mr Chairman. I guess, Chairman, you and your committee would be aware that since becoming Secretary to the Department of Defence in October last year, I have been undertaking a detailed review of the organisation and the way in which it works, in consultation with CDF. My speech in February this year was basically to set out what I saw as the major strengths and weaknesses of the organisation and to provide some signposts of what we would do to address the issues that had been raised. Since then, CDF and I have been putting in place quite a number of initiatives under a general title of organisational renewal.

That agenda comprehends major reforms that the Minister for Defence is pursuing, issues like governance and better decision making. The portfolio budget statement you are to consider at this hearing sets out in broad terms our key priorities for 2000-2001.

One of our priorities is to improve our working relationships with ministers, the parliamentary secretary, their private officers and other key stakeholders. This latter group obviously includes our accountability to the parliament, of which this committee is an important part.

I have stated elsewhere that Defence's finances are currently severely constrained and that we are challenged by a convergence of financial management, planning and strategic pressures. The range of capability and military response options that we will be able to provide to government depends on the outcome of the work that is under way on this front.

Some difficult decisions will inevitably have to be made. Defence planners have had over many years to make trade-offs between three competing requirements—operations, personnel and investment—within a global budget. These trade-offs and the associated risks that follow have become more and more difficult to make, and it would be fair to say that the 2000-2001 budget continues this. While it is adequate for our immediate needs, it represents a holding pattern while the longer term is addressed by the government.

CHAIR—Thank you, Dr Hawke. We will proceed to questions on the policy portfolio overview. Senator Hogg.

Senator HOGG—Thanks very much, Chair, and I must say it is a pleasure to have Dr Hawke and Admiral Barrie here this morning because it will enable us to traverse a number of issues that obviously interest myself and, I am sure, interest other members of this committee.

Seeing it is a rare occasion that we have new people before us, I have a very important question that I need to lead off with, which arose out of the last estimates. Dr Hawke, I hear they tried to tow your car away. Has that been repeated?

Dr Hawke—Not quite.

Senator HOGG—I think some officers were trying to give me a fudged answer last time!

Dr Hawke—The real story is that when I turned up there at whatever it was, about 7.15, on the first day and my outer office turned up a little bit later, one of the security people rang the office to say that some young bloke—I quite liked that bit—had parked his hoon car in the secretary's parking spot.

Senator HOGG—And did they try to tow it away?

Dr Hawke—No.

Senator HOGG—Did the CDF suffer the same thing?

Dr Hawke—Not that I am aware of.

Senator HOGG—I just wanted to clear that up and thought it was appropriate to do that right at the outset. Having said that, the real issue that I expressed concern with at the last supplementary additional estimates was that I did not believe there had been the openness that I would have expected from the officers of the Department of Defence at the additional estimates process early in February, given your statement that was a week later. That raises the whole issue of the relationship of the Department of Defence, its officers, with the various committees of this parliament, which I think you rightly alluded to in your opening statement. What sort of relationship do you see with committees such as this and other major committees that the Department of Defence deal with?

Dr Hawke—Senator, this is the fourth occasion on which I have been before a parliamentary committee in the short period that I have been Secretary to Defence. My view is basically that set out in the paper on accountability which the management advisory board issued in 1993. If you like, I will refer to a particular part of that:

Traditionally, the primary accountability obligation of public servants is to the government of the day. Ministers are accountable to the parliament for the exercise of ministerial authority, while public servants are accountable to ministers for the exercise of delegated authority, but these hierarchical relationships have now been complemented by public servants' duty to explain or justify their actions to

various review bodies and directly to parliamentary committees where the minister neither knew nor should have been expected to know. Thus, there is a continuum of accountability relationships between the electorate, the parliament, the government, and the public service.

Senator HOGG—Thank you for that information. What sort of relationship should there be then with the likes of this committee or with the joint foreign affairs, joint public accounts and public works committees to name a few? I am not trying to probe into secret Defence business—that side in which we all agree there is no room to move—but what sort of openers should there be with committees such as this?

Dr Hawke—My view is that we are here to answer the questions put to us by the parliament.

Senator HOGG—One of the difficulties my colleague Senator West alluded to the other day when we had a briefing from officers of the department, which we found informative indeed, is that the questions seem to be answered in a fairly narrow focus rather than trying to convey the picture built around the questions posed by myself and others, not only on this committee but on other committees as well. Whilst there is no public view put out by the committees, it would be fair to characterise the view that I have picked up from a number of people on a range of committees that Defence's name does not rate very highly in terms of the capacity of Defence to deliver answers that are intelligible to the committees and do not otherwise serve a very narrow focus that the officers of the department may well have.

Dr Hawke—If that continues to be the case in the future, you need simply to point that out to myself and the CDF and we will do our best to fix the problem.

Senator WEST—There is sometimes a problem when a very narrow interpretation is taken of the questions we ask. There is also sliding around on an answer if we have not given precisely the right name to something or we have not used precisely the right acronyms. I did have an example of that in another committee where, from an aside that I had made to one of my colleagues who has nothing to do with any defence committee, a group captain had dismissed his question. He came back to earth with a bit of a thud when I pointed out to him that under the DRP a certain base was up for possible sale in the mid-term. It is the pedantic interpretation of the question that, on occasions, can be most frustrating and most annoying.

Dr Hawke—I hope we will do better than that in the future.

Senator WEST—Thank you.

Senator HOGG—What view do you or the officers of your department have as to the role of these committees? Are they serving their purpose? Or are we an obstacle in the path of Defence?

Dr Hawke—Far be it for a mere public servant to comment on a parliamentary committee in that way. I would suggest that that is a matter for the committees and for the parliament itself. Our role is to come before you and to provide the information you seek, hoping that that will further the debate about defence and national security matters which concern the country.

Senator HOGG—How should officers of the department respond or react at committee hearings such as this or at other committee hearings?

Dr Hawke—I would hope that they would respond with the full information consistent with the question asked. I have had a concern that our responses have not always met the mark; nor have they always been as timely as what they might have been. We have attempted to do something a little more in terms of the timeliness of responses to ministerial questions to meet the desires of our two ministers and the parliamentary secretary.

But over and above that we have commenced a series of workshops for our top group of people which deal with what we might call quality in policy service and advice where we explore with them, over most of the day, these sorts of issues: what do we think good policy advice looks like; what are the characteristics that that embraces; what do the ministers—and here we are drawing on some research done into ministers of both political persuasions—expect; and how can we as an organisation improve the way in which we deliver that material to our ministers, the parliament secretary and the parliament. So we are conscious of the issue and we are actually trying to do something about it. Our expectation is that that series of workshops will be completed by the end of June.

Senator HOGG—Thank you. That is the parliamentary committee situation, but what about the relationship with the ANAO? If I could just add to my remarks so you know the direction I am coming from, in reading some of their reports one seems to see a bit of frustration with the Department of Defence from time to time. What sort of relationship should Defence have with the ANAO?

Dr Hawke—I am not sure it is a question of the relationship between us and the ANAO. I think it goes to something that perhaps might be a little more fundamental than that, and that is: to what extent can I, as the Chief Executive Officer responsible for these issues, be satisfied that ANAO reports have been considered and acted upon? I will tell you now that I have not been satisfied that we have had a proper process to do that, so we will be saying something more about this later in June, but in the meantime I have moved to reinvigorate our internal audit committee. It will be chaired in future by a retired public servant, a fellow by the name of Paul McGrath who has some experience in audit matters and as a chief executive officer in his own right. He will bring a more rigorous approach to what happens in terms of both the internal audit processes and, a particular concern of mine, making sure that we follow up on all of the audit recommendations to ensure that they are implemented or that we are satisfied about the reasons why the ANAO recommendations have been varied or not implemented and that we make that absolutely clear to the ANAO as well.

Senator HOGG—You do not feel, in the case of the ANAO and/or the committees of this parliament, that from time to time not everything that could be or should be laid before those particular groups is laid before them?

Dr Hawke—I thought I had already intimated that that is the case and that we are doing something about both of those.

Senator HOGG—In respect of that internal audit committee, when will it be convened?

Dr Hawke—Last week.

Senator HOGG—It has already been convened?

Dr Hawke—Yes.

Senator HOGG—Mr McGrath, I understand you said, will head that up?

Dr Hawke—Correct.

Senator HOGG—Who else will be on the internal audit committee?

Dr Williams—Perhaps I can answer that. We have a new independent chair, as the secretary has indicated. We also have the Vice Chief of the Defence Force, the head of our acquisition organisation and another external member at the moment from Pricewaterhouse. As well as that we have advisers who participate in the meeting, including myself from the financial side and our Inspector General and, depending on the item, there could be other people seconded.

Senator HOGG—And how often will it report and to whom will it report?

Dr Williams—At the moment the committee meets roughly monthly. It would depend a little bit on the time of the year. At the moment, given the financial end of year position and closing of accounts and hard closes, it is meeting slightly more often. It is certainly meeting monthly at the moment, but it may be a little less at other times of the year. The normal arrangement would be that, if there were matters of concern raised that the committee felt it could not deal with, it would report to the secretary as the chief executive and advise or suggest what action might be taken.

Dr Hawke—Might I add that from July we will be starting a more regular reporting from the chairman of that committee to the senior leadership group in the defence organisation.

Senator HOGG—And where will committees such as this see the results of that committee? Will they be transparent to us?

Dr Hawke—There is no reason why you cannot see what is happening against each of the ANAO recommendations and where we are at. I think that is entirely okay.

Senator HOGG—Thanks very much.

Senator SCHACHT—I follow on from Senator Hogg's comment about relationships with the parliament and with committees. Dr Hawke, do you have any comment about the value of the relationship between the Defence Department and, in particular, the subcommittee of the Joint Foreign Affairs, Defence and Trade Committee?

Dr Hawke—I think potentially it should be a very good relationship.

Senator SCHACHT—I have been on the committee both in government and in opposition. The comments I would raise do not go to partisanship because I have been on the committee on both sides of parliament and I do not think the relationship has changed. I do not think it has changed at all the way the Defence Department and the committees work together. It cuts across both governments. I am interested in whether there is any comment within the Defence Department that the relationship is a hindrance, or is valuable or that the committee itself and its enthusiasms are misdirected, or that you get back through that committee value for money in what the parliament is about?

Dr Hawke—The only comment I have heard is a feeling in defence that we need to do more to inform members of parliament about defence and what it does and how it does it, including what it does with its share of the budget that the government provides to it. I suppose the view would be that we need more forums such as that one in order to be able to inform them and to have debate about these matters of national importance.

Senator SCHACHT—Is there any feeling in defence that the committee does not carry enough weight itself within the parliamentary system?

Dr Hawke—Certainly not that I have heard of.

Senator SCHACHT—Is there any discussion in defence that you should have a completely free-standing committee of defence rather than being part of the Joint Foreign Affairs, Defence and Trade Committee?

Dr Hawke—Not during my time. It is not a bad idea though.

Senator SCHACHT—I will probably get hung by most of my colleagues because the one thing we do not want is another committee to have to be rostered to serve on, you might say.

Dr Hawke—The minister is just making the same observation.

Senator WEST—I do not think the Senate and the House of Representatives want to have to service and finance another committee.

Senator SCHACHT—I know. As the committee that I know the Defence Department sees as the one that gets invited to establishments, inspection tours, briefings, et cetera, do you think there is enough interest from the parliament on that committee about what defence is about?

Dr Hawke—I could not hazard a guess at that one.

Senator SCHACHT—One last thing I would raise on the structure of the committee, since I have been on it and, as I say, from both sides of politics—having been in government—is that at times we have been given in-confidence briefings, in-camera briefings, about various matters, but even within those in-camera briefings one feels that at times there are certain things, by policy, that are not to be discussed with the committee. There is one issue that is always about and that is the strategic area, the joint facilities operation, for example. Another committee's report is still awaiting a government response. Apart from the policy area of the joint facilities, is there any other area, even an in-camera briefing—generally, without giving the detail here because this is a public hearing—that you would feel constrained to report to that committee on?

Dr Hawke—There are some aspects of our intelligence relationships, I think, that we would be reluctant to talk about too openly.

Senator SCHACHT—We have had a clear debate through the Treaties Committee about the issue of Pine Gap which is before the government and I understand the committee would not want the nitty-gritty detail—I am not asking for that. But when you say intelligence, is that wider than just the relationship with the joint facilities?

Dr Hawke—It would not be the policy matters, I think, that would be of concern here. It would be operational matters, I think, we would be a bit reluctant to say too much about.

Senator SCHACHT—Has the Department of Defence got any institutional knowledge, memory or view about the operation of equivalent committees in the American Congress—a different parliamentary system to ours—which clearly have an overseeing role and do get in camera evidence and accept the responsibility of keeping those things secret and in confidence? As far as I am aware, there have never been, over the years I have been observing it, too many atrocities where someone in the Congress has deliberately broken those confidences. Does Defence have a view about how that works well in the American Congress?

Dr Hawke—I think that would be best put to the Chairman of the Defence Intelligence Board, Martin Brady, but I am not sure whether Martin is here. Hugh White may be able to help.

Senator SCHACHT—The ubiquitous Mr White. I should have realised!

Mr White—I guess the first point is that, as you sort of alluded to, there is a significant difference in the constitutional setting in which US Congressional committees operate in relation to the administration and the way in which parliamentary committees in our style of system relate to the executive. I think that does, if you like, provide the underpinnings for some of the differences in the way that those committees operate in relation to classified material.

It is a broad proposition. The approach that we have taken to issues like briefings on the joint facilities, other aspects of intelligence sensitivity and perhaps also a couple of other categories—some operational issues and some issues about capability—which I think pretty well covers the spectrum of things which are sensitive from the national security point of

view, has been very much determined by the framework of government policy, which is that on public occasions, of course, we should only discuss things at an unclassified level and that, in addressing what sorts of issues we should reveal in camera, we seek ministers' decisions on how far it would be appropriate to go. In doing that, we always do aim to go as far as we possibly can.

Senator SCHACHT—Which was not very far in the discussion before the Treaties Committee over the treaty on Pine Gap, you would have to admit. I do not blame you; that was policy. The transcript of your own evidence before that committee indicates that you could not go very far at all, other than to acknowledge you were present and there was a thing called Pine Gap and it was a joint facility.

Dr Hawke—I do not want to go back over old—

Senator Newman—This is covering old ground; it is not new.

Senator SCHACHT—Minister, I said that at the beginning.

Senator Newman—Yes, I know. I am only—

Senator SCHACHT—I said at the beginning that some of us on both sides of politics have an argument and I think Senator David MacGibbon had a similar view when in opposition and in government, and so do I. Mr White?

Mr White—I am not sure there is much to add, except to say that actually the record will show I said more about the roles and functions of Pine Gap at that in camera briefing than has ever been said before outside the department. It was a uniquely comprehensive briefing. It did not, however, brief you on the full roles and functions.

Senator SCHACHT—I raise the defence subcommittee of the joint committee, which takes responsibility for defence in particular, because there may be a range of big-ticket items coming up for the parliament to consider in capital equipment. In many of these cases, we take this on your word. You say, 'We need to have \$2 billion or \$3 billion for this equipment, but we can't tell you all the things it is going to do or not going to do. That is restricted. That is confidential.' I accept the fact that there are things that cannot be described publicly, but why can't they be described in an in camera hearing?

Dr Hawke—Are there matters in the portfolio budget statements that go to that issue?

Senator SCHACHT—For example, we have been spending money for some years on JORN over the horizon radar, which has things that for quite proper reasons I would not expect to be made public. But a parliamentary committee dedicated to defence issues may from time to time require an idea of what it is doing and whether we are getting value for money.

Dr Hawke—I have no problem whatsoever in providing such a briefing.

Senator SCHACHT—Where the committee asks for things, will each be taken by Defence on a case by case basis, or is there a list already of areas where you would provide information publicly, in camera and not at all?

Dr Hawke—Our preference would be to judge the request on its merits depending on the sensitivity of it.

Senator SCHACHT—Minister, do we have any idea when the government will respond to the treaties committee recommendations about the Pine Gap treaty?

Senator Newman—The expectation is within the next couple of months.

Senator FERGUSON—Questions have been asked of the relationship between the department and various committees in this parliament, not just this estimates committee. It

would be possible to get the view that some of the answers that have been given to the committees have not been as comprehensive as some senators might have wished. That can sometimes be an interpretation of the person that asked the question rather than a judgment on the quality of the answer. But the Department of Defence is required to respond to a lot of requests from a significant number of committees.

As Chair of the Joint Committee on Foreign Affairs, Defence and Trade, can I say that you have already contributed a considerable submission to the review of the Army inquiry. People have been made available upon request, and everybody that has possibly been asked to has always fronted that committee. You have given a comprehensive submission to the United Nations inquiry; your department appeared just recently in relation to that. So there is a considerable demand on your department by the parliament.

Senator Schacht asks whether the defence subcommittee should be a separate committee. If one were to look through parliamentary members and senators, only a certain number of people are interested in defence matters. A lot of them are interested in a lot of other matters, and it would appear that the defence subcommittee is a group of people who have a particular interest, who look for information and who understand some of the information that is conveyed to them because of their particular interest. Do you think sometimes that, because of the proliferation of committees and the number of inquiries that are currently under way, the increasing demand on your department to supply submissions to the parliament and its committees is becoming not necessarily a burden but an increasingly time consuming task?

Dr Hawke—Sure, there is a demand, but we take the simple, pragmatic view that that is part of the accountability process. We take that opportunity to try and inform the debate on whatever the issue is as much as we can.

I guess there is a bit of an irony in that, because we do try to treat these matters in a fairly comprehensive way, that very same thing militates against the timeliness of our responses on occasions. So it is getting the balance right and it is getting to the essence of whatever the issue or the question is that will need to preoccupy us a bit more than it has in the past.

Senator FERGUSON—Can I also say in response to that that the submissions that were received by those two committees in particular, the Army inquiry and the United Nations inquiry, were highly regarded by members on both sides of the parliament—and the people that presented themselves for giving oral evidence.

Dr Hawke—Thank you, Senator. That will certainly be well received.

Adm. Barrie—Could I respond to that, Mr Chairman. All the inquiries I think the committees have conducted are very important to the Defence Force. As I recognised in my opening statement, one of my concerns is how the community engages with the work of the Defence Force, and in that context I think the role and the work of committees is exceedingly important. Of course, for us, putting a high quality submission forward is a very important objective because we want the committees to be informed to the best extent possible in order to make the judgments which are good for all Australians. I think that is an important body of work. I would like to think that parliamentarians in turn would see it as an important body of work, too, and be eager to serve on those committees.

Senator HOGG—Before I get on to some set questions that I have, I want to pursue the issue of accountability. One of the things that I have done consistently on this committee since being a member of it is faithfully gone through the PBS as a means of looking at the accountability of Defence to this committee. Whilst you are accountable to the government—I understand the priority you mentioned before—nonetheless there have been difficulties in

my experience following the PBS to get the accountability that one could reasonably expect—not unreasonably expect but reasonably expect—out of Defence. I went back and I looked at the various PBSs. I went back to 1996-97 when there were eight programs on which Defence presented in the PBS, in 1997-98 there were 14 programs, and in 1998-99 it was the same as 1997-98 which was a real year for rejoicing because we actually had the same style two years in a row. In 1990-2000 we went to 22 outputs and we had at least the 14 groups repeated, and of course this year we have now gone to five.

My claim has been for readability of the PBS. One of the difficulties that is presented, now that we have gone to outputs, of course, is the fact that you need something, some benchmarks, to test the outputs against, and of course with Defence many of those are not there—and for good reason; I am not being critical. How does a committee such as this legislation committee ensure that, in testing the accountability of Defence, we can read them in a reasonable manner and interpret them in a reasonable manner, so that reasonable conclusions can be drawn from the reading of the PBS documents which you present to this parliament?

Dr Hawke—Senator, on this issue the Minister for Defence shares your concern. Indeed if you go back to some of the comments I made on 17 February you may recall that I spoke about the problem of the organisational structure not being aligned with the outputs that were there; nor was all that necessarily in line with the number of groups that we had. So what we will be endeavouring to do from 1 July is to bring those issues into alignment.

You mentioned the way in which the estimates have varied. I would have to say to you that I am still not satisfied that we have got it right for 2000-01, so our intention will be to work that through to try and get it into what, hopefully, will be a final form the following year where we will have genuine alignment between our organisational structure, our outputs and the way in which we operate our decision making and internal accountability and responsibility.

Just going on a little bit from that, of course part of that has been caused by the decision to move to an accrual based outcome budget structure, which has its own peculiarities. Hopefully, under the new structure, you will find what you will be looking for, where the suboutputs will actually be aligned with the force element groups of the services. For at least the Navy and the Air Force, you will be very clearly able to see what you are getting for the dollars against each of those suboutputs. We are still wrestling with how best to present the Army under this model. Of course, then there will be other aspects which will be under whatever the other outputs that we finally settle on are—the issues which are presently called policy advice and operations in the new system.

The Chief of the Army will be largely responsible for the Army capability. Underneath the Chief of the Army there will be a group of suboutputs. Perhaps I have got them wrong here; I should go to the Navy and the Air Force. Underneath the Chief of the Navy and the Chief of the Air Force there will be force element groups, and there will be identifiable individuals associated with those for what they are supposed to produce for the dollars that they are given.

Senator HOGG—The problem that has been there for a while, and more recently in the last two budgets, has been that the benchmarks against which you can test finally whether the output has been delivered are not there.

Dr Hawke—We accept that. That is why we are trying to move towards a system where it will be much easier for you to see what you do get. It is for the very reasons you are raising that we want to do that in order to accommodate what seems to me to be a fair point.

Senator HOGG—Okay, I will leave it there.

Senator WEST—For our benefit, can you outline what you set down as your priorities when you first arrived at Defence?

Dr Hawke—I suppose in essence you are going to what is my role as one of the coleaders of the organisation—coleader with the CDF. If you want to see how I draw the distinction between my role, the CDF's role and our joint role, I have set that out in a little paper called *The diarchy*, which I would be happy to give to you.

Senator WEST—Thank you.

Dr Hawke—In terms of my role, essentially I looked at this under three elements: the first one is what I call 'the key publics', the second one is called 'the plan' and the third one is called 'the people'. If we start with the key publics, this issue relates to what is the nature of our relationship with our ministers and the parliamentary secretary, and what is the nature of the relationship with anybody and everybody who can impact on the defence organisation. I specifically mention the ministers and the parliamentary secretary because, in my mind, they have two particular roles insofar as the defence organisation is concerned. The first one is notionally as the owner of the organisation. In that role I think they are interested in how Defence is going about improving itself as an organisation and how it is getting better at what it does. Its second role is essentially as a purchaser. They represent the government, which pays us a sum of money to purchase certain outputs. So they are interested in how well we are delivering against those outputs, what the value for money is, and what sort of performance criteria and evaluation we undertake, as Senator Hogg has raised.

The second issue concerns the planning processes to ensure that we have got a proper planning framework in place. I guess at the very top level the white paper will be the strategic plan for the defence organisation. But underlying that there must be some form of corporate plan, if you like, which sets out in a meaningful way for our people the purpose and future aspirations of our organisation and a set of common values that goes across the organisation. Underlying that again would be a business plan for each of the functional units. That, in turn, needs to translate into individual performance contracts, certainly for our most senior people but cascading down through the organisation. On the civilian side, I am fond of referring to this as 'the plan on the page'.

Senator HOGG—Could I just interrupt you there? Has none of this planning been there before your arrival? Or has it been there poorly?

Dr Hawke—Parts of it have been there, but I do not think the links have been made between this, and it has been done in variable ways in different parts of the organisation. So I think we need—

Senator HOGG—Has it been done in a disparate way?

Dr Hawke—Yes. We need to bring some consistency to bear on this issue. My understanding is that most people in the organisation think this is the way we should proceed. The last question, Senator West, was about the people and, in its simplest sense, I suppose that is about attracting, recruiting, developing and retaining people in the organisation. They are the three things that I have been focusing on—the key publics, the plan and the people.

Senator WEST—Right. I have not got time to read the diarchy paper. Maybe you would like to tell me what you see are the strengths and weaknesses of the diarchy.

Dr Hawke—The strengths of the diarchy are, firstly, that the CDF is the principal military adviser to the government of the day and he also commands the ADF. On my side, I suppose I

am responsible for issues relating to the Public Service Act and the Financial Management and Accountability Act. Essentially, I am the principal civilian adviser to the minister—something that has not changed since 1972. I am responsible for the efficient and effective administration of the department, managing defence resources, ensuring that corporate functions are provided in support of the ADF, and ensuring that all processes under my direction accord with statutory requirements.

I have to ensure that all departmental staff are responsible and accountable to the CDF for the responsibilities he exercises under the Defence Act, and the CDF has a similar responsibility. This reflects the responsiveness mechanisms that Sir Arthur Tange and the Utz review endorsed. As well as those responsibilities of the principal military adviser and exercising full command of the ADF, the CDF is responsible for ensuring that the services are capable of providing joint forces for military operations, ensuring that the ADF is efficient and effective, submitting proposals for promotion to one star and above after consultation with the service chiefs and me, and establishing effective relationships with the leadership of other armed forces.

We have joint responsibilities for the administration of the Defence Force, for strategic assessment, long-term capability planning that conforms to the government endorsed strategic assessment, providing intelligence, and effective liaison with other departments on national security matters. That is pretty much it in a nutshell.

Senator WEST—Yes, but I did not ask what the roles were; I asked what the strengths of the diarchy were.

Dr Hawke—They are the strengths.

Senator WEST—What about the weaknesses?

Dr Hawke—I am not aware of what the weaknesses might be. I have heard it claimed from time to time that you cannot have two people at the head of an organisation, but I think that fundamentally misunderstands the nature of defence organisations around the world. And, if you look, I think you will find variations on this theme in almost all of the countries that are akin to us.

Senator WEST—You do not see that having two leaders leads to possible duplication or overlapping?

Dr Hawke—No, I do not because of the separation of the roles. The CDF is principally responsible for those military functions that I outlined and I am principally responsible for the civilian and the resourcing side.

Adm. Barrie—If I could add to that, Senator, I use a metaphor for the diarchy which describes the benefits and strengths of a good marriage. I think both partners who work together achieve a synergy which is beyond the individual components. Of course, it has the weaknesses of a—

Senator WEST—Yes, but a third of marriages end up in divorce.

Dr Hawke—It has the weaknesses of—

Senator HOGG—Do you have a marriage guidance counsellor?

Senator WEST—I am interested in the weaknesses when you use that analogy.

Adm. Barrie—The weakness is pretty clear. If the two partners do not get on and are not synergistic then they go through the divorce process. My view is that the government should fire both.

Senator HOGG—And do you have a marriage counsellor?

Senator Newman—We have a minister for families. We are looking after them.

Senator HOGG—I am not talking about you, Minister—you are the last person that I am worried about there. I am saying that with the same connotation that you—

Adm. Barrie—There have been times inside the department, in my experience, when the two leaders did not get on. I would have to say from a personal perspective that I would not want to serve in a situation like that. I think it is important to see it in that way. It is the synergy that both bring to the table that is so important.

Senator HOGG—Could I go back to the additional estimates. We asked a question in respect of Mr Tonkin who had been replaced by Mr Corey in an acting position.

Senator WEST—No longer the real estate supremo.

Senator HOGG—I would not take that away from Mr Corey. Why was the committee not informed, when we asked questions about Mr Tonkin's employment status at the last estimates, that in fact he had not formally left the department but was on five years leave without pay?

Dr Hawke—I was not aware that the committee had asked.

Mr Corey—I was not aware that that question had been asked either.

Senator HOGG—The question about Mr Tonkin's status was asked. If not, who approved the leave for Mr Tonkin, and was the minister's approval sought for that?

Dr Hawke—I would have approved the leave for Mr Tonkin and, no, the minister's approval was not sought. Why should it be?

Senator HOGG—That is fine. Why was it considered reasonable for Mr Tonkin to be given leave without pay as opposed to resigning?

Dr Hawke—That is not unusual, Senator. I think there are lots of occasions where these sorts of things happen.

Senator SCHACHT—For five years? Is five years not an unusual length of time for someone to be—

Dr Hawke—Three to five years would be the norm.

Senator HOGG—Does this have any implications for the filling of the position?

Dr Hawke—No. The position will not survive in the form it was in when Mr Tonkin had it. If it had, there was no impediment to it being filled.

Senator WEST—Can you tell me how many other senior executive people or middle ranking executive people are on leave without pay from Defence?

Dr Hawke—I will have to take that on notice.

Senator SCHACHT—And the number of years it is for: three years, five years or one year.

Dr Hawke—That is fine.

Senator HOGG—What you are really suggesting is that the position will not be there for Mr Tonkin to come back to?

Dr Hawke—Not in the form that he left it. In the event that he did come back, we would endeavour to place him at level either inside or outside the department.

Senator SCHACHT—When he takes leave without pay for that period, does he continue to have access to his entitlements for Public Service superannuation and to paying into it from where he is now? Does he maintain his rights to superannuation?

Dr Hawke—There would be some sort of portability arrangements. If you wish, I will ask and provide you with a specific answer.

Senator SCHACHT—And also whether those rights extend to anybody else being able to take leave without pay.

Dr Hawke—Any public servants?

Senator SCHACHT—Yes, within Defence.

Dr Hawke—It would be whatever portability arrangements were involved with a state government, a statutory authority or government business enterprise et cetera.

Senator HOGG—Do you know if it was suggested to Mr Tonkin that he should look for alternative employment?

Dr Hawke—I am not sure I follow you.

Senator HOGG—What prompted Mr Tonkin to make up his mind to seek alternative employment?

Dr Hawke—I think it was fairly simple. It was a promotion and an opportunity to be in charge of a department in his own right. It was quite a substantive promotion. I think Mr Tonkin aspires to one day return to the Commonwealth and even, possibly, to be Secretary of the Department of Defence. He saw this as one step in his Public Service career towards that end.

Senator WEST—Are there guidelines that apply for the approval—

Dr Hawke—For leave without pay?

Senator WEST—Yes.

Dr Hawke—I think there probably are. We could get them for you. Yes, there are.

Senator SCHACHT—Did you have to approve it as head of the department?

Dr Hawke—I suspect at the moment I am approving all SES moves.

Senator SCHACHT—Is that a standard practice for whoever is head of the department?

Dr Hawke—It is a practice that I have been undertaking. It would not necessarily be the practice in other organisations; that is delegated.

Senator SCHACHT—In Defence, before your time would all SES people seeking to take leave without pay have to have had that leave approved by whoever the head of the department was?

Dr Hawke—I do not know the answer.

Mr Corey—The delegation would be held within the personnel area, probably at a first assistant secretary level. I will check that out for you.

Dr Hawke—One of the reasons I have re-centralised all this relates to an assessment of the SES people in the organisation and their future and in terms of the new organisation structure and where we might place people. I have taken a much more hands-on approach to that until we move to the new structure in July, when we will revert to a delegated structure whereby deputy secretaries and other people would normally make those decisions.

Senator SCHACHT—Was Mr Tonkin a deputy secretary?

Dr Hawke—Yes.

Senator SCHACHT—So, someone who might actually have a lower rank is going to authorise his leave?

Dr Hawke—He could not do his own.

Senator SCHACHT—No. A deputy secretary of an equal rank in another area whom he is not responsible to.

Dr Hawke—No, it would follow the chain of command. A deputy secretary would be responsible for branch and division heads in their area.

Senator SCHACHT—Does Mr Tonkin report to you direct?

Dr Hawke—Yes.

Senator SCHACHT—Aren't you his superior?

Dr Hawke—Yes.

Senator SCHACHT—In normal procedure, shouldn't the superior take responsibility for approving leave without pay of this consequence?

Dr Hawke—That is correct.

Senator SCHACHT—But on this occasion we are not sure whether Mr Tonkin got it from you this time?

Dr Hawke—He got it from me; there is no question about that.

Senator SCHACHT—But on previous occasions you could actually have had—

Dr Hawke—No, I was talking about the fact that all SES positions and people now must come to me.

Senator SCHACHT—Before that, that is not clear.

Dr Hawke—Before that it would have been a delegated authority.

Senator SCHACHT—Delegated to somebody who may be a first assistant secretary and who could be approving someone of a higher position in the department?

Dr Hawke—That is correct.

Senator SCHACHT—That is a bit odd, isn't it?

Dr Hawke—It could have been that case, and that would be normal in the human resources divisions for people to have that sort of function, where they look after the paperwork associated with the decision.

Senator SCHACHT—And the approval?

Dr Hawke—And the approval.

Senator SCHACHT—You are assuring us that Mr Tonkin in no way was given a hint that his future career prospects would be better served by looking around for a job as good as it is where he has now gone, which I understand to be the ACT government.

Dr Hawke—No. When I came, Mr Tonkin said he had served for a long time and very loyally in the Defence organisation and he felt it was time he looked for other opportunities. This one arose. He applied for it. He competed in open competition on merit and he won it.

Senator SCHACHT—Thank you. In the transition period before you became head of the department and since the minister made it clear publicly, in various ways, he was not happy with some administration of the department, have any other senior people—first assistant

secretary or deputy secretary—taken three or five years leave of absence to go somewhere else for a period?

Dr Hawke—I do not know the answer. The only one who has been dealt with during my time there is Mr Tonkin.

Senator SCHACHT—Can I ask you to take it on notice. To give it a time limit, in the 12 months prior to you becoming head of the department have any other senior staff at the SES level been given any period of time without pay to go somewhere else?

Dr Hawke—I am happy to do so.

Senator SCHACHT—Thank you.

Senator WEST—I understand Admiral Barrie has to leave at 11 a.m.

CHAIR—Could I just interrupt you, Senator West. Can I suggest that, in view of the fact that Admiral Barrie has to leave at 11 a.m., we will not take our break at 10.30 a.m.; we will go straight through till 11 a.m.

Senator WEST—That is fine.

Senator SCHACHT—Is he going to come back?

Senator WEST—No. That is why I was going to turn the questions to CDF. You are not going at 11 a.m., are you, Secretary?

Dr Hawke—Unless you allow me to!

Senator SCHACHT—We enjoy your company.

Senator WEST—We enjoy your company, Dr Hawke.

Senator SCHACHT—There is no leave without pay from here, I can assure you, Dr Hawke!

Senator WEST—CDF has leave with pay from 11.

Adm. Barrie—I wish.

Senator WEST—Can you outline what you see as the most significant weaknesses in the defence organisation at present?

Adm. Barrie—The most significant weakness I see cascading through the organisation is acceptance of responsibility and accountability for achieving assigned tasks. My own view is that the military culture, which over the years has been transported into the headquarters frame and which relies on autocratic leadership styles and management, is not conducive to good decision making at the top. That culture does need to be changed in the top ranks of the ADF, as well as in the civilian hierarchy. You cannot run an organisation like ours if people duck and weave their responsibilities and accountability. There is a significant intent to change that around. I am not, at one stroke, saying that everybody is guilty of this; it is just that I see too much of it from time to time. Funnily enough, it probably relates back to that earlier questioning we had about our performance in front of committees and other things. Sometimes I am as astonished as you are about our performance in front of committees for these sorts of reasons.

Senator WEST—Is that the only significant weakness?

Adm. Barrie—There are lots of other weaknesses, but I think that is the real focus. If you get that part of it right, then I think the rest follows.

Senator WEST—What measures do you think are required to overcome this?

Adm. Barrie—It is a significant culture change and it requires a leadership agenda which continues to emphasise it and to put those things into action. It requires an ongoing program, longer than one or two years. This is a serious culture change lasting five years or more. You have to continue to drive that perspective through the organisation. It takes a lot of determination and it entails a lot of frustration, too.

Senator HOGG—When you are talking of a culture change of that magnitude, does that not lead to morale problems within your organisation and, therefore, does management of the change become absolutely critical?

Adm. Barrie—It can be for some people. As with all significant culture change programs, the people who do not understand why the change is required or who do not want to sign up to those changes will find lots of reasons to be frustrated about it. On the other hand, of course, those people who are excited by the opportunities those changes give them and who are actually able to lead what I would call high performing or leading edge organisations of their own style get a lot of reward from it. It is quite exciting and challenging for people but, inevitably, there will be those who simply do not want to come with us.

Senator WEST—I am not reflecting on your leadership, but you talked about ducking and weaving of responsibility. I would have thought that other senior leaders would not have done this, or other people would not have done this, because that would have culled them out as not being good leaders if they were not able to grasp new concepts or had a desire to avoid responsibility, which is basically what you are talking about.

Adm. Barrie—I would agree with the hypothesis. It is a fact that there are people who do not understand those imperatives. I think putting an emphasis on it in the way we are is trying to build a much more robust and more effective organisation.

Senator WEST—How far down the chain of command does this go?

Adm. Barrie—When I am being quite revolutionary about this, it goes right down to the bottom of the organisation.

Senator WEST—How does it potentially impact upon the chain of command?

Adm. Barrie—My own philosophy would be that it should enhance and improve it. I think command is at all levels. They have to understand their own philosophy, what they stand for and what they think is right, and then be bold enough to make a stand where they think a stand is important. That does take a bit of intestinal fortitude from time to time, but I am quite encouraged by what I see.

Senator WEST—Earlier this year you were quoted in a newspaper talking about the missing third element of the ADF, a permanent peacekeeping force. Can you outline why you think the ADF needs this type of arrangement as opposed to doing it the way the East Timor operation is done?

Adm. Barrie—Senator, my first answer to that is, not everything I read about me in the newspapers is accurate. I would have to say that mostly what I read about me in the newspaper is totally inaccurate.

Senator WEST—That sounds familiar.

Adm. Barrie—I am sure I am no stranger in that regard. I am not an advocate of a permanent peacekeeping force. I have a very high regard for the ADF's professional capabilities. That professionalism comes from concentrating on the task that we really have a defence force to do, and that is for war fighting tasks. As I have watched peacekeeping operations unfold over the last few years, I would have to say that the really successful peace

operations are those which are conducted by professional war fighting forces. If you put people in peacekeeping roles who do not understand how to make military operations work, then in my view it is an invitation to disaster.

Senator SCHACHT—Can you give us an example of where that has occurred, where people without the operational skill—

Adm. Barrie—I would just simply say that Sierra Leone looks to me very much like that.

Senator SCHACHT—It looks like that because the people in charge of the peacekeeping do not have the authority or do not have the skill? I think there is a different issue, is there not?

Adm. Barrie—There are the two aspects. One, you have to have a clear sense of authority and the people who are charged with those authorities have to be able to get what they need to do the job. That is one set of aspects, and I think that perspective would be simply reinforced by General Sanderson or General Cosgrove or any of our people who have had that sort of experience. Secondly, you have to have reliable military forces. You cannot put people into a military uniform and give them a weapon and expect them to go off and do this task. It just does not work.

Senator SCHACHT—That in no way is a comment about the role that people like our Federal Police play initially, as in East Timor and elsewhere such as Cyprus. That is a different mandate and a different operation and by all accounts they, under a fair bit of pressure, did very, very well.

Adm. Barrie—We could have quite a long discussion. There is a very different sense of what policing is about and what we are about. We are about the controlled and very carefully managed application of force to achieve objectives. A policeman exercises his own personal right about circumstances involving the civil authority. My sense of it is that it is inappropriate for a military force to try and take on policing roles. It is inappropriate simply because our folk are not trained to do that; they will misunderstand it. Most good police spend quite a long time in their career learning about their trade, as much as we do. But we are about a very highly organised, highly structured controlled application of force; a policeman exercises personal responsibility to solve a situation in hand.

I think one of the very strong professional tenets we have in the ADF today is that we are not asked to do policing roles in our community. It gives us a good basis on which to do the sort of training we need to do. I contrast that with many other countries where they use their military forces to do what I call internal security roles.

Senator HOGG—A recent ANAO report on the RAAF's tactical fighter operations highlighted a significant dis-junction between the framing of military preparedness—that is, your CDF preparedness directives—and the manner in which the RAAF interprets and implements the CPDs in developing its own longer term goals for sustaining the capability. Do you accept that there is a problem with this?

Adm. Barrie—There are two aspects which I think are crucial in the whole issue of preparedness across the board. The first is that in terms of the systemic approach to preparedness we use, Australia leads the world in trying to put some definition around it. Secondly, that work is still in its infancy. One of the strong lessons I have learnt over the last two years is that we need a better understanding, on one hand, of what I call readiness and sustainment and, on the other, of how we need to resource that. At the moment, we do not have those linkages defined in any good way.

I have established what I call a preparedness task force this year to have a look at trying to develop a system which will allow us better control of the mechanisms. In terms of the long-term force structure, that sits outside preparedness in the sense that preparedness is all about the here and now. It is all about what the ADF can do today or what it might have to go and do tomorrow. The long-term force structure is all about the future investment profile or it is the capability you are going to have in five years time.

To go back to my opening statement, one of the serious challenges we have got is that, as that operational tempo goes up, more and more resources go into looking after the force in being, potentially coming out of our future investment, and that creates in five years time less capability than we have got today.

Senator HOGG—What about the situation that I just cited to you about the RAAF? There is a headline that reads ‘RAAF runs its own shop for FA18 operations’. What about that contrast?

Adm. Barrie—I could not speak for the Chief of Air Force, but I would be surprised about that. I do not think the Air Force runs its own shop on many things. The Air Force, like the rest of us, participates in process.

Senator HOGG—You spoke about a task force. Who is on the task force to develop the link?

Adm. Barrie—Air Vice Marshall Criss will head the task force. It will have a small staff. He was our air commander during last year and he has enormous operational experience. That task force is charged with delivering some answers by the end of this year on how our preparedness system should be managed.

Senator HOGG—So that will not necessarily link into anything in the white paper?

Adm. Barrie—I think it will. The management of our readiness and sustainment is what gives us an operational capability when we need it, so I think it has got very important white paper implications.

Senator HOGG—Right. So there could be two stages then. I understand we are expecting the white paper before the end of the year. Are we to see two separate reports coming out of this task force?

Adm. Barrie—I think the white paper will set a broad direction for the structure of defence over the next decade or so, and beyond. What the preparedness work is going to do is to systematise how you link resources to the readiness and sustainment equation. As I have just said, there is clearly an issue when you look at the budget overall about how much you put on the force in being for today and how much you invest in the future. And it is getting a much better understanding of that equation that will be fundamental to our future.

Senator HOGG—Thank you.

Senator WEST—In the CEDA speech on 7 March, you talked about the economic impact that Defence has on the Australian economy and particularly certain regional areas. Do you think that Defence does its best maximising the benefit of its expenditure in the Australian economy?

Adm. Barrie—I think that my concern here is that, in the public portrayal of defence spending, this is often seen as a big black hole. I read a lot of headlines about defence spending and let us say \$11 billion, and the presentation in the media is ‘this is a big black hole into which we simply pour \$11 billion of taxpayers’ money’. When you really look at it, nothing could be further from the truth. The real issue is that many Australian jobs and many

of our communities depend on a defence presence. I do not think that we have properly presented that information to our community in a way that they can come to terms with. So I am intent on making sure we truly understand the relevance of Defence in the various regions and cities around Australia.

Senator WEST—There are a lot of areas in the majority of regional Australia that have no defence presence.

Adm. Barrie—The scatter plot actually is quite illustrative of, I think, a presence in most parts of Australia—some of it quite small, but some of it quite large. When I last looked at it, I was quite surprised at where our presence actually is.

Senator WEST—When you say your presence, what do you mean?

Adm. Barrie—A presence can range from an army reserve drill hall to a much more significant manufacturing facility, support facility or a base. To take it at its broad terms, how much of the defence dollar comes into this particular part of Australia I was quite surprised at our presence.

Senator WEST—You talk about a scatter map —

Adm. Barrie—A scatter plot, little dots on a map that show you where they are.

Senator WEST—Is it possible to have a copy of that?

Adm. Barrie—Yes, certainly.

Senator WEST—I am wondering what is the value to a community of a small reserve depot or base?

Adm. Barrie—In its broader sense, it brings extra income into that community. People give up their time for reserve service. They do training in their various facilities and of course sometimes they pack their bags and go off. That income is generated in the community and has a community benefit.

Senator WEST—How do they generate benefit to that community? Their uniforms come from outside, their equipment comes from outside.

Adm. Barrie—The people who are on part-time service whom we are paying spend their money in that community. It is their choice of course, but nonetheless it still exists.

Senator WEST—There has been no calculations done on what the value is?

Adm. Barrie—There are some estimates.

Senator WEST—I would like those estimates please. What has brought this sudden discussion about this impact in regional and rural areas?

Adm. Barrie—Shortly after I took over as Chief of the Defence Force, I embarked on a program to make our community much more aware of what the Defence Force does and how it does its work. I would say to people that no one should have been surprised about East Timor; those indicators have been there for quite some time about flexibility, adaptability and professionalism. It is a real fact that our community has not taken much notice up until then.

These are the ways of getting on the front foot and saying to our community, there is a Defence presence and it is all over Australia; \$11 billion does not go down a black hole, it benefits our communities in a whole range of ways. I think the better the community understands that equation, the better support we will get for the Defence Force from our community. Defence is not an issue, in my view, for the Defence organisation alone. It is an issue for all Australians.

Senator WEST—Are the three services all up to scratch in maximising the opportunities to benefit Australian industry?

Adm. Barrie—That is a very difficult question to answer.

Senator WEST—You do analyse strengths and weaknesses within your organisation, and if you are conscious of getting out and making sure people know how the money is spent, where it is spent—we are talking about the Australian economy, industry and business. I am wanting to know if you are doing your strengths and weaknesses and analysing this. Are the three of them up to scratch? Or are one or two lagging behind? Is one doing better than the others?

Adm. Barrie—I think our organisation as a whole can do better in that regard. It is a very complex set of issues. Of course, there are variances as you go around Australia to the various places between the way local commanders and their units handle the approach to community affairs. I think it starts in this place. It starts with the sort of work that we do in front of committees and parliamentarians. It starts with the interest the parliamentarians show in us. It cascades its way all through our community. The more we engage with our community, then I think the more confident our Defence Force will be that they are doing the right job for Australia.

Senator WEST—You keep talking about the defence community and you keep giving me the impression you are talking about actual units and personnel on the ground. I did specifically mention industry, business and the economy. You have covered the economy one, but what about industry?

Adm. Barrie—I spend a lot of time with industry and I encourage everybody else to spend a lot of time with industry. As you will be aware, I was a member of the industry policy work that was delivered about 18 months ago. I regard the relationship between industry and the Australian Defence Force as being central to our ability to deliver capability.

Business also plays a role in that in the delivery of goods and services, but so do the families, the mums and dads, the people who support our Defence organisation—perhaps not so visibly but just as importantly. I think for too many years we have had a concept of a Defence organisation that has sat aside from the community doing something that nobody can talk about. The reality is we have to get our community involved with Defence at every possible level.

Senator WEST—There is no one service that is particularly good or particularly bad at maximising opportunities to benefit Australian industry?

Adm. Barrie—Each service is different. I would not say one is better than the other; I think they do it in different ways. If you wanted to generalise, I would say the Army has the biggest and most extensive presence throughout our community. It is the Army who has those drill halls in all the places around Australia. The Navy and Air Force tend to concentrate on the bases, doing their things in and around those bases.

Senator WEST—I suppose the Navy can operate only on the periphery of the country or the landmass, unless you are going to put somebody on Lake Burley Griffin. Dr Hawke, do you have any thoughts about the services and the department maximising the benefits to Australian industry?

Dr Hawke—I have thought about it in a couple of ways. The first is an initiative that CDF has taken through establishing a national support organisation to look at some of these aspects. The second one goes to what the Defence Acquisition Organisation and Support Command Australia should be on about in this regard. As you probably know, we have been

having a relook at those two organisations and how they might be best structured for the future and even how they should go about their business. That work is not yet completed, but my expectation is that we will finish that in the next two months. There is a particular area there under Dr Graham Kearns which looks specifically at the industry aspects.

Senator WEST—Are there any areas that are particularly good or bad?

Dr Hawke—I do not think I could comment on that. Dr Kearns might be able to. The one area that I suppose worries me a little is the ongoing criticisms about project management on the part of the Defence organisation. They do not seem to extend too much to whether or not private industry has done their bit or whether they have performed. The focus seems to be on inadequate program management from within Defence itself. The thing that would worry me about that is that, if that gets too tough, in future governments might decide that it is not worth buying things in Australia; it would be easier to buy off-the-shelf solutions from overseas, which would result in some degradation of the Defence industry.

Senator WEST—We might get back to that in more detail later. I am trying to get through things for Admiral Barrie.

Senator HOGG—During the dismissal of Mr Barratt, who was the former Secretary of Defence, he made a claim that the then minister had requested that he spy on you, Admiral. For what reasons I would not know. It was a claim made by Mr Barratt during his dismissal process. Do you know of anything of that claim?

Adm. Barrie—I do not, Senator. I have to say I would be surprised on two counts: first, I think Mr Barratt and I worked closely together; and, second, I enjoyed a good working relationship with the minister.

Senator HOGG—Can you advise the committee how you see the impact of the drawn-out process surrounding Mr Barratt on the Defence organisation itself?

Adm. Barrie—I think there was clearly the possibility that there would be morale problems and those sorts of outcomes inside the department. It was certainly true that Mr Barratt and I were the former diarchy and we worked closely together to implement a range of programs.

But the reality is, of course, that relationships between the minister and Mr Barratt are for those two people to know about. I certainly did not see any concerns there, nor was I aware of any interchanges. As far as we were concerned in the Defence Force, that was an issue for the two of them. It was not an issue for us. Our job was to get on with business as usual. I think I can say, without fear of any qualification, business as usual is what we did last year.

Senator HOGG—So it had no real impact on those surrounding you within the department, either yourself or the former secretary?

Adm. Barrie—In terms of our morale?

Senator HOGG—Yes.

Adm. Barrie—No.

Senator HOGG—I understand you recently had a trip to China. Can you tell us what the purpose of that trip was?

Adm. Barrie—I recently visited the Peoples Republic of China at the request of General Fu Quan You, who was the Chief of General Staff of the People's Liberation Army. It was a chiefs to chiefs visit. I had about seven days in the country in which I saw a range of Chinese units and had a range of discussions with the Chinese authorities. That trip followed on from a visit of General Fu to Australia in January 1999. I might say, from all aspects, we were quite

pleased at the access we obtained to the PLA and the range of discussions we were able to engage in.

Senator HOGG—Would you be able to provide us with a copy of the itinerary?

Adm. Barrie—Certainly.

Senator HOGG—Would you include who accompanied you, the cost and any specific outcomes that you believe came out of that particular visit.

Adm. Barrie—Certainly.

Senator HOGG—When can we expect to see the white paper?

Dr Hawke—The government has not given a specific timetable as to when it might release the white paper, but I think the expectation is certainly it would be before the end of this year. It may carry over into the early part of next year.

Senator HOGG—Do we know the format that the white paper will take?

Dr Hawke—No, the government has not decided yet on that matter.

Senator HOGG—When do you see a decision being taken on that matter?

Dr Hawke—My guess is that would occur probably around October.

Senator WEST—Are there two papers coming out? Is there the white paper and a discussion paper or is that all going out in the same process?

Dr Hawke—The government is presently considering whether or not they will release a public discussion paper to inform debate on the white paper.

Senator WEST—And that decision has not yet been made.

Senator HOGG—What will be the processes following the release of the white paper? Has that been determined yet?

Dr Hawke—I am not sure in what sense you mean. It will be a public document.

Senator HOGG—Right, but what will be the processes undertaken after its release? Have you got a specific consultation program?

Dr Hawke—No, we have not looked that far ahead yet. We have looked at specific issues in the run-up to the white paper but we have not actually thought a lot about what we do when we get to that. We would be doing so in the course of the next four or five months.

Senator HOGG—In putting together the white paper will Defence and the government be accepting submissions from organisations outside of Defence?

Dr Hawke—That will come about as a result of their decision on the public discussion paper.

Senator HOGG—Will Defence be looking to any particular individuals in the community—without naming them—to be part of the process?

Dr Hawke—That has not been decided yet. It is a possibility, but there has been no decision on that yet.

Senator WEST—How much work has been done on the white paper?

Dr Hawke—We have been doing what the government has required of us. Perhaps I can explain a little bit about what the national security committee have been doing. They have been looking at the strategic outlook as the basis for consideration of the white paper. They have been getting advice on what sort of military response options and capabilities we have now and what might be on the program for the future. They have been looking at the views

not just of Defence but of other organisations on these matters. They have been giving some consideration to the way ahead on the funding basis, including quite extensive and intensive work by the Department of Finance and Administration within Defence itself. They have had a significant group of people there for a period of over five months. There is now further work being undertaken by Defence and Finance people and those from other agencies, like the Treasury and Prime Minister and Cabinet, in terms of how we spend our budget at the moment and the likely options for the future. We have, of course, been doing some work towards a public discussion paper in the event that the government decides that that is the path it wishes to pursue.

Senator HOGG—You mentioned that there are people from DOFA there, as well as from Treasury and PM&C.

Dr Hawke—Yes.

Senator HOGG—Who is actually there from DOFA?

Dr Hawke—The DOFA people completed their work a month or so ago. They were led by one of the senior people from DOFA called Alastair Hodgson, and there were three or four others whose names I do not remember.

Senator HOGG—Are Treasury still there?

Dr Hawke—DOFA have completed their part of the work and there is a further group of people now, I think headed by Stephen Bartos from Finance.

Mr Williams—The original team was Alastair Hodgson and two staff—I think there may have been three staff including the support—who resided within Defence for some months to undertake an initial review. There is now a group of four representatives from the department of finance working with us in a joint team of about a dozen people—our own people plus this group. The senior person is at about the director level, but we do have a steering group to oversee the work, and that includes myself, the head of management and reporting in Defence and also Mr Jim Murphy, who is at division head level, from the department of finance. He participates in the meetings and the steering group activities.

Senator HOGG—I think Dr Hawke also indicated that there were Treasury and PM&C officials involved as well.

Dr Hawke—There has been some discussion with Treasury and PM&C in terms of the public discussion paper. I will get Hugh White to mention their involvement.

Mr White—We have established a mechanism called the white paper consultative group which draws together people at around my level from Defence, PM&C, Foreign Affairs and Trade, Treasury, Finance and ONA. That group is, in relation to the whole white paper processing, including the preparation—

Senator HOGG—Sorry, can you just go through this white paper consultative group?

Mr White—It comprises ourselves in Defence, Foreign Affairs and Trade, Prime Minister and Cabinet, Finance and Administration, Treasury and the Office of National Assessments.

Senator HOGG—At what levels are those various groups represented?

Mr White—It varies with the issue and the occasion, so to speak.

Senator HOGG—Are they all there all the time, or are they in and out of the group?

Mr White—No, this is a group which meets as required. Sometimes we have met a couple of times a week when the going has been hot; sometimes we have not met for three or even four weeks if it has been a quieter period. We have been going now since February. The

representation is usually, roughly speaking, at the deputy secretary or FAS level, but it varies according to the occasion and what issues we are discussing.

Senator HOGG—To whom will it report and when?

Mr White—It is a group rather than a committee—if I can risk sounding a little bureaucratic. What it does is provide an opportunity—

Senator WEST—What is the difference between a group and a committee?

Mr White—Just this: rather than having formal terms of reference and a mandate, it is a mechanism which allows us to keep other departments very closely informed and engaged in the preparation of the white paper and the discussion paper. Rather than doing things in its own name, so to speak, it provides us with an opportunity to talk about drafts, talk about processes, discuss approaches, coordinate briefings to ministers and all of that sort of thing. It is the coordinating mechanism which has facilitated the dialogue with government that the secretary referred to.

Senator HOGG—How long will that committee meet for?

Mr White—My expectation, and indeed hope, is that we will keep that in place until the white paper has been finalised and presented and, I guess, some implementation arrangements put in place.

Senator HOGG—Dr Hawke, can you give us some sort of time line when we can expect the unfolding of the processes in relation to the white paper and, if not, when can you give us a time line?

Dr Hawke—My expectation is the government will make a decision on the public discussion paper by the end of June and, if they decide that, my guess is the paper would be released not too long after that. There would be a period then, obviously, for public debate about that issue, and that would then be taken into account in formulating the white paper. My expectation is that that will be out by the end of the year, but the government has not made a firm decision on that date so it would not surprise me if it slipped over into early next year. I certainly think it will be all wrapped up next financial year.

Senator HOGG—Will the white paper impact significantly on the additional estimates statement, in your view?

Dr Hawke—I cannot tell you that because I do not know what is in the government's mind.

Senator HOGG—On current funding levels can the ADF maintain all its current capabilities and current operation tempo?

Dr Hawke—No.

Senator HOGG—I think you have clearly espoused that in a paper I have read recently. How long, then, can we maintain the current operations at the current tempo?

Dr Hawke—That is why it is so fundamental to have these decisions in the forthcoming financial year.

Senator WEST—How long before we cease to be able to maintain our current operation tempo? You say we cannot maintain it. We can maintain it until tomorrow, or six months or 12 months?

Dr Hawke—The difficult issue here is, of course, the trade-off between the three major components of the Defence global budget—that is, operations, the investment area and personnel. So there are always judgments to be made and risk trade-offs between those things.

I guess the point that I have been making is that all of these things have come together now, the crunch is now and we need a decision within the next 12 months so that we can do what it is the government requires of us. Our job is to do the best we can within the dollars that the government gives us consistent with their decision on the strategic outlook and, I think in this case, maybe even the force structure that they desire for the future defence force.

Senator HOGG—I note in your paper which was recently released entitled ‘Money matters’, based on an address to the Royal United Services Institute of Victoria for Defence Studies on 27 April, you refer to the defence budget as overstretched.

Dr Hawke—Yes.

Senator HOGG—You also refer to the pressure on the ability to deliver projects et cetera. What are the things that are going to relieve some of the existing pressures that are there?

Dr Hawke—There is nothing on the horizon that is going to release those pressures. I think I said in my opening statement that we can get by with the budget that the government has delivered for the next financial year but, beyond that, if there is no change in the forward estimates, we would have to take some serious decisions about every aspect of the defence budget—personnel, capital investment and operations.

Senator HOGG—I think you described in that paper the convergence of the three. I think ‘convergence’ is the very word you used in your opening statement.

Dr Hawke—Yes, that is true.

Senator HOGG—How quickly and how rapidly is that convergence coming upon us?

Dr Hawke—I think it is here. That is the point I have been trying to get out. In fact, that is the reason I put this paper together—to try to explain to people within defence as well as outside that we are at what I call crunch time. There could be no better time for the government to be examining defence in terms of a new white paper and a new way ahead.

Senator HOGG—How would you characterise the response to the statements that you have been making, whether it be in the due diligence statement or the ‘Money matters’ paper or the diarchy statement?

Dr Hawke—Most of the due diligence issues lie within the remit of the CDF and me, with the guidance or approval of the minister in certain matters. The financial issues that are set out in that ‘Money matters’ paper will be considered in devising the new white paper and the approach that goes with that.

Senator HOGG—I accept that. What has been the broader response in the defence community?

Dr Hawke—From within defence?

Senator HOGG—In the broader defence community and also within the department itself.

Dr Hawke—I think overwhelming acceptance would be the way I would put it. Perhaps I should add that they are not simply my views. These are the views that I have collected as a result of discussions with people within and outside the defence organisation. So they do not simply reflect my views, although these are my views. There are many people in senior positions throughout the defence organisation who think the same way.

Senator HOGG—How important to us is it to maintain a military technological superiority into the future, and do we have the capacity to do so?

Dr Hawke—I guess that is part of the judgment the government will make. With a small defence force, obviously we rely on issues like technology to give us an edge.

Senator HOGG—Given the extreme costs that seem to be associated with the technological warfare that is out there and given the convergence that you see us in now—putting aside what might be in the white paper for the moment, and I am not saying that in a discouraging way—are we going to be in the position to compete by having superiority in the technological areas?

Dr Hawke—I think the answer is yes. I think I summed it up on page 12 of the ‘Money matters’ paper by saying, ‘The aim is a professional, capable, properly resourced and viable ADF to meet the challenges of the next decade and beyond.’ I was responding to the fact that the Prime Minister was committed to increased defence spending. I went on to make this point, ‘We should not mistake that as simply a commitment to a fixed percentage of GDP—such a linkage would have no underlying capabilities, nor does it signal a round of cost cutting to fit a predetermined budget envelope.’ That is my understanding of the way in which the government is approaching this issue.

Senator HOGG—You also say on page 12 that there is a direct correlation between capability and funding levels.

Dr Hawke—I do.

Senator HOGG—In effect, you get pretty much what you pay for.

Dr Hawke—Yes.

Senator HOGG—That is why I raise this issue about the technology. It seems to me that as time goes on the technology is getting more and more sophisticated.

Senator Newman—And more expensive.

Senator HOGG—And more expensive.

Dr Hawke—That is true, and that is why the government will be considering in pretty much an iterative way what sort of capabilities, what sort of force structure, how much would that cost, and what sort of trade-offs they would like to make among those within the context of the white paper itself. From a defence organisation, I do not think you can ask anything more of a government than that they do that, and tell us their decisions.

Senator HOGG—Can I just take you back to page 10 of that particular document. You say:

Anyone who thinks Defence is going to receive a quantum jump in funding sufficient to overcome this set of tidal waves probably lives in cloud cuckoo land.

Dr Hawke—Correct. If you took the worst-case scenario that I have outlined there which, on some guesses, would mean that you would have to double the size of the present defence budget, to think we would get 3.6 per cent of GDP, I think is just not thinkable—not doable.

Senator HOGG—You then go on to say:

Every part of the Australian Defence Organisation will have to contribute to the hurt involved in meeting this requirement.

What sort of hurt do you envisage?

Dr Hawke—There are ways you can look at this. We will have less numbers of platforms. We may have fewer platforms than we have had in the past. We may have a different number of personnel. We may change the level of readiness in the organisation. We will want to pursue further efficiencies within the organisation. There is a whole range of things that will need to be done to accommodate this issue. It is not a matter of simply doubling the amount of money we get as a share of GDP to solve the problems that we have.

Senator HOGG—When you say ‘there will be hurt involved’, it implies a fair degree of internal difficulty within the department itself, in the broadest sense. Some would argue that there has been enough pain inflicted by way of the Defence Reform Program. Rightly or wrongly, that is their argument. What do you think is the capacity of defence to sustain ongoing change—I think you refer to it in your due diligence statement—change for change’s sake? There has been so much change, people are fatigued by the amount of change that has taken place. How much more can be sustained without severely inflicting some damage upon the morale in the defence forces?

Dr Hawke—I do not think change is an issue that is solely a preserve of the defence organisation. Change affects almost every organisation in the public and private sectors in Australia and globally. Our job is to basically implement the decisions of the government of the day, and it is on some aspects of that execution where we have not been as good as we might have in the past. I do not think the defence organisation, by any means, has reached a point where it will not undergo further change. Change is the constant. That is like death and taxes; this is the third link of that troika. You can be assured that we will undergo continuing change. What we have got to do is make sure it is change that is consistent with the decisions that the government makes about our policy, our platforms, our level of readiness and the like.

CHAIR—I understand we have two short questions before we break. Are you right Admiral Barrie?

Adm. Barrie—Yes.

Senator WEST—I want to refer to an article that appeared in the *Canberra Times* on 17 May written by Lincoln Wright entitled ‘Defence: abolish civilian control’. I presume you have seen it. How accurate is it?

Adm. Barrie—I think there is a range of arguments going on fuelled by this view of Lieutenant Colonel James that somehow the bureaucracy has got control of the defence department. I have to say I disagree fundamentally with that. I think we operate in Australia an integrated public service military headquarters; I think it works exceedingly well. The civilian control of the military, as far as I am concerned, the responsibilities I bear to the minister and to the government and the parliament and the community. This is not about bureaucrats doing that job, it is a proper accountability chain. I think it has existed for a long time and it has always been there.

Senator WEST—So you do not agree with its conclusions?

Adm. Barrie—No.

Senator WEST—But it does say that it was a discussion paper approved by both yourself and the secretary. Is that correct?

Adm. Barrie—We saw the discussion paper.

Senator WEST—You saw the discussion paper, but it was not an approved one?

Adm. Barrie—No.

Dr Hawke—For my part, I did not approve it either but my view was, if he has a view, he is entitled to put that view without it being censored by me. I do not agree with the view he has put and I do not agree with some of the claims he makes in the paper.

Senator WEST—So you do not think that the role for civilians should be limited to just finance and administration?

Adm. Barrie—No, I do not. I believe quite strongly in this. Funnily enough, in other forums it is an issue we have had quite a robust discussion about—the involvement of

civilians in a defence bureaucracy. I think my civilian colleagues bring an enormous breadth of experience and knowledge to the equation. They are not experts in military operations per se, but they perform a very valuable function in keeping us on the straight and narrow and making sure that when we use our armed forces in the interests of Australia, we do it on a basis that is thoroughly thought through and without question about why we are there.

Senator WEST—So you do not think there are any areas that service personnel should not be involved in?

Adm. Barrie—That service personnel should not be involved in?

Senator WEST—Do you think there are areas that service personnel should not be involved in?

Adm. Barrie—Absolutely. What makes people who serve in the military unique in our society is that we are the only people authorised to use armed force in our country's interests. There is a whole range of things we do in the defence organisation which actually are not associated with that particular principle. So my perspective is, wherever we employ military people in jobs which do not require the use of armed force in our country's interests, we ought to question why they are doing it. Military people are a very expensive resource. We give them all sorts of benefits and look after them in all sorts of very particular ways, so wherever we are using military people in jobs that are not associated with delivering armed force in our country's interest, it is a serious question for us to ask: why are they there?

Senator WEST—Are these types of issues going to be dealt with in the white paper? Will this be canvassed at all?

Dr Hawke—It is an ongoing issue. I think I said in one of my papers, CDF and I are interested in how we get the best value for money. We intend to continue to look at areas in the support base while being conscious of the need for ship-shore ratios in Navy and allied issues relating to Air Force. We need to look at whether we can either civilianise those support areas, or contract them out and get savings that we can reinvest in higher priority areas mainly at the combat end of the defence organisation. It is an ongoing program.

Senator WEST—He talks about the need for 'removal of "any hint of formal and informal civilian bureaucratic influence from the promotion of service officers."'

Dr Hawke—Yes, it would be interesting to get him here and ask him what he means by that and a number of other issues that he has raised.

Adm. Barrie—I think that is a serious misunderstanding. Frankly, what this is about is putting the right people with the right skills in the right jobs. I can see a range of skills and talents in the military force which are applicable across a number of positions within the organisation, and similarly I see skills and talents in my civilian colleagues. I think, for us at the top of the organisation, what we have got to be intent on doing is getting the right people into the right jobs and having a succession plan that works.

CHAIR—We will take a break now and reconvene at 20 minutes past 11. Thank you Admiral Barrie. It has been a pleasure having you here.

Proceedings suspended from 11.05 a.m. to 11.25 a.m.

Senator HOGG—Now that CDF has gone, I will return to the specific questions for Dr Hawke. I refer you to your due diligence statement in February this year. You noted that there was widespread dissatisfaction with Defence. Could you be more specific as to the nature of the dissatisfaction and who is dissatisfied?

Dr Hawke—It was basically the performance of Defence in Canberra that I was referring to there. It was essentially the nature of the interaction between the defence organisation, the ministers, the parliamentary secretary, and the government and central agencies. But I would go wider than that; I would say there was also some dissatisfaction on the part of the parliament in terms of our performance in front of its various committees. I was getting feedback from various committees that they were not satisfied that we were doing the right thing—much along the lines of some of your earlier comments and questions.

Senator HOGG—You have taken steps now to rectify that?

Dr Hawke—We are on the way to doing something about those. I would not say we are there.

Senator HOGG—What sort of time frame do you have in mind for restoring confidence in the broad Department of Defence, as opposed to our forces? I think everyone has been absolutely overwhelmed by the capacity of our forces and their ability shown in INTERFET and other forums and other areas where they have operated.

Dr Hawke—I would have thought that within the next 12 months we should be basically much better at doing what we should be doing. The next step in the process will probably be on 23 June. That is a recall day of the top 200 or so people in the defence organisation who were present at the retreat we had in Wollongong on February 27, 28 and 29. At that retreat, CDF and I, in response to some of the issues, undertook to do various things, then to call them back together and report what we had done about those issues and lay out the way ahead. So that will be 23 June here in Canberra.

Senator HOGG—A big day. I note in the PBS something unusual. It says:

Improved performance over the whole spectrum of our activities is fundamental to restoring confidence in the Defence organisation.

In the times that I have been reading the PBS, that is the first time I have seen that sort of admission by Defence itself. Do you think that, therefore, there is a good starting point from which Defence now has to build? Do the officers, regardless of yourself and CDF, have the will and the capacity to restore that confidence that they think has otherwise been destroyed?

Dr Hawke—I think you have hit the nail right on the head. I think the people within the organisation want to do this. There is a will to do it. I think we have the core of people who can do it. My expectation is that, when we are in front of you at this time next year, hopefully you will have a much better view about that. It goes not only to the presentation of our portfolio budget statements but also to issues about what are we doing within each of the suboutputs—what does that buy and have we delivered that? Did we fall short and what is to happen in that area in the future? So it goes to some better evaluation, both internally and externally.

Senator HOGG—In the due diligence statement you made some criticism of the two-year posting cycle.

Dr Hawke—Yes.

Senator HOGG—Whilst I will be pursuing that later with General Dunn, I would like to know what you think about the two-year posting cycle and how significant it is in Defence's problems.

Dr Hawke—I do not think I am the only one who has this view. Indeed, the government specifically recognised it not so long ago when it changed the basis of appointment of the senior echelon. You will have noticed that some of the new appointments were given three years. The new Vice- Chief of the Defence Force designate, General Mueller, will have a

three-year appointment; General Cosgrove will have a three-year appointment. Air Marshal McCormack's term was extended by a little more than 12 months right up to the date of his age retirement. CDF got a second two-year appointment, which is what he had sought. He asked for four years to do his bit of the job. So that sort of stability should flow down through the organisation.

General Dunn has been overseeing some quite nice work in two areas that you might like to talk to him about later. The first is on the recruiting side and the second one goes to the posting turbulence issue itself. I think he has been doing some groundbreaking work over what is behind those issues and what we can do to address them. General Dunn is reporting on that work to the Chiefs of Staff Committee, which comprises the CDF vice-chief, the three service chiefs and me. We are making sure that the work is progressing in a timely way and addressing the issues of concern to the uniform side.

Senator WEST—That is a fabulous review. That will be the first review of posting schedules and cycles since Hamilton and Cross, would it?

Dr Hawke—I think that is right, Senator, but General Dunn would be better placed to advise you on that when he is here.

Senator HOGG—I have just one other question in respect of the due diligence report. You say:

The current state of Defence's financial situation against the Forward Estimates might best be described as parlous.

Are we still in the parlous state?

Dr Hawke—That was the theme of that later paper called 'Money matters', which I think you have a copy of. I sought to expand on what I meant by that and explain the way in which Defence has come to the situation it has got into over the last 15 or maybe 20 years. We have now reached crunch point and this issue will now be dealt with in the context of the white paper.

Senator HOGG—I think you also made reference to the fact that neither the government nor the minister were apprised of the situation. Is that correct?

Dr Hawke—I think the minister and the government do understand this.

Senator HOGG—No. In your statement, you say:

The state of Defence's financial situation may well come as a shock to you, just as it has to the Minister and the Government.

Dr Hawke—That is true, but I did not mean that in terms of the paper that I had provided there. I meant that over the course of the period they had been in government they had come to appreciate just how badly off Defence was. It was in that context. Perhaps I should have been a bit more explicit about that issue.

Senator HOGG—It just seemed a strange statement to me that neither the minister nor the government were apprised.

Dr Hawke—No, I meant to convey that latter point.

Senator WEST—At the last hearing, Dr Williams indicated that the review by 'Do FA'—to quote Senator Hogg's favourite phraseology—of Defence finances was still continuing. Can you give us an update as to exactly where they are and when the review is likely to be completed?

Dr Hawke—I will ask Dr Williams to take that one, Senator.

Dr Williams—I suspect the reference you are making is to the current review between Defence and Department of Finance and Administration to which we alluded earlier in terms of giving the composition. The intention is that the review would be completed in time for consideration by the secretary of finance and, ultimately, by government around the middle of the year.

Senator WEST—So that is when you expect an interim report?

Dr Williams—The report will go to the secretary in the first instance. We would hope it would be available within about a month from now. From there it would be progressed, subject to the secretary's views, to government. The July time frame would probably be the earliest we would be looking at government consideration.

Senator WEST—So that is the final report?

Dr Hawke—It may not be. This will be a report on where we have got to. It would not be beyond the government to ask for further work to be done, either in general or against specific issues that arise in the context of that. Perhaps I could give you an illustration of that. There is some debate about whether or not Defence would be well-served in the future by maintaining a global budget. It may be that the appropriation would be split into a number of components rather than the single-line global budget approach that has been there for quite some time.

Senator WEST—How is that going to be taken into account with accrual accounting and these rotten PBSs that keep changing all the time?

Dr Hawke—Obviously, we will be working with the Department of Finance and Administration on the implications of moving away from that system. We do not do that set of accounts off our own bat. DOFA has an ongoing role in relation to how they are presented.

Senator WEST—So we could yet see, with DOFA's approval, variations to this again?

Dr Hawke—I would hope it would be more along the lines of what I was illustrating earlier, that we will bring into alignment the organisational structure, the outputs and the suboutputs, so that we have an accountability and responsibility chain that is clear. If we were to change the way in which our appropriations were done, I suspect that we would still be able to present our statements in the form that they are now. It is just a different method of appropriating the money to the defence organisation.

Senator HOGG—I will go back to the due diligence report. At page 3, under 'Performance and the Budget', you say:

The Auditor-General and his senior staff have left me in no doubt that Defence's financial statements are at risk of being qualified next year in relation to the valuation of Defence assets.

Is that still the situation?

Dr Hawke—It is specifically related to the issue of assets and the way in which we were accounting for them. I will ask Dr Williams to respond.

Dr Williams—Among the financial statements for the end of the last financial year, there were a number of category A findings raised by the ANAO. In the end, they were not sufficient to qualify our statements, but they certainly expressed concern. The sorts of items were, as one example, in relation to our assets, that we had been valuing our major assets and estimating a life on which we determined the depreciation. ANAO believed that it was a more accurate method to componentise the assets—in other words, you break up a ship into its basic platform, its combat system et cetera—and to value and life each of those independently. The logic behind that was that the combat system would have a different life from the basic platform. We have done a lot of work on that. We have now identified an

ability to do some of that componentisation for a number of assets. We are hopeful that that will be reflected in a close of our financial systems that we are planning at the end of this month, almost as we speak, and that will then be reflected in the end of year statements. Another area of concern—

Senator HOGG—Could I just stop you there? So that will overcome the statement that was made by Dr Hawke in respect of being at risk next year?

Dr Williams—Yes, in relation to that particular item. I think we are at a stage where the ANAO are reasonably comfortable with progress on that. It will be an ongoing process, as you can imagine, to go through the entire asset base. We are working closely with the auditors and I think there is a view that that is working. There are other areas they raised in relation to our inventory where, with the move to accrual accounting, we have better visibility of our inventory and we are starting to identify some of the shortfalls in our information systems. That is one of the reasons for an injection of funding in this budget to address that. The result is that we have identified a reasonably large value of obsolete stock. The auditor's view is that we ought to be taking action to address that to remove the obsolete stock. There is an issue obviously of value for money in terms of the cost of removing it. We are making progress but that is probably a longer term issue.

Our objective at this stage is to ensure we pick up all those issues, as much as could be done in the time frame. I think that, in working with the auditors now, they are, at least at this stage, reasonably comfortable with progress, but we still have a fair bit of work between now and the end of June to make sure we pick up on those matters.

Dr Hawke—May I just add a little bit of context to that, Senator? I sought a meeting with the Auditor-General and his officers to get a bit of a feel for issues in Defence and their perceptions about the organisation. It was in that context of course that they raised this particular issue. But it is also as a result of that that we moved to make some changes to the way in which we undertake our audit function and oversee each of the ANAO recommendations.

Senator HOGG—The other day I did receive a progress report on where you people are at with your ANAO review. I have some questions on some of those ANAO reports later on.

Dr Hawke—Okay.

Senator HOGG—You also highlighted that one of the problems that has caused the current unpalatable situation was the dramatic increase in the new investments since the 1996-97 financial year. I think it has gone from 160 in 1991 to 240 today. Have you received a reasonable explanation for what caused this to happen?

Dr Hawke—I have. I am just searching where I made a comment about this. Essentially what happened was that one of the issues of the defence efficiency review was to reduce the ADF to 42,700. There was a further decision that the government would leave it at 50,000. The defence efficiency review was intended to provide some money in the investment program. The defence efficiency review/defence reform program savings would go back into investment. The \$7 billion approved in 1997-98 was considered reasonable at the time when viewed against investment funding expectations and the relatively low levels of commitment which had been planned or achieved in other years over the period 1996-2000.

What essentially happened was that, with the rising real costs of personnel, it became almost inevitable that personnel costs would effectively absorb the bulk of the DRP savings to cater for that 50,000 decision. That in turn had to be at the expense of investment. That is what happened. Each of the decisions in isolation were probably viable. But, taken together and coincident with the increased readiness of forces that the government wisely directed ahead of East Timor, it was again funded from DRP savings, but again at the expense of

investment in future capability. So it was the conjunction of that series of events which got us into a bit of trouble.

Senator HOGG—Should that conjunction have at least been in some way anticipated? It seems to me that, when you are dealing with a department such as Defence and you are not necessarily dealing in the short term, you are dealing in the longer term, one would expect that there is an innate capacity to look more into the longer term than the shorter term.

Dr Hawke—That is a difficult issue for me. I was not there at the time.

Senator HOGG—I accept that.

Dr Hawke—It is always easy to be wise in retrospect. So I find it very difficult to answer the question. I did ask about this, of course, at some length.

Senator HOGG—What was the response that you got?

Dr Hawke—Just as I said to you: those decisions were taken at the time and seemed reasonable at the time. But when they all came to fruition, it turns out that perhaps we should have done it a bit differently.

Senator HOGG—Do you think the minister would have been well informed as to the implications of each of those—

Dr Hawke—I think you would have to go back and ask Minister McLachlan about that issue.

Senator HOGG—Would there be other officers from the defence department here who would be able to shed some light on that issue as to whether or not the minister—

Dr Hawke—On the individual issues? As I understand it, the 50,000 decision was taken by Minister McLachlan based on advice by the then CDF. With respect to the decisions on the investment program, I am sure that there will be one or two people here who could say that they put forward the program within the then expected financial guidance which was the specific intent of the efficiency review and the defence review program.

Dr Williams—I can perhaps make a comment as I have been in and out of the process over the period in question. I am not aware of the minister's particular position on the issue. The point is that with the investment program, it is not a smooth process of every year approving the same amount of money. If you have a large project like the airborne early warning aircraft, for example, you will have one year with a very large investment. So it is a matter of trying to manage that. To do that, you need to make judgments about how much money is likely to be available some three years out. Whilst we have forward estimates projections, you cannot entirely be sure of the level of funding. You certainly could not foresee some of the things like Timor arising, and there were some hundreds of millions pulled off for that, for example. The real issue is that, if you have a major project, from the point at which you approve it, there is a gap of usually a couple of years or so before you start to spend an appreciable amount. So the decision which locks you in is well ahead of the spend. Your question, I suppose, is: could we have foreseen the position three years out? In part, with some of the personnel decisions—and I think the issue we are now looking at is whether the 50,000 force is sustainable, for example—yes, we can look at some of those things as we go. Timor and other unexpected matters—Y2K costs and those sorts of things—are not necessarily predictable the few years ahead that you would need.

Senator HOGG—I recall when the DER, which then became the DRP, was first introduced. There was great enthusiasm for the savings that were to be made; the reinvestments that were to be made out of the savings. I noted in your paper, Dr Hawke, on

‘Money matters’—and you have alluded to it today—that 60 per cent of the DRP savings have now gone back into personnel, in effect, which would not have been envisaged under any circumstances, I should imagine, when the DRP was first introduced.

Dr Hawke—I think that is correct.

Senator HOGG—If I read between the lines, or I read it somewhere else in what you were saying, it seems to me that that is going to continue to escalate unless you take steps to stop it. Is that correct?

Dr Hawke—That is correct. The costs of personnel will continue to increase. We get funded from the budget a certain amount; I think it is about 1.5 per cent—the net safety adjustment. But the costs of personnel are presently rising at about four per cent per year, which means that the 2.5 per cent difference has to be found from within the global budget. I went on to say that this does not, in my view, reflect that we are paying our people too much. Indeed, some would argue that we are not matching market rates—that that is one of the reasons for wastage—and we have particular problems in some areas, like submariners, pilots and the like.

Senator HOGG—Just in general terms, how are the cost increases that you see there going to be affected if we go to a smarter, more technologically driven Defence Force? The cost pressures will be even greater than they are now—and I am not saying that disparagingly to those who are in the Defence Force now.

Dr Hawke—I agree. If we move further into the high-tech end then we need to pay an amount of money which is satisfactory to individuals to retain them. I believe in a position where if people feel they are fairly paid then they look for other things in the workplace. If they feel that they are not fairly paid then that becomes a very powerful source of dissatisfaction which ultimately leads to people voting with their feet if they become too dissatisfied. So we will have to make sure that we can pay a reasonable amount to keep people. Clearly, people do not join the Defence Force or the Public Service with the intent of becoming millionaires. They join for other reasons but they do expect to be paid fairly—a fair day’s work for a fair day’s pay.

Senator HOGG—So it really comes down to a fair amount of job satisfaction?

Dr Hawke—I think so. The way I have put this in the past is that people look for essentially five elements. If they are getting a satisfactory level of pay the first element is challenge in the workplace: is there sufficient room for them to grow? The second one I call ‘elbow room’: do they have sufficient wherewithal to do the job in the way they want to do it or are people simply looking over their shoulder? The third one is about pride: I think people want to be proud of the job they do and the organisation they work for. The fourth one is about self-esteem: happy people do good work if they feel good about themselves and the organisation. The fifth one—if I am right—is feedback: people want to hear from their supervisors how they can get better at what they are doing. They need to have an opportunity to work towards their aspirations and their potential, to grow as individuals. They need to see the contribution they make to the broader aims in the organisations and they need to see that they are getting better at what they do.

Senator HOGG—Going back to the DRP, it brought about a substantial amount of change within Defence itself. It seemed, from where I sit, that quite an amount of that change was imposed upon people as opposed to people being sold on the change first and then brought along with the change. It seems to me that, given the current circumstances that Defence finds itself in, that it is going to undergo further change. One would hope, from where I sit at least,

that there is a different approach to the management of change from the one I believe I saw on the previous occasions. What are you going to do?

Dr Hawke—That is what I would hope, too, that we can implement change in a better way by involving the people who are affected by the change. I do not think you can ever over-communicate when you have change issues like the ones that we are confronting. But it will be up to the leaders and the supervisors in the organisation to take charge of these processes which I hope will lead to a better defence organisation.

Senator HOGG—To go back to the situation of the investment changes since 1996-97, what have we got in place to ensure that does not occur again?

Dr Hawke—In the sense of the capital investment?

Senator HOGG—Yes, the capital investment explosion there.

Dr Hawke—Firstly, we are reviewing the top 15 investment programs to give the minister a health check on how they are going against their objectives and the amount of money it will cost to bring those into fruition, including, of course, the timetable to do that. We have had quite a lot of work done on reform of the Defence Acquisition Organisation and the Support Command, and we would expect those to go forward to the minister and probably to government in the not too distant future for decision.

The next issue is that, until the white paper comes out, the government will be looking very closely at any decisions on new equipment in terms of the platform, the numbers, the costs and the phasing. I think they are taking a very close interest in that issue to ensure that the unfortunate set of circumstances that have arisen will not be repeated.

Senator HOGG—Earlier this morning we spoke about the involvement of a number of various departments in the white paper consultative committee. At the last estimates, I asked about a DOFA review committee that was reviewing the finances of Defence.

Dr Hawke—That was the Alastair Hodgson-led committee I referred to earlier that was in the department—

Senator HOGG—They are not one and the same are they?

Dr Hawke—Yes. There are two sets of committees here. The first one that you are referring to was the Alastair Hodgson-led group. The second set includes the Department of Finance and Administration. It is a group of people who are involved in the production of the public discussion paper and probably, further down the track, the white paper. Finance is represented on both of those.

Senator HOGG—I noticed everyone shook with fear last time at estimates when they knew the Department of Finance and Administration were involved.

Dr Hawke—I am not sure we should look at it in that way. My view is that we should have an open book approach to the Department of Finance and Administration. They should be able to come in and satisfy themselves that we are spending the money in accordance with the government's wishes. If they can find efficiencies within the organisation, then we are only too pleased to hear about those and to include them in the way we do business in order to get better value for the taxpayer's dollar. So I am quite keen for them to be involved. If we can convince them, then surely that makes our life that much easier when we are in front of ministers arguing about these things.

Senator HOGG—Did they have a formal report on what they found in that review process?

Dr Williams—There was not a formal written report as such. What they did was provide advice to government as part of a wider submission relating to our budget matters, so there was input to government at that level. But basically there were a series of presentations they gave to senior people across our department and also to Finance. Other than what was included in submissions to government in our budget, there was not a formal report as such.

Senator HOGG—I will just touch on two further issues out of your due diligence report. I raised before the never-ending reviews that you spoke of. How will you control the number of reviews? I think you put across the point that it is almost reviewed out.

Dr Hawke—Yes. I do not think we will ever get away from having reviews of different parts of the defence organisation. The bit I am more exercised about is execution of the recommendations: the way in which we implement those recommendations and lead the change process—some of the very issues that you yourself have raised—and whether or not, at the end of the day, we deliver the expectations behind recommendations in particular reviews. CDF and I have basically been setting up a much better tracking system to ensure that, for each of these reviews we go through, where necessary we get the minister or the government to tick off on the recommendations and what has been achieved so that they are satisfied that we have followed them through.

I think your comments about the change processes associated with the defence efficiency review and the defence review program probably have some resonance within the organisation, so we will try to do better at that. I would hope that, as we get better at managing our business internally, that would lead to less need for external reviews of the nature and kind that we have had over recent years.

Senator HOGG—In your document, you say that there have been ‘more reviews than *Gone with the Wind*’, which I thought was very appropriate. Also you say, ‘Defence has been a lucrative hunting ground for consultants.’

Dr Hawke—I did.

Senator HOGG—What have you done about the latter part of that statement?

Dr Hawke—I would hope that, as we go forward, we will have less need for consultants to come in and undertake these reviews and that we will be able to do a lot more of this with our own people and our internal capacity.

Senator HOGG—Thank you very much.

Senator WEST—There was a joint press release on 3 March about pursuing the renewal agenda. Can you take the committee through each of the measures outlined in that release: what each measure is, what it is designed to correct and who is going to be responsible for implementation.

Dr Hawke—Which part, Senator? Are you on page 2 or would you like me to go right through it?

Senator WEST—I would like you to go right through it, please.

Dr Hawke—If we take the first paragraph, this is referring to having in place an overall corporate plan which might deal with—in the jargon of today—our mission, vision and values and perhaps some of our key strategic drivers. This would in turn be the basis on which individual functional units would develop their business plan about what they are going to achieve. Within that business plan, you would expect to find each of the government’s policy objectives and the particular commitments that it might have made to the Australian people in successive elections. Then the next step in that would be the individual performance

framework, so that on my side of the house I would have an understanding with each of my direct reports on what they are going to do over the next 12 months to deliver for the defence organisation. The second part of that plan relates to their personal development and aspirations. The second paragraph stands on its own. The third again, I think, is pretty clear.

On the next issue, 'Better reflecting and defining the roles and responsibilities of the service chiefs', I did make some comment about this in my paper on the diarchy. It is intended that these be reflected in what are to be called commissioning letters from the CDF to the individual service chiefs. In the past, it was not uncommon for ministers of defence to issue directives to each of the chiefs as well as the CDF. The government has decided that the minister will issue a directive to the CDF and he in turn will issue his directives in the form of these commissioning letters to the service chiefs, thus reflecting the ADF command chain. That picks that issue up.

On 'improving Defence's acquisition arrangements', I have mentioned the reforms there and that they will be before government in the near future. 'Embedding accrual accounting' goes to the issues we have been discussing today about our portfolio budget statements and the related initiatives we need to take there.

Making sure that the right people with the right skills are in the right jobs entails a different way of attracting, developing, recruiting and retaining our people. The comprehensive performance framework revolves around the plan on a page and the related issue of pay. We do have Australian workplace agreements for the SES. Also, we have a certified agreement, which relates to the great bulk of the people in the organisation, which is about to go out for a vote in the very near future.

The results through people approach comes back to what I mentioned to you at the start of today's proceedings. At the end of the day, the organisation and the people that are in it are there to deliver the results that the government of the day purchases from us. Results come through people, so you need to put a lot of attention into how good your people are, into improving them and into developing them and the relationships that are required to achieve the results. Those results can be impacted upon by all sorts of people outside the organisation. We need to be conscious of those relationships and to work on them.

The simpler performance framework relates to that plan on a page issue which we are cascading down through the organisation right at this very moment. Satisfying the minister and ourselves that we are improving our management and leadership will be a judgment that the minister and committees like yours will make as we go forward over the next couple of years.

Senator WEST—So there should be no more surprises for ministers about financial situations.

Dr Hawke—I would hope not. In fact, I have used precisely those sorts of words in talking—that ministers, the CDF and I do not much like surprises. We find, with long and bitter experience, that surprises are nearly always unpleasant ones—even though it is the CDF's birthday today, so he might get a present.

Senator WEST—He has had his present, hasn't he? He got out of here early.

Dr Hawke—You let him go at 11 o'clock. Do you want me to go on with these?

Senator WEST—Yes, but just before you proceed, I will ask a question. On the results through people approach, you say in this—it is dated 3 March—that the simpler performance framework will be introduced from the end of March. Has that happened?

Dr Hawke—Yes, the plan on a page process has started and it is cascading down through the organisation. I will be checking that all of the people in the SES actually do have a plan on a page. That will be one of the requirements that I will be putting in place. Over to page 2?

Senator WEST—Yes, please.

Dr Hawke—As to commissioning letters, as I mentioned to you—

Senator WEST—Yours is on a different set up to mine.

Dr Hawke—I am now on ‘The following measures will be implemented shortly.’

Senator WEST—Yes, that is on the bottom of page 1.

Dr Hawke—The following measures will be implemented shortly: the first one is commissioning letters. They are under consideration at the moment. My expectation is that we are going to have a session in August on the new corporate governance framework for the most senior leadership group. My guess is that we will look to finalise those letters in that context. That will be around August.

Senator WEST—The commissioning letters—just let me see whether I have this correctly in my mind—will mean that all communication from the minister and his office is direct to you or to the CDF, and then you or the CDF forward on the instructions to the—

Dr Hawke—That is the way the chain of command goes. But I have a view—I think the CDF and the minister have the same view—that the service chiefs have a right of access to the minister in their own right. I do not expect anything and everything in the organisation to go through either me or the CDF, either on the military side or the civilian side. There will be many occasions where either the minister or the office will contact people at deputy level or even below that for information or requests about action items. All I seek is to be informed of those things. I do not seek to approve what goes forward to the minister. I do not think anybody can act in that way in this present day and age, and I do not think it would be consonant with a delegated accountability framework for me or the CDF to seek to do that.

What we do insist on is being told about what the issue is and what is being done about it—firstly, so that we will not be taken by surprise; and, secondly, if we have a view, we can convey that either to the minister or to the action officer so that they can take that into account in whatever it is they are doing. But I certainly do not expect the minister or his office, any of our minister’s officers or the parliamentary secretary to operate solely through me or the CDF. The commissioning letters replace those directives that have been there in the past. That is what is important about them. There will be a civilian equivalent for those on the civilian side as well as the military.

As to increased focus on succession planning in the senior leadership group, it would be fair to say that that is in place now on the military side, but it is not so well in place on the civilian side. We have commenced a process basically to mirror what happens on the military side on the civilian side of the house. Succession planning is not something that the public service has done particularly well in the past, so we are learning some lessons from how the military goes about that and trying to apply discipline to ourselves along those lines. Perhaps I could say to you that, in its simplest form, I would be more than happy if for each of our SES positions we had a stable of two or three people who might fill that job as well or better than the present incumbent. So that is the sort of approach that would be driving us there.

Senator WEST—Given that in the military there is very definite succession planning and there is also a career path management that fits in with that, are you going to implement something like that for the civilian as well?

Dr Hawke—We are trying to draw on those lessons and do something along those lines for the civilian side. When you say that there is a definite succession, I am not sure that I follow you. There is a definite succession in terms of the military having been very conscious about trying to make sure there is more than just simply one candidate for each of the senior—

Senator WEST—No, there are several at each level.

Dr Hawke—Yes, that is right. I agree with you. And that is exactly what we should be trying to do on the civilian side.

Senator WEST—You do not think they will be poached from you by other departments?

Dr Hawke—They may. If Defence turns out to be a poaching ground for other organisations, I think that would send a pretty significant message that we are actually doing something right in our attracting, recruiting and developing people. If those people are attractive to other organisations, you would say to yourself, ‘Well, we’re starting to get this part of the process right.’

I have mentioned the plan on a page concept; we have got that. The recall day on 23 June is to report progress, the way ahead and the series of events that hopefully will come into place on 1 July. These other items are of a background nature. Are there any among those which you would particularly like me to comment on?

Senator WEST—I think you have covered those pretty much, although you do say:

... improving acquisition arrangements—including through the possibility of amalgamating SCA and DAO ...

Dr Hawke—That is Support Command Australia with the Defence Acquisition Organisation. We have had a look at that issue, and we are due to report to the government in the next couple of weeks on that. My expectation is that CDF and I would be forwarding a report to the minister as soon as he is back; in other words, in the next fortnight.

Senator WEST—There has been a report recently in the *Australian Defence Business Review* in relation to this. It talks about a rationalisation with a further 500 positions following merger.

Dr Hawke—I do not know what the thrust of that is. We have done a number of reviews of these two organisations, both separately and also in one particular exercise. What we are trying to do is to bring all of those different exercises together in one report, with one set of recommendations to the minister on what should be done and one clear way ahead. But it is fair to say that at this stage no decisions have been made about this yet, and my expectation is that there will not be perhaps until a month or even two months away.

Senator WEST—It also talked about a realignment of senior military and civilian positions.

Dr Hawke—This goes to that issue of making sure that we have the top structure right and that that is aligned with the financial statements and the outputs and suboutputs in the organisation.

Senator WEST—So it is not a new variation?

Dr Hawke—No.

Senator HOGG—An article entitled ‘Battle of the Bulge’ was in last week’s *Bulletin*. It referred to the fact that the minister seems to want to change the damned culture of Defence management at Canberra’s Russell Hill. Was there any consultation between the minister and you prior to that statement coming out in the *Bulletin*?

Dr Hawke—Where is this?

Senator HOGG—It is in the *Bulletin* of 23 May, pages 34 to 36.

Dr Hawke—Was this the Fred Brenchley article?

Senator HOGG—Yes.

Dr Hawke—It is just that I have not seen the most recent *Bulletin*, and I would like to make sure that I am talking about the right one.

Senator HOGG—I will just read it. It states:

Defence Minister John Moore wants to get something off his chest. The “damned culture” of Defence management at Canberra’s Russell Hill must change. What’s more, he has set a two-year timetable to change it, and intends to stay the course.

Then it goes on to quote him specifically. It says:

“They—

meaning Defence—

cannot move on things because ‘that is the way things are done’,” Moore laments. “And ‘that is the way things are done’ costs money.”

He goes further on Defence cost blowouts and states:

“They just throw them all in [new equipment bids], create their own problem and then expect the government to bail them out. That’s what irritates me the most.”

It is a fairly scathing sort of attack, one might say.

Dr Hawke—I think this goes to the very issues I have been raising with you today—the nature of Defence’s governance, the nature of decision making, the nature of reform of the capital equipment process itself, the acquisition program and how support command does that, and issues such as whole of life capability costing that we have not done too well at in the past, most particularly including net personnel and operating costs associated with the introduction of new equipment. So they are the very issues that we are hoping to tackle over the remainder of this present calendar year and get them fixed in that time frame.

Senator HOGG—Were you aware of those comments before they went to press?

Dr Hawke—I share those views with the minister. But did he ring me up and ask me for permission to talk to the journalist or say that? No.

Senator HOGG—No, I did not ask you if he asked for permission.

Dr Hawke—No, but I would have been broadly aware that they were his views, as would CDF and the senior people in the organisation. He has made no secret of these things, and on a number of occasions he has taken particular trouble to spell them out to the senior leadership group.

Senator HOGG—How does that assist or otherwise relations between the minister’s office and Russell?

Dr Hawke—I think it sets out clearly what the minister’s expectations are. It is better that we know what he and his office and the government are unhappy about so that we can actually do something about them than that we should make assumptions which may or may not be well founded.

Senator HOGG—Do you believe those comments apply to the majority or a small coterie of people at Russell?

Dr Hawke—I think they are focused on the Canberra end of the organisation, that is for sure. Indeed, as I said in my due diligence speech, there do not seem to be too many problems with what is happening outside of Canberra. This seems to be confined to the way of life at the Canberra end, and they are the very issues that we are going to sort out.

Senator HOGG—Thank you. Just on the issue of Fiji and intelligence, and I do not want to get into the various cables or otherwise that may have taken place, were we sufficiently aware of what was happening in Fiji?

Dr Hawke—Senator, I have been away while this has all unfolded and Mr White has been Acting Secretary, so I will ask him to tell you what he can.

Mr White—Yes, I believe that we have been well served by our intelligence capabilities, both those within Defence and those more broadly available to the government. We had a very clear understanding of the scale of discontent within some elements of the Fijian community with the Chaudhry government, the potential for that discontent to be expressed in acts of unrest, including potential violence, and, of course, we have got a very strong understanding of the background and history of all of that.

It is not the case that we were given specific warning of the events surrounding the taking as a hostage of the Prime Minister and his ministers in parliament house, but it would be fair to make the point that the government does not conduct policy on an expectation that we will have warning of such specific events. To expect that of an intelligence system, a warning of every individual particular event, from a policymaker's point of view, if I can put it that way, is to place unreasonable expectations on your intelligence capability. Indeed, if you could always rely on intelligence to tell you exactly what was going to happen, the policymakers' business would be too easy to be fun.

Senator HOGG—What, you would be out of a job?

Mr White—I would be out of work, yes.

Senator HOGG—We cannot see you unemployed, Mr White!

Mr White—So overall we did have a very good understanding—and it was quite clearly foreshadowed in the intelligence reporting which I took the trouble to review a few days after the onset of the crisis—of the circumstances that led up to this. And if I could put it personally, I was intrigued and shocked by the events, but I was not particularly surprised by them as I had had access, like my colleagues, to a range of information about the gathering unrest and the risk of unrest in Fiji over those coming few days. So when the news came through I do not think my colleagues were in a position of saying, 'Where did that come from? It was out of the clear blue sky.' We said, 'Okay, that's the way it is run.'

Senator HOGG—The minister made a comment that it came as an unexpected event without a doubt.

Mr White—We did not have any forewarning, or at least I certainly saw no forewarning and I do not believe ministers did, of the actual act by George Speight and his confreres to take the ministers hostage as they did, and so I should make that absolutely clear. We had no forewarning of that particular event. What we did have was good and, I think on reflection, quite accurate coverage of the level of dissatisfaction in Fiji amongst the ethnic Fijian community and the potential for that to be expressed in acts of disorder and violence.

Senator HOGG—So your resources—your equipment and your sources—

Mr White—Including, of course, our diplomats and all of that.

Senator HOGG—I understand that. You say your resources are adequate to enable you to make the judgments that—

Mr White—You would always like more, and—

Senator HOGG—That is why we are here, to get these sorts of answers out of you.

Mr White—Intelligence is, by its nature, an insatiable demand. My point would be that in taking account of the scale of resources we apply to the problem, the coverage we have had of events in Fiji has actually been of pretty high quality, even though it did not allow us to actually predict the event itself.

It is worth making the point that predicting events like coups is exceptionally difficult. If the people involved in the political community themselves could predict them, they would presumably forestall them. So it might be an unreasonable expectation that an outside country like Australia, even one with a heavy investment both in very high quality foreign service and diplomatic reporting and, also, in significant intelligence resources, should be able to know more about what is going on particularly in a very intimate and personal political milieu like Suva's than the actual participants themselves.

Senator WEST—Were you able to predict that something was about to blow?

Mr White—I certainly did not get the sense from reading the reporting—and I should stress that I am a consumer of this product; I am not, by any means, an expert on Fijian politics myself. As a consumer of the product I came away from reading what I had read before the coup with a sense that things were pretty unstable in Fiji and there was a significant likelihood of substantial disruption. I did not come away from it with any particular image that it would take the form it has taken or, indeed, that the crisis would be as serious as it is.

Senator WEST—It is just that I have an acquaintance who was over there very early this year and she came back saying that it was about to blow up. As subsequent weeks have unfolded, she has been saying more categorically each week, 'This is really serious and we could see a repeat of history.'

Mr White—One of the troubles is that history repeats but never repeats itself in quite the same way, if you know what I mean. We have had coups in Fiji before, of course, but each one is different and the particular circumstances, dynamics and unfoldings are different. As I said, we have had a clear understanding and have been kept quite accurately up to date by our intelligence and diplomatic reporting with the development of the feeling, sentiment and issues in Fiji which, if you like, underlie the events of the last week and a bit. I think it would be similar to the sorts of comments your friend has made but obviously they are very specific and detailed in some cases. As I say, what we did not have notice of—and I do not think we should necessarily have expected to have notice—was the particular way in which this pressure was relieved, if I can put it that way, the way in which the system responded to it.

Senator WEST—I suppose our concern was raised by the minister's reaction and comment.

Mr White—I think the point about the minister's reaction—and it is a very important one—is that the government did not have any forewarning of Speight's intention to seize ministers like that. Obviously, if we had had such forewarning, it would have posed some quite interesting policy challenges as to what we should do about it.

Senator WEST—If you had had that fair warning then Chaudhry would probably have had some fair warning as well.

Mr White—Yes.

Senator WEST—I would have thought that Speight was not going to go and telegraph it across the—

Mr White—That is right. It was obviously kept very secret. As we saw in 1987, despite what in many ways seems to be the great openness of Fijian political culture, there does obviously appear to be a good capacity for conspiracy as well.

Senator WEST—I think we have got more questions about that later on when we get to that. Thank you.

CHAIR—I think there will be some more questions on Fiji.

Senator HOGG—I just want to put on record our thanks to the CDF and Dr Hawke for coming along. I think it has been important and I just want to record our thanks for that happening.

Dr Hawke—Thank you, Senator.

CHAIR—Thank you, Senator. I was going to do that. Thank you, Dr Hawke. We look forward to seeing you next year if not before.

Proceedings suspended from 12.29 p.m. to 1.34 p.m.

CHAIR—I declare the estimates committee in session again. Senator Hogg.

Senator HOGG—I understand we are now in the overview. At a briefing we had last Thursday, the officers provided me with an analysis of where last year's outputs were in relation to the five outputs this year. Whilst that is helpful of itself, it does not necessarily give the detail of analysis that would be helpful in analysing the PBS because there is a real difficulty in going from last year's PBS to this year's PBS trying to follow the trail of what has happened. Do you have a transition document that you can make available to the committee so that we can possibly trace some of the changes that have been made?

Dr Williams—Through the three documents, it should be possible at the portfolio level to be able to trace the dollars across, if you take the last PBS, the PAES and the current PBS. I can give you a broad view of where the numbers are, if that would be helpful to give you an indication of what the major shifts are. If you are interested at the individual output level, it would be better to pursue that as we go through particular outputs later on. But I could give you an overview, if you wished, at the broad portfolio level.

Senator HOGG—What I am going to seek are both, because when one sits down and reads from last year's PBS, tries to read into the PAES and then into this year's PBS, there is no interconnection there, which makes the assessment before one gets to this particular set of hearings very difficult indeed. So if you can take me through in a broad fashion and if we can then go to a specific analysis that would be helpful. More particularly, it would help if you have a transitional document, because it is just not going to be possible to take down the copious amounts of figures that will be necessary.

Dr Williams—Depending on the level you want, I can run through at a fairly high level and perhaps if you can see where you want to go beyond that we might be able to then take on notice further detail, if you wish.

Senator HOGG—Could we start by going to output 1 last year, which was command of operations. That was \$582.4 million. Where do I find a figure in the current PBS that I can compare with the \$582.4 million from last year?

Dr Williams—I will run through it, but I will preface my comments here with an explanation of the status of our financial reporting in this area. The defence organisation, up until a year ago, was essentially operating on group structures and reporting against group

structures. Over the last year we moved with the previous budget and this is now the second budget to where we are operating on outputs and accruals. The result of that is that our financial systems, which were in the past largely cash based and organisational input focused, have to be turned around for the purposes of our reporting and our budgeting in future into an output approach and an accrual approach.

At the moment our systems are not fully able to support that to the level we would like. We are implementing our project ROMAN financial system for financial management. We are introducing PMKEYS to look at our personnel, which will allow us better to do both output and also accrual budgeting. But at the moment we are in some stage of a transition. The result of that is that the way we provide the information to which you refer is to do it through a series of attributions.

We take the allocations we have given to, for example, support command and we have to assess how much of that ought to be attributed to particular outputs or suboutputs. As you can imagine in some areas that is fairly clear where you have a particular base that uniquely supports one asset or you have a particular cost associated with for example a particular ship or a submarine. But there are many areas, fuel consumption being one, where it is not clear. We do not track down the fuel to the level where it is easy from our central systems to be able to assign amounts to particular outputs.

Similarly with some of the accruals with inventory consumption and other matters, it is not always easy to attribute directly. The result of that is we have a fairly complex set of rules that try to translate our input structure into the outputs. The result of that is that at the moment I would argue that we are still at a stage where some of the rules are settling down, so the variations we see from one period to the next reflect as much as anything a changing and a refining of the definition. I think you will have found in our discussions at the last PAES this was some of the difficulty explaining the shifts. In some cases it was simply remapping and redefining.

What we are looking to do is to try and develop our systems—our financial management systems and cost accounting. We are looking at purchaser provider arrangements so we can actually provide our information on an output basis which will give us a much better basis. Having said all of that, I do have some very broad estimates. They are reasonable in terms, in my view, of giving you the general feel for how much we are spending but, in terms of the shifts, you really need to go through the document itself to get the explanations which are covered.

You mentioned the command of operations. If I can perhaps illustrate with that and give you the figure. You mentioned the \$582 million, which occurred in the last PBS. That figure was revised at the PAES to an amount of \$458 million, which again you would be able to pick up. The change was in essence, as I say, a range of things like redefining the mappings and the definitions. It was also global effects in terms of salary rises, accruals and a whole range of factors. So whilst you can get the appearance of a shift, the explanation is, as much as anything, relating to the way we map and the way we do our budgeting. Without going through the document, you really do not get a feel for what the real shifts are. But if I could continue on there—

Senator HOGG—Could I just stop you there? That is one of the great inadequacies of what we are looking at. I mean surely people must be able to pick up the real shifts and what they are by referring to these documents.

Dr Williams—Our intention is to do that, but as I say our financial systems at the moment are still geared around inputs. We can tell you the amount of money spent in a group but if we

want to convert that into how much is spent on an output, then you must make certain judgments. For example, for fuel, you need to make judgments about the allocations. In terms of some of the overheads of some of the organisations, what proportion do you assign against which particular outputs? The result of all of that is we have got a complex set of attribution rules that attempt to do it—

Senator HOGG—I do accept that, Dr Williams.

Dr Williams—I can give you the numbers for that particular example to give you a feel for the point I am trying to illustrate. The figure was \$582 million and was refined then at the AEs in the PAES to \$458 million. There are explanations for some of that in the document, but in large part it simply reflects portfolio broad shifts and the allocation of those to suboutputs.

The latest PBS reports a figure of about \$601 million. That figure cannot be very directly compared because we have also shifted the definition because we have gone, as you would be aware, from 22 outputs now to five, the five underpinned by 27 suboutputs, so that there are some subtle shifts in, for example, command of operations. Let me give you an example of that. In going from the PBS, the last one, to the PAES the definition of where we allocated some of the central communications systems was shifted. In one case it had been allocated entirely against command of operations. On subsequent refinement, the view was that it might be better to shift it and allocate it across a range of areas because it contributed to more than just command. So you have—

Senator HOGG—Could I just stop you there? How long therefore before all of this settles down, such that people on this committee are able to follow what is actually happening in Defence? I mean that is the bottom line of what I am seeking to do, rather than for ourselves to get bogged down in very interesting exchanges at each estimates as we are going through now. What is your prediction?

Dr Williams—The PBS and the PAS that have gone before, as you will be aware, had a fairly complex table at one point which had outputs and groups, a matrix of 22 by 12. The concern we had with that document and the reason, in part, why we have removed that is because the shifts between areas were more representative of the refinement of our mapping processes than in giving any real information. What we have tried to do in the latest document is to capture more the real shifts, which are in the explanations under outputs. Getting back to your question, though, of when we would hope to settle it down, I think it would be very difficult to have it highly reliable even a year from now. But it is considerably better. The reason I say that is that, without a cost management system which allows us to track dollars to activities and very clearly align them to outputs, it will always be difficult to do a conversion from an input driven organisation to an output presentation.

Our goal is to have a number of processes in place. We have, as I said, our ROMAN financial system probably about six months away from being completed. We have plans to look at a cost management project—and we have done some work there—that will allow us to do costing against activities and the like. We also have our PMKEYS system. The government has now also given some additional money in this budget to update our asset systems because, again, the shift here is very much linked to assets because depreciation and capital use charge are a significant part of the allocations to output.

So we are in a process which is going to gradually improve, but we are talking a year or two, in my opinion, before we would be able to give really reliable data. I think we are at the stage now where we can give an indication of roughly how much we are spending against

each of the suboutputs, and hence outputs. But in tracing small variations of a few per cent, I think it still not sufficiently robust to give reliability.

Senator HOGG—What I am concerned about is the ability to shift money within money and to do the finer tracking, in that sense. I am not doubting the integrity of anyone who appears before this committee or the intention of what people put forward; nonetheless, it has to be easily readable, it has to be understandable and it must be able to be tracked from one step to the next. That is the situation I found myself in with the defence reform program when it first came out. To the credit of the department, I think we finally bedded that down where we could actually track the changes in personnel and the savings for reinvestment. It seems to me that every time we have a Defence PBS the ground rules seem to keep shifting, which makes it difficult and which can make for some of the cynicism that might exist out there about what is actually happening in Defence. That is not a criticism of you personally. Whilst you say that it may well take at least another 12 months and possibly longer to bed this down—and I accept that there are explanations under the new outputs which, I must say, I found interesting when I read through them—the explanations might as well have been appended to some other document, because there was no way of relating things back. I know you are saying that there are still difficulties there. At the end of the day, you are not able to give me a transitional relationship between output 1 of last year and where I might find it within the output of this year?

Dr Williams—With the new five output structure, we do not have the breakdown at the equivalent level, if you like, in this document—or at least it is broken down differently. Within an output, it is broken down to be more finely grained in terms of employees and suppliers but not in terms of the suboutputs. In a sense there is a bit more information against the five outputs in the categories of employee expenses than we have had in previous documents, but in being able to break up separate items such as the 27 suboutputs, largely the force elements, the document, under the normal arrangements, does not go down to suboutput level. If you have a particular query, we can certainly address that. If you take command of operations as an example, I have been trying, following on from our discussion the other day, to see if we could get some good data. The difficulty we have is that we are still at the stage where, having moved only fairly recently to the new outputs structure, I am not comfortable that the attribution rules are yet sufficiently reliable to actually put numbers on the record.

To give you the example, let me go back to the command of operations. The figure quoted was \$582 million, then it became \$458 million in the previous PBS and the PAES. Those figures, I think you could say, are probably good to within about 10 per cent, because that was about the quality of some of our attribution rules which are continuing to bed down. We have now redefined and the result of that is that we now have 27 outputs, which causes some shifts between some. At the moment, \$601 million is the equivalent figure for that year, so there has been a slight rise. But, as I say, that is in large part reflecting the redefinition, the remapping. If you then compare that \$601 million, roughly, with the sort of figure that would be for command of operations in this current document—if you take that suboutput—the figure I have here is around \$575 million. So it suggests there is a small drop of a few per cent in that area.

The last two figures should be comparing approximately the same thing, but that sort of shift is really small—a few per cent—in terms of some of the large shifts in, for example, personnel costs. So, as an overall salary rise, the depreciation shifts as you introduce and move assets in and out, for example. What I am really trying to say is that I am happy to address particular numbers, but I would not want to be held to the figures of \$575 million or \$600 million. They are in my view, given our current rules, probably good to five or 10 per

cent but, given that we are looking at variations of a few per cent from one time to the next, it is fairly difficult. If you turn it around the other way and look at our inputs, we can give you much more reliability. We can tell you that with support command we know how much we spent on particular activities, because that is how our budget is really set up. As I say again, we are really in transition where we have good data at an input level. When we turn it round to outputs, we are relying on attributions, and the one to two years I am talking about is the time it would take to get systems that will be sufficiently robust to give us the real visibility at the output level.

Part of the review we are doing with Finance at the moment is to look at things like purchaser provider arrangements where—picking up Allan Hawke's comment—we would be looking, perhaps, to have the output managers managing the funds and allocating them out to the various areas. That is one step, but to do that, again, you need the systems able to provide good quality information. What I am saying is that you will find that there will be a settling down, and I would hope our numbers would start to get down to the level you really need to see the small variations, but it will be a process that will be evolved over the next year or two.

Again, if you want to look at a particular example—take surface combatants, for example—the explanations under the appropriate output will tell you things like a couple of the DDGs were paid off which resulted in a drop in capital use charge or whatever. You can go through those explanations. It will give you a feel for what the real shifts are as distinct from what are really mapping and other accrual issues.

Senator HOGG—I will come to those issues, undoubtedly, as the day proceeds. If I understand what you are saying correctly, your budget is based on inputs rather than outputs, and yet I thought that the accrual accounting system was meant to be based on outputs.

Dr Williams—There were two changes that occurred with the last budget, 12 months ago. The changes were that we moved from basically an input reporting to an output reporting, and we moved from cash to accruals. In terms of both of those, our systems also had to transition to allow us to do that—and our whole process of bidding. I will give you an example. If support command believed it required additional funding to support surface ships, it would be putting in a bid. As part of its general bid, it will make some attempt now to break that up by output. But by the same token, some of its general overheads, some of the costs like fuel consumption and other items, are not easily identifiable. So what we are going through is a transition from both cash to accruals and input to output. The result of that is that, as we are transitioning our systems, there is a period of some instability in terms of our ability to report reliably at the suboutput level. That is why, again, we felt that in the last PBS and PAES the fairly complex table that was there was probably as misleading as anything, not because there were deliberate errors but simply because the variations were more reflective of our refinement of the system and some uncertainties in the attribution rules. I think that is why we are going through a transition.

As I say, I can give you the numbers here, but they will settle down over time. They are not highly reliable. I have a set of numbers but—

Senator HOGG—If you have got a set of numbers, maybe it would be worth my while to have a look at them at some time. It seems to me that if you are output based and we have to test whether the output has been delivered, it is very hard for us, sitting here, to make any real judgment to that extent and to know what to pursue with the department, without unnecessarily wasting your time and our time. That is what I do not want to do.

Dr Williams—With the qualification that the numbers here are somewhat approximate, particularly as we have just moved to the five output structure and to 27 suboutputs, so the

rules are still partly under development, I can certainly give you any particular examples to give you a feel for where there may or may not be real shifts. That will in part be reflected in the explanations in the document here. If you wanted to pursue any particular areas, as I say, in the case of command of operations, the example that you give, the final outcome for last year is estimated at about \$600 million for that suboutput, against about \$575 million in round figures. So there is a small drop. That will be the result of a range of portfolio adjustments to various things—small adjustments in salaries and other things. I would venture to say—and we could check that by going through the explanations—there is unlikely to be a major shift. It is largely steady as she goes, the same sort of activity, and we are just reflecting there some shifts at the margins.

Senator HOGG—If we had that level of detail we could test the change to that suboutput, couldn't we, under the new system?

Dr Williams—Yes.

Senator HOGG—Whereas currently, in the global way in which it is presented under new output 1, it is not easy to test that arrangement.

Dr Williams—The intention here, under the rules applied by DOFA, having defined the outputs—and Allan, as he outlined, is keen to try to align outputs and organisational structure and he has gone to a five output structure here—is that you can, over time, to take one of those five outputs, look at how much is expended on employees, how much on supplies, et cetera, in each of those areas. Where there is a shift, you can identify in the explanations here the reason for the shift and you can then, from that, deduce whether it is as a result of an activity pertaining to submarines, surface ships or whatever. Again, we will be moving on to it later, I assume, but if you look at the Navy area, for example—Navy capability—you will find that there are references in the explanation to the impact on our financial position of paying off the last DDGs.

Senator HOGG—That is one of the easier areas, though, to identify. That is my point: it is very difficult, in trying to look at the global output, if I can call it that, and then in trying to compare where we were last year with this year.

Dr Williams—Your comment is quite valid. We have gone from a program structure to a 22 output to a five output structure, and therein lies the difficulty. Allan did note that we are steadying down, but he still did reserve the right to look at some further modification. One would hope that with the next PBS we would be dealing with a similar output structure, so it would be easier to get the comparison of next year to this year. It is certainly difficult at the moment, in going from 22 to five, and even the five is underpinned by 27, where we are still working up some of the rules to get the precise allocations at the suboutput level.

Senator HOGG—All right. I think we are just going to go round and round in circles there.

Dr Williams—With respect to the figures I have got here, recognising, as I say, that they are broad and initial at this stage, if you want a particular suboutput from last time, I can—

Senator HOGG—If you can provide me with the total document, that would be helpful. I am not going to hold you to it; no-one has been hung, drawn and quartered for the presentation of any of those documents. If they are an aid to assist in the understanding of what is taking place, that would be helpful, because there will be people who will follow me who will try to work out what has taken place. The beauty of this estimates process is that it does give those people the opportunity to look back and see where Defence have come from in terms of their very large expenditure in this portfolio.

Dr Williams, you mentioned a figure of plus or minus 10 per cent in terms of the degree of fluidity in the figure for this year. You said it really could float about plus or minus 10 per cent.

Dr Williams—That is probably the top level

Senator HOGG—I accept that. How accurate, in the longer term, do you think you will be able to get that?

Dr Williams—There will always be some doubt. I could just repeat the process we go through. Let us take an example of my own division. There is a judgment about how many people in my financial division are under output 5, which is providing policy advice, and how many people might be what could be called general overhead in terms of providing the general financial management of the organisation. They are a fairly small and trivial case perhaps, but there is a judgment as to how much of that division you ascribe uniquely to output 5 on policy advice and how much of it you spread across other areas. If you spread it across other areas, you then have a judgment as to whether you do that on the basis of just a pro rata or what formula is to apply.

What we have been going through since accrual and output budgeting was introduced last year is a refinement of that process and some of our judgments on how we do the allocations. Given the rules, we can come up with numbers now, but I think some of them are probably reflecting some of the oddities of the rules we will continue to refine over time. Take surface combatants where we are talking, without the aviation component, about probably a \$2 billion area. Even one \$100 million shift can reflect some of those shifts and variations which represent perhaps five per cent of the total cost. We can certainly define on input terms quite precisely how the money is spent. That is not an issue. It is the attribution to outputs which remains the challenge which will still take a further year or even a bit longer to bed down.

I have figures here I can raise. Taking the surface combatants as an example—and I quote a set of figures from previous documents—we had in the previous arrangement a figure quoted in the PBS of \$2.39 billion for the surface combatants. That was adjusted to \$2.419 billion at the PAES, which is really a minute variation. It really reflects just various portfolio adjustments, salaries and other things. It is not a real shift.

Senator HOGG—Is that billion or million?

Dr Williams—It is billion. I picked that one as an example because it is the largest one. What we have done in moving now to a structure is somewhat restructure that. Previously that included the aviation component of the surface combatants and major ships. We have now split off, as a separate entity, the naval aviation component, so that it aligns a bit better with the new structure in Army and the new structure in Air Force. The result of that is the total figure will appear to drop. What we have is a figure of about \$2 billion. At the moment our rules are being refined for the new structure so that figure is a little bit less solid than the previous two. We now have a new suboutput called naval aviation, which has an amount of about \$440 million for the last year. If you combine those two figures, you get back about to the \$2.4 billion; in other words, we have done a split. But it is not quite as simple as that because there are some other aviation elements that could have been elsewhere that are moved in. Broadly, what it is saying is that the outcome for the year has not shifted significantly.

In looking towards the next year, we have a figure of a bit over \$2.2 billion, so it suggests that in moving from the outcome from last year to the expected budget this year there has been a rise. There are some explanations. As you go through, and you may wish to pursue it when we get on to that output, you will see some indications of where the rise will occur. For

example, the paying off of the DDGs has an impact on writing off some depreciation et cetera and has an effect on capital use charge. We have also introduced some Anzac ships which have similar effects on the accrual amounts. There are also portfolio shifts, in terms of salary rises and others that flow through. It is the combination of all of those things. The major items are the paying off of the DDGs and the introduction of Anzacs. Those are the explanations you will see here. The explanations here have tried to focus on what are the real shifts.

As I say, I can go through and give you an indication. But I think at this stage the 27 break-up is not fully reliable because we have not really had the time to run our systems to the stage that I would be totally comfortable. That will give you a reasonable indication.

Senator HOGG—If you can provide me with that document at some stage, I think we will probably end up going through that document in one way or the other as I go through the questions that I do have anyway.

Senator QUIRKE—Dr Williams, you have gone over to naval aviation at a cost last year of \$440 million. I can understand the system you are now outlining refines the process so that we can see that naval aviation as a component of the budget is identified. Does it break down further still? I mean \$440 million presumably is not entirely just the recurrent expenditure of predominantly the helicopter fleet. That would be the accrued loss from the use of these helicopters and their projected life and all the rest of it. Are those figures broken down further still somewhere where we can see them, so that we can actually see what we think is going to be the accrued loss and, probably more importantly, what was the cost last year and what will be the projected cost this year of the actual usage of this particular weapons platform?

Dr Williams—You are quite correct, the figures do include the depreciation which depends on life and age, et cetera. It includes the consumption of spares rather than the purchase, so it is an accrued rather than a cash based figure, et cetera. It includes the full accrued salaries, et cetera. That is the figure that gives the \$440 million.

We have tried under the new output structure to give a slightly more detailed break-up into those categories. So if you go to the appropriate output, the Navy one, you will not get it in terms of a detailed break-up at suboutput because the PBS is meant to report only at output level, but what we do have is a break-up into employees' expenses, supplies expenses, depreciation, et cetera. Where there has been a shift in depreciation, as an example, you will be able to track through the explanations and some explanations will highlight the reasons for that.

I mentioned in this particular case, not for naval aviation but with the ships, the paying off of some ships and the introduction of others. That has an effect on both the depreciation amount of the figure and also the capital use charge which is included in here. So, in going through the explanations here, it is not actually grouped by naval aviation, but if there were a particular shift due to the introduction of helicopters, you will see some reference to that in one of the notes. Again, we could pursue that if you wished.

Our goal would be over time to have systems—and this would be more for internal management purposes—that have very reliable data at suboutput level to manage by suboutput rather than at present still managing by input and converting, and to be able to understand the break-up against each suboutput. And, as Allan Hawke noted, the intention is to have a much clearer alignment with management. The Air Force can be a convenient example. If you take the fighter force, you would have a particular individual as the head of the fighter force and his organisational entity and reporting and accountability would align with our suboutput structure, which would allow much greater visibility management, et cetera. That is what we aspire to. We are part of the way down that road, but, as has been

observed before, our systems are still at the stages of implementation. So we are at the moment relying on still fairly complex attributions.

Any significant shifts ought to be addressed in the explanations here. Again, if you go through that with the output managers you should be able to get a feel for where the real shifts are, as distinct from what are just mapping and portfolio shifts.

Senator HOGG—As to the relationship with the annual report, you are now talking about a shift to five outputs which encompass 27 suboutputs, if I can put it that way. Yet when the annual report is done for this year you will need to report on the 22. How are we then going to be able to relate the 22 to what is happening in this PBS? It is the same problem, isn't it?

Dr Williams—It is the same problem. We can provide some particular assistance, and I can certainly run through numbers here as long as you note the uncertainty of some of them. It is a difficulty, and, as you commented at the outset, it is the problem of moving to outputs and accruals. The last budget was the first one where we did, and we have now refined that. An example would be naval aviation. A judgment was taken that it was better to identify that as an unique group rather than have it as lost somewhere within service combatants. So, for management purposes, we are trying to give greater visibility. But that does make it difficult to get the consistency.

I suppose the challenge for us is between saying, 'Let us lock in what we have now and let us try to evolve it to have a better system in the future.' I think at the moment we have no choice but to get something better for the future because our financial systems are still evolving from cash and input and we must make the change.

I guess what I am saying in short is, yes, it will be somewhat difficult. We have provided you with an indication of the linkage between the old outputs and the new suboutputs so you can see where new ones have arisen. The actual rules underpinning the allocations in many cases are pretty obvious; in other cases they are fairly complex. So it is difficult to get a simple explanation in all cases. But broadly you can say, for example, what were surface combatants will become now surface combatants and naval aviation—two entities. That is not quite true—there are some minor variations. It will be difficult. Where we can assist we are happy to try to do that.

Senator HOGG—I undoubtedly will be seeking your assistance and the assistance of officers of your department to unravel this web before us.

Dr Williams—I would hope that at the AEs we will have, at that stage, the defence report available. We will have had some further time to do an iteration on our new 27 structure and one would hope at that time we will have a slightly better basis and be in a better position to give you some of the linkages with a bit more confidence than we have at the moment.

Senator HOGG—Thank you for that.

Senator FAULKNER—I just wondered if someone could assist me from Defence as to when the answers to the questions on notice for the additional supplementary estimates held on 3 May 2000 were provided.

Mr Corey—I am advised that it was 18 May.

Senator FAULKNER—Thank you, Mr Corey. I am not surprised to hear that because I think I got hold of them a day or so after that, so that is helpful. I noticed on 19 May the *Herald Sun* newspaper ran an article on page 2 under the heading, 'Our women to guard palace'. It talked about the announcement made by Australia's High Commissioner in London, Mr Phillip Flood, that 50 soldiers, 50 sailors, 50 Air Force staff and 35 members of

the RMC Duntroon Band would travel to London for the Australia Week celebrations. I do not know if anyone else had that particular article drawn to their attention. Mr Corey, are you or Defence aware of that particular article?

Mr Corey—No, I am not aware of that particular article.

Senator FAULKNER—I am surprised to hear that. It did announce these details about the involvement of the Federation Guard in Australia Week. I suppose my concern is that that article appears in the newspaper on 19 May but in answer to a question on notice that I asked about estimates for the cost of the Federation Guard and the RMC Duntroon Band for the Australia Week celebrations in London the response I got was that the government—this is in answer to question 1 of portfolio overview on 18 May—said:

The government has not made a decision on the level of ADF involvement—

I wondered how this could be. I am sure there is an explanation but I just wondered if you could provide it to us.

Air Vice Marshal Nicholson—I think the Chief of Army might be able to throw some more light on that.

Mr Corey—I am just advised that there is still no decision on the level of ADF involvement in the Federation Guard in this undertaking. The government still has not made a decision. Either the *Herald Sun* report is inaccurate or the advice I am getting is dubious. But the advice I am getting is that the government has not made a decision on the level of Australian Defence Force involvement, which is the answer we gave you on 18th.

Senator FAULKNER—Yes, that is why I am raising it, Mr Corey, because Mr Flood is quoted as having announced that 50 soldiers, 50 sailors, 50 Air Force staff and 35 members of the RMC Band at Duntroon would travel to London and that the contingent would include 51 women. Mr Flood said:

This will be the first time that women have mounted the guard outside either of the palaces or the tower. The army will wear traditional slouch hats but the other services will wear their own uniforms.

Mr Flood said:

The RMC Band would support the guard at Buckingham Palace.

Have I got this wrong?

Mr Corey—There are a number of options floating around, as you are probably aware, of the Guard's activities, but the government still has not made a decision. Whether Mr Flood is basing it on advice he got on possible options, I am not aware.

Senator FAULKNER—But this article was in the Defence media clips, wasn't it?

Mr Corey—Quite possibly, but I am not aware of the particular article.

Senator FAULKNER—What does Defence do in a circumstance when the High Commissioner in London makes a courageous announcement and there is no truth to it?

Mr Corey—The information we have is as I have put it, and whether anybody took any action on the question the Senator is asking in relation to Mr Flood's reported—

Senator FAULKNER—It is a while ago. I would have thought that someone would jump to it in that circumstance.

Mr Corey—Yes, you would think somebody would have paid some attention to it.

Senator FAULKNER—That is what I immediately did think, Mr Corey, and that is why I am asking you.

Mr Corey—I can only take it on notice and follow it up. The people in the room here are not aware of it. It may be that the newspaper article is incorrect.

Senator FAULKNER—Of course it could. I never necessarily jump to the conclusion that just because you have words from ‘somebody’ that they necessarily uttered them. I have had one or two personal experiences which have meant that I tend to be cautious about those sorts of things. This even, I might say, Mr Corey, includes the repertoire of the RMC Band, which we read will include *Waltzing Matilda* and the *Brown slouch hat*. Does anyone know what they are practising? Do we know whether there is any truth in that? I know they are pretty good and they might not need much practice. I know they are good.

Lt Gen. Hickling—All I can say is that a number of options have been presented to the government as to what might constitute Australia’s commitment to this activity. The government has still not made a decision as to whether it will support it at all, or which of those options it wishes to pursue. Until that happens, I do not know what this reporter was reporting and whether he was reporting accurately or not. As you say, one tends to be a bit cautious about some of these reports. But I can assure you that no decision has yet been made.

Senator FAULKNER—I accept the evidence that you have given. I am just surprised that no-one followed it through, given that it is in the Defence media clips and these words find themselves in the mouth of Mr Flood, who himself, as you would probably acknowledge, tends to be reasonable and quite cautious in his public statements, certainly in the public statements I have seen that he has made over the years. Anyway, you are saying to us that the status is no decision in relation to the involvement of the Federation Guard. Is that correct?

Lt Gen. Hickling—That is correct. It is as you were briefed at the previous hearing. There has been no change.

Senator FAULKNER—There is no decision in relation to the possible involvement of the RMC Duntroon Band?

Lt Gen. Hickling—That is one of the options before the government, but there has been no decision about it, to my knowledge.

Senator FAULKNER—Would you or anyone else know if any decisions have been made about other involvement in any Australia Week activities in London? I appreciate the comment you make about the involvement of the Federation Guard and the RMC Duntroon Band, but have any other decisions been made in relation to the allocation of any resources or to Defence involvement that you are aware of?

Lt Gen. Hickling—Not that I am aware of.

Senator FAULKNER—You would be aware of it if they had been made, wouldn’t you?

Lt Gen. Hickling—I would expect, if it involved the Army, I would be made aware of it, yes.

Senator FAULKNER—Thank you. More generally, I wondered if someone could assist me with Centenary of Federation activities that Defence might be involved in. We have heard from Lieutenant General Hickling about the possible involvement of the Federation Guard and the RMC Duntroon Band at Australia Week. Is there anything that has been locked in relation to Centenary of Federation celebrations involving Defence that you might be able to share with the committee?

Mr Corey—I am not aware of the detail of what, if anything, has been locked in. I am not sure if anybody else is, but we can take that on notice and get back to you before this hearing is over.

Senator FAULKNER—Is anything being explored?

Mr Corey—I think there are a number of options being explored.

Senator FAULKNER—Could you share those with us?

Mr Corey—Again, I would have to get the detail of them.

Senator FAULKNER—Is there someone here who could assist us with that information?

Mr Corey—Obviously, it is not high profile.

Senator FAULKNER—I will let Mr Howard know you said that, Mr Corey.

Mr Corey—I mean within this group, which represents the cross-spectrum. You are trying to get me into trouble, Senator.

Senator FAULKNER—That was very quick footwork!

Mr Corey—You have to be able to dance in here, Senator.

Senator Newman—I think Senator Hogg spends a fair amount of time being concerned about whether the taxpayer is supporting an enhanced defence capability. I do not know that this question is exactly directed to that aim.

Senator FAULKNER—So you will let us know, Mr Corey, what options are being looked at?

Mr Corey—Yes.

Senator FAULKNER—Thank you. Could the committee be apprised—I suspect you would not have it, and I would understand if you did not have it at your fingertips—of the functions at which the Federation Guard has actually been used to date? Would someone be in a position to make that available? As I said, I understand if that is not available now. If it is not available now, could you take that on notice?

Mr Corey—It does not look like it is available. We will take it on notice.

Senator FAULKNER—Do you know on how many occasions that unit or part of the unit has travelled overseas since its establishment in January of this year?

Lt Gen. Hickling—We will take it on notice.

Senator FAULKNER—Can someone tell me whether the Federation Guard was involved at all in the recent Korea trip of the Prime Minister?

Mr Corey—There is much shaking of heads behind me.

Senator FAULKNER—Does that mean no?

Mr Corey—I am suggesting that it means no. If you can give us all your questions on the Federation Guard, we will take them on notice and come back with a definitive answer.

Senator FAULKNER—Normally answers beget questions, as you know, Mr Corey.

Mr Corey—I know they do, Senator.

Senator FAULKNER—If you do not provide any answers, you do not get any questions. It is a good way of operating.

Mr Corey—I would love to provide answers to you, Senator, if I had them.

Senator FAULKNER—I am pleased to hear that. I do not know whether the Federation Guard went, but surely someone would know that, wouldn't they?

Mr Corey—Does somebody know whether the Federation Guard went to Korea? They are very reluctant to come up here.

Senator HOGG—They are very shy today, Mr Corey. That is most unlike them.

Senator Newman—I guess they came prepared to talk to you about defending Australia.

Senator HOGG—This is a very important issue.

Lt Gen. Hickling—To my knowledge, the Federation Guard did not accompany the Prime Minister to Korea. I will confirm that and advise if that is not the case. To my knowledge, no, they did not.

Senator FAULKNER—Do you know if there were any plans for the guard to go?

Lt Gen. Hickling—Not to my knowledge.

Senator FAULKNER—The problem that we have got here is that it is a long time between now and the next estimates round. It might appear to have been a very short time between this and the last round—and if anyone made that observation I would say to them they are absolutely right. But the next round is an awful long time away, so it is hard to follow these issues through. I would like to know that, if I could, if there had there been any plans; if so, whether there were any particular conditions put on the nature of the unit that had undertaken that role; if so, what the conditions were and at whose request they might have been made. Sadly, I will have to leave you here because I have to attend to other matters.

Mr Corey—We will attempt to get those answers back to you before this hearing is completed so that if there are some follow-ups you will get the opportunity, if you have the time available, to follow them up.

Senator FAULKNER—I would point out that at the additional supplementary round I did raise the issue of the Federation Guard.

Mr Corey—Yes, you did. We had assumed the answer to the question on notice had satisfied those questions, but obviously it did not.

Senator FAULKNER—Mr Corey, I even doubted the accuracy of the answer, given Mr Flood's statement, so if we could nail it down I would appreciate it. Thanks very much.

Senator HOGG—Whilst we are in this overview area, could I take you to page 13 of the PBS. I can find a counterpart for table 1.2 on page 12. Table 1.3 I can understand as being a new table. But table 1.4—where do I find its counterpart in the previous estimates? I know the problem we are talking about and I am trying to get it on the record.

Dr Williams—The previous document had 22 outputs that I think it would have identified in a few places; certainly there was a matrix up the front which presented an equivalent set of numbers. I have just had passed to me the last PBS, from the previous year. If you go to table 1.11 in that document, on page 21, it gives you the equivalent sort of data for what was than the 22 outputs.

Senator HOGG—So there was a translational table from cash to accrual?

Dr Williams—The table in the previous PBS is exactly the same. It presents accruals, the same information. It presents a comparison of the estimated outcome from the previous year to the budget year.

Senator HOGG—But the difficulty with table 1.4 is that, if I take output 1 in table 1.4, can I go to table 1.11 and find the exact components?

Dr Williams—No, because it is not a simple matter of mixing and matching. The 22 we had before have been redefined to 27 suboutputs for internal management purposes. In part, that reflects that what we have done is create a new output, which is Defence operations—military operations, et cetera—and that is intended to capture the things we are doing in areas

like Timor. Previously, under the 22 structure, that would have been spread across a number of areas. So that is a new output which will draw money from each of those areas, particularly from areas that are involved in things like Timor.

In the case of Army, I think there has been some criticism in the past that it was not sufficiently fine-grained for our internal management purposes. So what we have done is to split up what was a fairly large single output in Army, output 11—Capability of land task force operations, into various components. Again as the secretary commented, some of that is probably in need of further refinement. Army is perhaps more difficult than the other services to split.

So there is, if you like, an element of grouping some of them to get to the current five, but there is also an element of some new areas created and a bit more shifting. I can run you very quickly through an example. Defence operations is a combination. It picks up the previous command of operations—for which a figure was shown in the old PBS—pretty much in toto, although there could be some shifts at the marginal level. It also picks up military geographic information, under the old structure. It picks up international relationships and contribution to international activities, although there again some of that is split and picked up under policy advice as well. It picks up contribution to national support tasks, the old No. 21, and it adds the new ADF military operations. So that is the composition. Let me see if I can run through quickly: the figures in the previous—

Senator HOGG—Can I just stop you there. Thank you for identifying those. How do you get the figure of \$1421 million?

Dr Williams—Let me run through that, if I can, going through the old figures. I will run down very quickly through the figures that were in the previous PBS for those areas that remain more or less the same. Under the first one, defence operations, we now have the figure of \$1421 million. The previous figures at the AEs time—I will not go back to the previous budget but use the AEs for simplicity—

Senator HOGG—Just hold a minute. Have AE, will travel.

Dr Williams—If it is easier, I can go to the PBS. I can you give you either figure, whatever is convenient.

Senator HOGG—No, I just want to be able to follow it. Where is the relevant table in the additional estimates?

Dr Williams—Senator, if you go to table 1.4, on page 12 of the AEs—that is the large matrix table—and if you look at the last column, for the old output 1 you will see a figure of \$458.5 million.

Senator HOGG—Yes.

Dr Williams—I will run down the figures there, just to try and give you an explanation of where the shift has been. We are focusing here on the new ‘defence operations’ and looking to reconcile that figure of \$1421 million. The figure in the PAES was \$458.5 million for the old output 1—Command of operations. Because of redefinitions and reattributions, and remappings of what is now defined under command of operations—some items that were held centrally were considered to be more appropriate there—that figure of \$458 million in terms of estimated outcome for the year is now estimated at around \$600 million. That is in very

round figures. As I say, we are still refining our attribution rules. So the step from the \$458 million to the \$601 million is one we still need to refine further. If we then go down—

Senator HOGG—All right, could I just stop you there, if you do not mind. You have gone from \$458 million to \$600 million.

Dr Williams—That is because it is not exactly the same. The old output is not the same.

Senator HOGG—We are not comparing apples with apples?

Dr Williams—Not exactly, no. Some of the rules in terms of the attributions are still being refined. I can perhaps at the break, if you wish, Senator, go through some of this with you in more detail. That might be helpful. But, if you like, I can run through this example to get the numbers.

Senator HOGG—The reason I am getting this on the record is just to highlight the difficulty that there is in going from the PBS last year to the PBS this year—which you have conceded, and I am not denying that. It really gets down to the issue that I have raised with you people before, in terms of this committee, in terms of those keen insomniacs who love reading PBSs, PAESs and the like, having some confidence in the huge amounts of money that are at Defence's disposal to be spent. I am not questioning your integrity. I am questioning the availability to ordinary people such as me, the transparency that should and must exist. I accept your offer.

Dr Williams—If you like, Senator, I can run through this particular example and give you the numbers—

Senator HOGG—Yes. I think that would be very helpful.

Dr Williams—and I am happy, at the break, to give you a rough feel for some of the others. But let me run through the outputs that broadly have been translated across, with some change, to the new structure. It is now our new Output 1, and we have a figure of \$1,421 million as the cost in the new PBS.

Senator HOGG—Yes.

Dr Williams—If I go to the PAES, that comprises the old Output 1, Command of Operations, which had a figure of \$458 million.

Senator HOGG—And now \$600 million?

Dr Williams—And now \$600 million, but it is a different definition. It does not reflect the change.

Senator HOGG—I accept that.

Dr Williams—We have the old Output 24, MGI, which had a figure of \$197 million.

Senator HOGG—The old output?

Dr Williams—Output 6, I am sorry.

Senator HOGG—I was going to say you are on a different table to me.

Dr Williams—I am sorry, my numbers do not match. Output 6, the MGI, was \$197 million. That figure has now been refined under our new attributions and mappings to about \$240 million in round figures—\$239 million.

Senator HOGG—It is \$239 million.

Dr Williams—Yes. That will be partly real because you will see that we have introduced the two hydrographic ships that have been brought on board which has an impact on capital use charge and depreciation, and so you will see that reflected in the explanations. That will give rise to what was a real shift as we go in these numbers, but there are also mapping and other—

Senator HOGG—But that \$239 million is the—

Dr Williams—It is the expected outcome. That will be largely variations in the way we have done our attributions, et cetera.

The next element which translates across fairly directly is National Support. Unfortunately, I have not got all the right cross-references here. The National Support is \$67.9 million. It is Output 21 and the figure was \$116 million. National Support goes from \$116 million. Because of the redefinition of what is policy and support, et cetera, the figure in the latest one is around \$68 million. In a sense, in all cases we are comparing things which are largely the same. I would make one exception. Some of the numbers will pick up Timor because the AEs document did not have Timor included whereas the figures I am quoting as the refined numbers are trying to compare it with the new PBS. So, with Timor added, that would not particularly affect the National Support or MGI, but it does affect some of the others.

There are a couple of new areas that have been added. We have ADF Military Operations, which is the new suboutput, which is about \$434 million. That essentially picks up things like Timor and a range of other activities where Defence is out doing operations. It would pick up some of our Defence cooperation—

Senator HOGG—So that is \$434 million?

Dr Williams—Yes, but again qualifying the figures with what I have said before.

Senator HOGG—Where would that have been last year?

Dr Williams—That would have been spread across everything. Timor was separate before. So what we have done in getting to the new PBS is added Timor in, but in also changing our structure, what would have been added into Army is now shifted into this new structure. There will be some other non-Timor activities that we were previously undertaking that would have been spread across all those areas. All those force elements that were engaged in the activities would now be grouped.

If I can get back to the philosophy. The first output, Defence Operations, is really what the ADF and Defence more generally are out there doing. That is what we are delivering. The next three outputs are capability related. We are saying what we provide to government is options to undertake a range of operations. So Output 1 is the doing, if you wish; Outputs 2, 3 and 4 are the ability to do things, which we provide; and the final one is policy advice. So we deliberately took Defence Operations because we wanted to give visibility to the things we are doing as distinct from what were just the capabilities we were maintaining.

If I can just complete my explanation. We also have another new area added, International Relationships, which has a figure of about \$78 million. That figure represents things like the Defence Cooperation Program where again we are out there actually doing things as distinct from just having a capability to do something,

Senator HOGG—What was that?

Dr Williams—International Relationships.

Senator HOGG—That was there last year.

Dr Williams—We had previously International Defence Policy which picked up both the policy element and the Defence cooperation element. So, if you like, it was mixing the policy from the doing bit. What we have done is pull the two apart.

If I can run down the figures—and I stress that these are indicative, because we have only had an initial run-through of our new attributions—there is about \$601 million for the command of operations, about \$434 million for ADF military operations, \$239 million for military geographic information, \$78 million for international activities and regional engagement and, finally, about \$68 million for national support. The sum of those numbers, with appropriate rounding, gives you—

Senator HOGG—Was that \$68 million?

Dr Williams—About \$68 million. I have rounded those to the nearest million or so.

Senator HOGG—And that will give you the—

Dr Williams—That will give you the \$1,421 million. As I say, we have only done an initial run-through of our attributions, so some of those figures may shift as we refine it, and we will be doing that as we move towards the AEs. You will then see the shift, and this becomes what you could say is a real shift, because that first number—unlike the AEs and the previous PBS, which did not include Timor—the \$1,421 million, includes Timor and therefore it is a fair comparison with the \$1,387 million for the budget estimate. So we have not only changed our structure; we have pulled the Timor figures in to include them as part of our figures now, rather than being treated separately, as they were in the previous documents. You can see that what has happened here has been virtually an insignificant drop in the figures from \$1,421 million to \$1,387 million. The explanation for that will be given under output 1, further on in the document, where you will see the various reasons. It is a host of ups and downs. There is a range of factors.

Senator HOGG—All you have convinced me of, in the short time that we have going through this, is that, firstly, there is a need for some sort of transitional document for people such as me to be able to follow. It would be something that I would have before me, in a hard copy sense. I think we are going to spend a fair bit of time today going through a number of these documents, so bear with me, because it has not been clear.

Dr Williams—We are in a very similar position to when we moved from the program structure to the first output. At the time, I think you and others commented that it was difficult to make the linkage. I think we are in a similar position here, going from 22 to five, which is based not on the 22 but on a different combination of them. You are right: it is difficult, as it was in the past.

Senator HOGG—I think it will be easiest if, at some stage before we get too far into the day, rather than you having to call a whole host of figures out to me, you can give me a copy.

Dr Williams—I can run through them at the break and explain the numbers to you.

Senator HOGG—And if you can give me a copy, I think that is absolutely essential. Without taking up the time of the committee now, I will be seeking a similar explanation, at the bottom of page 13, for 2, 3, 4 and 5.

Dr Williams—Again, I can go through that with you and give you the information.

Senator HOGG—If we find there are other things that I need to put on the record, we can come back to that at a later stage. There was a similar table to 1.4 in the previous PBS, which was table 1.11. Table 1.5 on page 14 is new?

Dr Williams—Essentially, that is just to give visibility of the Timor costs—a fairly obvious inclusion, particularly as we have absorbed the figures now in our overall global budget. Whilst it is still identified specifically for Timor, you will see all the financial statements include the Timor numbers, so that summary table, 1.5, was included so that you had some visibility of what was the Timor component rather than, if you like, the base budget.

Senator HOGG—Why is the capital use charge, estimated actual, 1999-2000, seemingly out of proportion? I know it is only a part-year, but the amount is—

Dr Williams—Are you referring to the \$9 million?

Senator HOGG—Yes, the \$9 million as opposed to the \$27 million in 2000-01.

Dr Williams—The capital use charge will grow as the assets grow—

Senator HOGG—I accept that.

Dr Williams—so as our capital acquisition program starts to take effect and we gain equipment, we will then pay a capital use charge. In the first year—1999-2000—basically we can work out the capital, but that \$9 million is 12 per cent of what we actually added to the books in terms of net increase in our assets. Then you will see that in the next year—2000-01—we are planning to substantially increase the assets, the equipment we are acquiring under the Timor vote, so the capital use charge goes up. If you consider that figure to be 12 per cent of our cumulative equipment acquisitions through the Timor vote, that is why you will see it rise and plateau out. You will then get depreciation, of course, starting to take effect, and that is why it will start to drop off later because the depreciation will drop and therefore the capital use charge will drop with it.

Senator HOGG—Thank you. Can we turn to page 16. This table was the basis of some discussion at our briefing the other day, and I said that it would be helpful if an explanation of this table could be put in the *Hansard* record.

Dr Williams—We passed a copy from the minister's office on to your staff at the start of the meeting. We have an explanation of the shift. It is the \$304 million shift you are referring to, I take it?

Senator HOGG—It is the \$304 million shift. We should identify that for the sake of the record.

Dr Williams—We can put that on the record formally. If you wish, we can provide a copy to the secretary.

Senator HOGG—We can incorporate the answer from the department on that in *Hansard*. Would you explain that briefly now.

Dr Williams—Certainly. The first thing I would stress is that the figures we have in this document include Timor, so you will see significant differences between this and what you might consider corresponding tables in previous documents. Timor was of the order of \$900 million or so this year. Basically, adding Timor in gives us a new estimated actual outcome for the year of \$11.9 billion, and the budget for this coming year now we estimate to be \$12.2 billion. The difference is \$304 million. That results from a number of factors and they will be included in the information we can table. In part, they reflect the information that is contained in table 1.8, which gives you an indication of some of the real variations that the government has made to the budget. I should first say, though, that the underpinning principle is that the budget is a zero growth budget. In other words, the starting point is that our base has been corrected for the CPI, and various indices, et cetera, but remains at zero growth in real terms, so there are pricing exchange adjustments. On top of that, we have the items that are indicated

in table 1.8. We have had an additional amount of money which is for the Defence Housing Authority because of the more commercial arrangements they are going into—that is the \$68.9 million. We have \$20 million—

Senator HOGG—Could you give us an explanation of the \$68.9 million?

Dr Williams—Essentially, there are two main effects—and you can pursue this further with the DHA later. Broadly, the DHA has to achieve two things. One is that it is now required to pay the same range of taxes that would apply to other comparable organisations in the housing sector—not only GST but some of the land tax and other items that it was previously exempt from. Roughly, half of that \$69 million is a result of that, so these would be increased taxes. The other half is that the housing authority is also required now to provide a more commercial rate of return on its net assets. In order to do that, again, the charges to Defence will rise. So Defence will need to pay an extra \$68.9 million—that is the estimate here—to the housing authority. That money will go back to the government essentially as tax or as an increased dividend. So, if you like, it is somewhat of a notional amount in and out, but it is meant to try to put the DHA in a more commercial frame of mind and look at the management of its assets in a more commercial way. Again, you could take that up later, if you wish, with the DHA people themselves.

The second figure is in relation to the reserves initiative. We obtained a \$20 million increase additional to our zero growth budget, and that was to provide some initial money so that we could move towards a more viable reserve arrangement. It would address things such as employer and employee incentives—some member incentives and also employer incentives. How that will be achieved is a matter at present under consideration by government and may well be picked up as part of the white paper process. If you move down ignoring—

Senator HOGG—Can I stop you there? So there is no indication when that decision will kick in?

Dr Williams—The decision has been taken to put the money into Defence, but how it will be spent will be subject to some further government consideration over the next few months. It may drift into the white paper process, but that is up to the government.

Senator HOGG—Is that speculation on your part that it will fit into the white paper process, or has that been clearly indicated?

Dr Williams—From my understanding at this stage it seems a reasonably logical thing to do, but the government may wish to make a decision earlier, if it wished to get some expenditure earlier. So that would really be an issue for government to decide. But it is the kind of thing that would seem to fit fairly nicely within a much broader white paper process. It is partly speculation on my part.

If I could move down the list, ignoring the fairly small amount for the national information infrastructure, \$600,000, the next figure in that list is the \$480 million, which is from the sale of defence property. That does not affect our defence budget. That is essentially sale of assets and that is the share of that revenue money that goes back to the government. Again, it affects our balance sheet but not our funding for the year. The item below that, the \$80 million, is again—

Senator HOGG—Could I stop you on that \$480 million. Again, this was an issue that we canvassed at the briefing last week. Have you got a broader explanation for that?

Dr Williams—Let me go to the cash flow statement, where it might be easiest to follow it through. In table 2.3 on page 39, you will see at around the middle of the table a number for the budget year of \$820,400,000. That is the total net proceeds from sale of all assets that

Defence expects to get during the budget year. That is for property, IT equipment and a range of other bits and pieces. Down the bottom, towards the end, you will see cash transfers to OPA, half a dozen lines from the bottom, and you will see a figure of \$480,200,000. That is the amount that would be returned to government and you see it reflected in table 1.8.

The difference between the \$820 million and the \$480 million is funding to be retained by Defence. So it is sales of assets off our balance sheet for which Defence retains the amount. The \$480 million is sales from the balance sheet that are returned to government. The difference between the \$480 million and the \$820 million comprises a couple of things. It includes the sale of property within what Defence is allowed to keep. Under the government rules, Defence can retain up to one per cent of its global budget each year in asset or property sales. So included in that figure is that amount.

Senator HOGG—What is one per cent of the global budget, roughly?

Dr Williams—In the order of \$120 million. So part of the balance between the \$820 million and the \$480 million is that. The remainder is things which involve, principally, the sale of IT equipment, where we are planning a sale and lease-back program. You will see over time—this is a particularly large year because it is a fairly significant sale program—that it does continue on. You will see in the table at 1.8 that there are some figures—\$50 million, for example, in 2002-03. So those numbers will be reflected again in the cash flow statement.

Senator HOGG—So that \$480 million being returned to the public purse, as I understand it—

Dr Williams—Yes, that is correct.

Senator HOGG—is really dependent upon the sale of a number of properties.

Dr Williams—Yes, it is. We could give you details, as we get on to defence estate, as to how that is to be done and what is involved.

Senator HOGG—I would love to talk to Australia's leading real estate agent when that comes around. Are you still that person?

Mr Corey—I just sit and look over the top of it now, to make sure it does not get out of hand.

Senator HOGG—Good.

Dr Williams—Essentially, as I say, of the \$820 million, \$480 million is returned to government and the balance is retained by Defence. What is retained by Defence is largely IT sale and lease-back money and also the property—up to the one per cent of our global that we can retain.

Senator HOGG—What happens if all the properties are not sold for one reason or another?

Dr Williams—Whether or not they are sold would be a risk either to the defence budget or to the broader government's budget. If we did not achieve the rate, that would obviously impact on the government's overall position or if it was from our share of the money it would affect our overall position. In our case we would be looking to monitor that closely. Presumably, at AEs, if we thought we were starting to look doubtful, we would be trying to adjust it at AEs and report back. From the government's point of view, that would need to be addressed by Finance in terms of how they would respond. The actual sale of those properties that are in the \$480 million would be handed over to the Department of Finance and Administration, to the asset sales area, to deal with. So really, it is their risk and for them to manage.

I stress again that I said at the outset that those are the net figures. In some cases where we are talking some facilities, the sale will involve some repair work or whatever and there will be some costs we incur through the sale that would be deducted. These are not the gross amounts; they are the net amounts. Given that we are largely talking office accommodation in terms of property, there should not be significant offsets. It should not be of a particularly large cost to us.

If you are happy I could move on to the \$80 million figure back on table 1.8. The \$80 million figure is again additional money that the government has given to Defence beyond the zero growth budget real increase for the year. That is to fund a range of measures. Half of it approximately is to improve our information systems. You will have realised some of the challenges we have got at the moment. The money there is to go into our information systems to help us to do very much the sorts of things that you have outlined to get a better handle on our reporting and management of outputs and accruals. That is about \$40 million. How that is to be spent and in what areas is being considered now and will be through the year.

The remaining amount, the other \$40 million, is largely for logistic support type activities. It includes refits for a couple of ships that we might have to slip out for a year and it was decided better to add funding to the Defence base so we could carry on this year. It also includes some money to assist in rectification of some of the reserve equipment areas where we have drawn equipment to assist in Timor, for example, and we now need to make good the equipment. The balance of that \$80 million is used for that purpose.

The final amount is the \$128 million, which again is a real increase to the Defence budget. That is \$128 million to cover the initial work on the submarine project. Others could give you more detail on what is involved but, in short, we are looking at almost twice that amount of money. The balance is already in the Defence budget and has been previously approved by government, so this is the balance that brings us up to of the order of \$260 million. That total amount will be spent to overcome some critical problems with the submarines in terms of noise, across all six boats, but essentially it will focus on bringing two boats to the standard where we can put them comfortably to sea in our immediate region. Admiral Briggs can perhaps give you more detail of how that would be achieved.

Senator WEST—There is no out year expenditure on that.

Dr Williams—This is the balance we need to get this first phase done. The idea was to achieve the work necessary—again, Admiral Briggs can comment. I think the target date was the end of this calendar year, but he can confirm that. The idea was to get those first two boats out quickly—solve the immediate problems with the six and get two out—and then there are further phases planned that would need to come forward for consideration. There would be judgments about what number of boats to what level and we would have to make funding decisions beyond that.

I just confirm that the current work is to be completed in the current financial year, so that is why the funding is all in the current year. We do have some programming in our forward projections for later years which would allow us to do some further work. It would be a decision for the white paper as to how far government wants to go in terms of what level of capability, in what time frame and to what numbers of submarines. That is a matter for the white paper.

Senator HOGG—But that \$128 million brings them to a minimum level of capability for operational purposes?

Dr Williams—It will bring two boats to the stage where we are satisfied in regional contingencies. Clearly, there is an enormous spectrum from dealing with the most capable submarines in the most demanding area down to dealing with the more representative submarines of our region, so you have a judgment of how far you want to go. What we are saying is that there is a minimum level we believe we need to get to and the goal here is to get two boats quickly to that level—hence this money. The judgments then as to what you do with the remainder and whether you push to higher levels is something that government will consider in the white paper.

Senator HOGG—You are saying that all of those items there, whether they be expense measures or capital measures, go to the explanation of the \$304 million?

Dr Williams—The \$480 million does not because that is purely on the balance sheet, but the \$68.9 million, \$20 million, \$80 million and \$128 million all do. On top of that, as I mentioned before, in converting from the old cost basis to the new one we have price and exchange adjustments which are added. Again, that would be included in the table.

We also had, for reasons of cash flow over years, some funding shifted from the current year and the previous year. We also have some funding shifts between next year and this year. So it is not a shift to our base but an argument we put that it is an advantage in bringing forward money or slipping it. Again, that would be included in the table. But there are some adjustments without varying our base—either spending late one year or early the next year.

The other element is for the wholesale sales tax removal. With the introduction of GST and the removal of the wholesale sales tax, we would expect to achieve some savings. Although Defence does not pay WST as such, some of our suppliers will pay WST on items that are their overheads. So we do not recoup that money. We do not pay on their direct product but we may not recoup some of their overheads.

Senator HOGG—You are saying that is a saving as well?

Dr Williams—That would be an expected saving of the order of \$165 million. That has been estimated through modelling.

Senator HOGG—Why is it not reflected in that table if it is a saving?

Dr Williams—Because this is part of the price and exchange. It is not actually a budget measure; it is rather like price in exchange. It is adjusting for changes in price exchange, tax regime, et cetera.

Senator HOGG—So it is something that you have attributed across a whole range of outputs?

Dr Williams—It would be. It would focus, presumably, mainly on areas like support command and acquisition, because they are clearly the ones likely to incur the larger amounts.

Senator HOGG—How does one test that you have in effect made that saving?

Dr Williams—At this stage, the budget will be deducted by that amount. Clearly, the incentive is on Defence to push hard in those areas to ensure that we achieve it. If it turns out that we cannot achieve the level that has been set, certainly my view would be that we would be looking to raise that issue, probably at additional estimates in the first instance. As you would appreciate, at this stage we can only estimate these figures on the basis of modelling. Whether the modelling is accurate remains to be seen.

Senator HOGG—How will this committee test that?

Dr Williams—You could certainly put that question to us at additional estimates as a first point, because if there were a shift, that would be reflected in the budget figures. You would

see that represented as one of the adjustments we had made at additional estimates. If there were no such adjustments you could assume that we were still pushing along to achieve that number and you could perhaps pursue the question then. Of course, finally, in the defence report or in the next year, if there had been a shift, you would see that reflected at the end of the year.

Senator HOGG—Thank you for the explanation of the figures in that table. I go back to the figure of \$20 million, because that is an interesting figure. You said it is an allocation; there is no specific program or initiative in mind at this stage; and the likelihood is that it would be determined as part of the white paper process.

Dr Williams—I am saying that there have been a number of concepts developed within Defence for how we might improve the reserves. Those have not yet been put to government for agreement. Therefore, we cannot be sure exactly how the government would wish to proceed. But the government, by contributing this money, has given a clear indication that it wishes to pursue some action. So we are developing the proposals.

With respect to the sorts of things, there are a couple of elements. One is that, on the legislation side, you would be aware that there is a plan to change legislation so that reserves can be used more broadly. That is the first initiative that is under way. But the government's view, clearly, is that there is a need also to put additional funding into the reserves. The sort of areas that have been identified as possibilities are employer incentives, so that there is less concern from employers about releasing people; and also, as necessary, greater member incentives. The potential to use members in a wider range of contingencies as per the legislation is in itself perhaps an incentive. So the government needs to look at those measures. We are developing ideas internally and we will put those to government and they will make a judgment on them.

Senator HOGG—Why would you not hold off on an allocation until the additional estimates? Why put it here?

Dr Williams—From a budget point of view, the expectation would be that the government wishes to expend some money. Given that this is additional to our budget, it indicates the government's priority for this particular area. One could say that if you were uncertain as to how you were going to spend it, wait until the AEs, but I think this is not so much a case of whether, but of how; in which case the money is allocated and then the specific measures can be picked up through the year. So it is an indication of the government's priority in this area.

Senator HOGG—No money in the out years?

Dr Williams—Again what we do in the out years will be subject very much to the consideration of government, in terms of the priority they want to apply. Then the issue is whether this is something which a government would judge we ought to fund from our current base or which would be subject to additional funding. Prior to, probably, the white paper, I do not think there would be an indication from government as to what they would intend to do. Getting back to your point, as they have not made that decision it would be inappropriate to put that in the forward estimates as additional funding. The judgment just has not been made as to what would be done, how much it would cost and where it would be funded from.

Senator HOGG—Is there, in last year's PBS, a table comparable to table 1.8?

Dr Williams—I will see if I am correct. I am not aware that there is. Defence is moving increasingly—and it is part of the process we are going through with the department of

finance at the moment—to try and align Defence's budget mechanisms more with what other departments have. Allan Hawke mentioned the global budget. One of the problems—

Senator HOGG—Here comes an answer, I think. It is called the cavalry.

Dr Williams—The lists here are what is referred to in government parlance as budget measures. Defence did not previously have budget measures, so in previous documents they did not exist. But, as I say, the government is looking to align Defence more with what other departments do, where there are funds allocated specifically for particular items. In the past, Defence had a global budget and quite considerable flexibility to shift money between areas. We had choices as to what we allocated. Obviously, the minister ultimately had a say on that.

The process we are going through at the moment, as Allan Hawke mentioned, is to review our global budget. I guess in the past it was probably seen by some external to Defence as being a bit of a slush fund and we had flexibility; what I think Defence would see it as now is actually a constraint, because we are at the stage where, when we say we would like additional funding for something, we need to be able to justify it. From our point of view, that is why we are actively looking at the budget. There may be advantages in going more strongly down this route, where we identify budget measures and we are funded specifically for them. So this may well be an indication of the future in the way Defence is funded. That will also, I suspect, be consistent with what you are looking for, in terms of a clearer explanation of where the funds are allocated, for what purpose, et cetera.

Senator HOGG—Right, just as far as we have gone, can you tell me: are there things that were previously in the PBS that have now dropped out? I think we have been able to identify already the things that are new.

Dr Williams—I have not done a complete rationalisation and those who are responsible for the document might be able to, but I think we did mention that the defence cooperation program is not listed.

Senator HOGG—We did talk about that. Yes, that is one.

Dr Williams—We can certainly provide that for you. There has been a shift in presentation. The DRP has been shifted but is still there. DC is one notable omission, but I have not personally done a reconciliation to see where the changes are.

Senator HOGG—You are not an insomniac as I am.

Dr Williams—If there are omissions—as I say, DC is one—we could certainly give you the information. I think it was a judgment on what was useful or not. Also, in the previous documents there were, as I said before, the matrix tables which had groups and outputs. But we are uncomfortable that, by the time you get to elements in the matrix, those numbers are just not reliable because of our attribution rules. We felt it was inappropriate to give what was really not reliable information. The shift from one time to the next just reflected our evolving system, far more than anything else.

Senator HOGG—Is there a carryover from one financial year to the next?

Dr Williams—Under accrual accounting we now have the ability to carry over cash. Going back in time, there was very little flexibility. We then moved to a stage where there was a limit and we had some rules that applied. Under accrual accounting there is, in theory, no limit

to what cash we can carry over from one year to the next. The advantage of that is that it removes what might have been a rather poor incentive in the past, to spend up to achieve the cash spend. In that sense, I think that would have to be identified as one of the real advantages of accrual accounting. In our current year, we are still going through the end of year outcome and we are looking to manage both the operating statement and the cash position. We would probably look to roll over some cash through the end of the year to meet some of the payments before we get our first draw-down on our appropriation in the new financial year. We would probably be looking quite deliberately to roll over a bit of cash. But, if we finished up having an underspend in capital, for example—which is not likely; capital at the moment is probably going the other way in terms of our looking to put more money into it—we would have the ability to roll that money over and spend it the next year.

Senator HOGG—Was there a rollover between the 1998 and 1999 financial years?

Dr Williams—I was not here at the time. I cannot give you an exact answer. I am not sure if we can follow it up. We can perhaps take that on notice.

Senator HOGG—If someone can get back to me at some stage of the proceedings, I just want to find out if there is an expected rollover from 1999-2000 to 2000-01.

Dr Williams—We can certainly take that on notice and chase it up. If we can get back to you before the end of the session we will. I am not sure how easy it will be to dig that out.

Senator HOGG—There is no fixed quantum of rollover?

Dr Williams—No.

Senator HOGG—As previously?

Dr Williams—No. Basically, under accrual accounting we can roll over the cash. We now do our own banking. We are given the appropriation and we manage that and invest that, which you can see reflected—

Senator HOGG—I note that there is an interest figure, which we will come to later on.

Dr Williams—Yes.

Senator HOGG—I presume that is pretty much tied in with your rollover figure—some of that would be invested?

Dr Williams—Because we get some of the drawdowns on our appropriation ahead of time, obviously we want to have a bit of a balance to work from. Then we have some funds at bank through the year; it fluctuates, but we would have some positive amount. We invest that overnight or in fixed deposit, depending on our judgments about how quickly we will need the payments, and we accrue interest as a result of that which is now reported. In looking at our budget, Finance make an assumption as to what interest they would expect us to get and they would adjust our budget. If we can do better, then we make a profit. If we do not invest wisely, then we could run a loss.

Senator HOGG—All right. Where will that be seen? Is it later in the documentation?

Dr Williams—You will see, as you mentioned, that in the financial statements there is a line that reflects the interest and our estimate of what we are returning. There is a figure of \$14 million, roughly.

Senator HOGG—Fourteen?

Dr Williams—For the current year.

Senator HOGG—If I recall from last year's PBS, without turning to it, there was no out figure at that stage?

Dr Williams—The previous year?

Senator HOGG—Yes. I think there was reluctance to put an out figure in there.

Dr Williams—We have only picked up the banking function as of this year, so to some extent it is pretty much a new thing for us. The assumption was initially that it was a no-win no-loss position with us, but Finance, probably rightly, have argued that we should manage it. They make an assumption over how much we will earn. If we do better we can keep it, as I say.

Senator HOGG—If you invest wisely, the return on the investment is additional?

Dr Williams—Our expectation is that this year we may make a small profit, we may do a little better than the figure that Finance have argued, but we will understand that better as we do our end of year financial accounts.

Senator HOGG—So you keep that and that helps bolster your budget?

Dr Williams—Yes. Finance would then next year estimate what they think would be a reasonable return and that may increase, depending on where interest rates and other things are going.

Senator HOGG—So it does not come off your appropriation as such?

Dr Williams—In working out our appropriation they would estimate how much they would expect us to get in interest and they would expect us to pay that. All being well, if their projection is correct, we would get that much interest and it would be neutral in terms of our budget. If we did better, then we could keep that extra margin and we would have some additional money in the budget. If we did a bit worse we would lose. So it really depends on how we go. If we felt that circumstances had changed dramatically and the amount that had been estimated up front was unreasonable, we could perhaps address that at the additional estimates or whenever.

Senator HOGG—How will we know whether you have invested wisely or badly? Where will that be reflected?

Dr Williams—In the end of year financial statements you should get some indication. It is a question of what is 'wisely', I suppose is where I am really coming from.

Senator HOGG—The dividing line will be zero. If you are above zero you have invested wisely, if you are below zero then you are in trouble.

Dr Williams—What you will be able to get from our end of year financial statements would be an indication of how much interest we have actually gained, so that should be quite visible. The judgment as to whether we have invested wisely or not is fairly complex because it depends on the rate at which we are paying bills and the rate at which we are having drawdowns and, hence, how much money we have got and whether our decisions about the length of investment, the fixed deposit, were right.

Senator HOGG—What assistance do you get in making those decisions?

Dr Williams—We work with the Reserve Bank. We have arrangements there; they provide a banking service for us. We have a small section that we have started up to deal with our banking and treasury function. They have to make judgments, from experience, on when they believe there will be demands on cash for payments and when the drawdowns will occur. They have to make judgments about the length of deposits, the interest rates depending on

length of time, et cetera. It is rather like anyone else investing money—you make those judgments. If they get it wrong and invest too much they pay an overdraft as a penalty, et cetera. It is a matter of having a team in our organisation that makes those judgments. But, as I say, we work with the Reserve Bank, and Finance are also there to provide guidance and assistance if we wish.

Senator HOGG—Will you get any assistance other than what Finance and the Reserve Bank offer? Do you have any consultancies to assist you in this area?

Dr Williams—We have at various times in our banking and treasury section pulled in consultants to give us some assistance in the setting up, for example. We have had the ANAO come in and do a review of the function, and they are working closely with us at the moment as we move towards the end of the year. We have also pulled in another set of consultants to do another review for us just at the moment. This is obviously a fairly critical area for us. It is new to Defence, so we are taking it fairly seriously. We are looking at both internal and external auditors.

Senator HOGG—It is critical also in respect of the fact that you have such large amounts of money, as opposed to many of the other departments.

Dr Williams—Yes, bearing in mind that we do not get the full appropriation of funds drawn down.

Senator HOGG—No, I accept that.

Dr Williams—We are fluctuating but, yes, it could be some hundreds of millions of dollars at any one time that we have.

Senator HOGG—What interest rates do Finance set for you to achieve? Do they set a rate?

Dr Williams—No, they set a figure. It is a combination of what would be the likely rollout of payments, what would be the likely drawdown of appropriation and what sorts of rates of return we might get. I am not sure there is a huge amount of science in it. There is an element of estimation because there are so many imponderables in all of that. They would have some experience from their broader banking on behalf of the Commonwealth in the past, so they have estimated an amount. As I said, if we believed that were horribly wrong, we would no doubt have the option of raising that and looking at some adjustment.

Senator HOGG—What if you are horribly wrong? Who cops the blame then?

Dr Williams—As I said, in the current year, if anything, we think we may do slightly better and make a slight profit.

Senator HOGG—I am very pleased about that. But if it were the case that things had not gone well, that they went badly, where does the responsibility lie? Does it lie with Defence?

Dr Williams—If it were through incompetence in Defence then those who are accountable, people such as me and the people I have involved, would be accountable—if it were generally very poor management. If it were external circumstances—that is, changes in economic circumstances—then that is where I would argue that we would be looking to the Department of Finance and Administration and the additional estimates process to make adjustments. So there would be an accountability inside the organisation to people such as me and, ultimately, the secretary.

Senator WEST—How are you going to ensure the secretary does not get any little surprises that she does not like?

Dr Williams—We have a number of changes. I guess we are at a stage of enormous change. We have moved this year, not only as a start of the budget 12 months ago to full accruals and output reporting but also to picking up the banking and treasury function. We also report monthly on our financial statements to Finance. We have to input that for their projections. We have added on top of that, as well as what are, if you like, the soft closes of our financial systems monthly, hard closes in order to get a better quality of data. We did one at the end of February and we are doing one at the end of this current month as well as at the end of the year to give even better quality data. Having done those financial statements monthly, we then undertake some analysis of that to try to project where we think things are going and we report that to the Defence executive, which is chaired by Allan Hawke, on a monthly basis. So it becomes one of the regular items raised. Over the last couple of months, as we are getting towards the end of the year and particular management attention to issues is needed, then I would give a report and brief the executive on what we think are the actions to be taken. But we are very much in development mode, as I said, not just in the output reporting but also in other things this is a pretty significant time of transition for us.

Senator WEST—Can I just return to table 1.8 and your \$20 million for the reserves. Can you indicate to me wherever else in this document there might be other money allocations for initiatives that have not yet been decided upon?

Dr Williams—There would be nothing quite equivalent to that. These are the particular measures. I suppose you could argue that we allocate money to any new project that we have and through, for example, the white book, as the year progresses we may not progress as quickly as we expected on some items. So we would be adjusting the money between areas to reflect the rate at which a project has arrived.

I would make the general comment that it is part of the overall management of most parts of the portfolio. We allocate money at the start as to what we expect to spend, and how we spend that in some cases is refined. If you take salaries, it is relatively clear. We know broadly the amount, we know the number of people, we have a bit of a plan for how the numbers will change and we can project pretty well ahead. Suppliers' expenses are somewhat similar although it does depend. If Timor crops up or there is a change of pace in activity, you can get an unexpected shift. But with things like capital investment or these sorts of initiatives like the reserves, where you have not really thought through the precise details, we would evolve that as we go.

Senator WEST—I am just getting confused because we seem to have some things appearing in the budget and forward estimates and we seem to have other things that we are being told will appear as money amounts in the additional approps. I am trying to get my head around what is the rationale for the answer to some being that it will be in additional approps, while for others, when there is no initiative that has yet been decided upon, there is an allocation already set aside.

Dr Williams—I do not think there is anything we would be planning at this stage to raise new in the additional estimates. I have mentioned banking and other things—WST. We may, if we consider that circumstances change from our current projections, wish to revisit that in the AEs. But there is nothing that we are saying we may want to do this year but we have not as yet put money aside for it. So the only item which is of the nature you are referring to is the \$20 million, and that is fairly common, where we say, 'Here's something we want to do,' the government wishes us to do something through the year, but we clearly need to go forward and identify exactly how we would spend it. The same thing, as I said, does apply as our normal budget process with major equipment. As the year progresses, we will come forward

to government periodically to get approval, to sign contracts, to do whatever, and that determines the rate at which we spend cash. But that is part of our normal process. The reason that this is identified here, this one particular item, is because it was additional money given to Defence and, because it is tied to that particular activity, it is not part of our general base that we can use for other purposes, so it is identified as a specific budget measure.

Senator HOGG—Like a tied grant, is it?

Dr Williams—Essentially, yes. It is tied to the particular activity.

Senator HOGG—How many other tied grants, if we can call them that—

Senator WEST—Special approps.

Dr Williams—The items listed in this table. With respect to the Timor money, although we are including it in our budget now, we have to reconcile at the end of each month what the expenditure is. What money is not spent in relation to Timor—that includes the force generation element as well—will be returned. You will see that, from the original \$860 million that was programmed for the current year, we are now down to \$740 million. There will be some other areas which we have specifically supplemented. I refer, for example, to our activity on Bougainville. You might have a particular supplementation specific to that activity. Timor is a significant boost to our budget and that is a big management item. Most of these other items tend to be smaller amounts which are for specific items. If you take, for example, the Housing Authority one, the \$68.9 million is an estimate now of what we expect for the year. With respect to what the likely outcome would be, we would monitor what happens over the next, say, three years and at the end of that time we would come to some agreement with the department of finance as to what is an appropriate adjustment to our base. From then on, the Defence base would be adjusted. It would then be part of that base and we would not have to account for it separately.

Given that we do not really know for sure what the amounts will be, we need to get some feel for it. Banking and treasury is a similar sort of thing because it is totally new for us to do this. We need a period of time where we are not heavily penalised as we are starting to get a feel for what the costs or gains would be.

Senator HOGG—I am sure if there are other questions they will arise when we get to the notes on the accounts. Thank you for the explanations there. You will provide me with a detailed list of what was previously in the PBS and now no longer is there?

Dr Williams—If I can catch you at the break, we can work out what might be convenient for you. I will run through the numbers I have got here and if that provides what you want, we can see what we can get for you.

Senator HOGG—I will move to page 20. Again, I think we had a discussion surrounding table 1.9.

Dr Williams—Senator, do you want an explanation?

Senator HOGG—Yes.

Dr Williams—If you want detail, we will need to get it with Peter Dunn when he is here.

Senator HOGG—No, do not disturb Peter Dunn at this stage. Your broad explanation will do because we will have more detailed questions later on.

Dr Williams—That is fine. Let me run through the figures fairly quickly. What you can see is that in the regular force there is a drop in Navy of about 184 regulars. That is really as a result of some of the difficulties Navy is having at the moment in recruiting. It has not been able to achieve the levels it has wanted and so the numbers have dropped. You will see that in

the Army there is an increase of 605. That really reflects predominantly the extra effort going into the Timor activity. That is somewhat simplistic but that is largely Timor related. The Air Force is coming down—

Senator HOGG—Could I just stop you there? Are they new personnel or existing personnel?

Dr Williams—I can touch on that in a moment, if you like, when I get to reserves.

Senator HOGG—Yes, and that is why I have led with the questions.

Dr Williams—Yes. I will move on to the regulars in the Air Force. Air Force had a fairly significant effort to get down to its DRP numbers, so it is continuing to drop. You will see that. There is also, I think, a similar problem in terms of recruiting that is running across the three services. The net of all that is the drop of 89 in the regular force, a fairly small drop. In broad terms, that really reflects two things: one is a continual decline due to the DRP savings measures, and the other is a rise due to Timor. So the 89 figure is the net effect of that.

If you then move on to the reserves, you will find a fairly substantial drop in the Army by about 583. That obviously is partly wastage rates and other unavoidable losses, but I understand a significant part is the movement of people from the reserve into the regular force to participate in Timor. So, getting back to your previous question, a significant part of the rise of 605 in Army is, I understand—and Peter Dunn can confirm later—movement from the reserves to the regular force. Again, you have a drop in the overall reserves in total.

Finally, in the civilians there is a drop of 568, which is largely again the DRP continuing to bring numbers down. You can see that reflected in what is an overall drop in our operating expenses for employees for the year as a result of what is an overall decline.

Senator HOGG—I can go from table 1.13 in the previous PBS to table 1.9. The target strength for reserves, as I understand it, in 1999-2000, was some 30,695, but the estimated outcome for the year is now 26,706, a shortfall of some 4,000, or 13 per cent. How much of the shortfall is estimated to be due to the failure to recruit sufficient numbers of personnel? Is that a General Dunn question?

Dr Williams—Yes, I think that is definitely a General Dunn question, I am afraid.

Senator HOGG—I will save that question for General Dunn.

Senator HUTCHINS—With regard to the 583, you said that you felt a number of them may have gone into the permanent force. Do you have an actual breakdown of—

Dr Williams—Again, General Dunn would need to give the details. He would have a handle on that. I am going largely on the broad advice I have been given, which is that there has been a reasonable number of reserves who have actually opted to go into the regulars and presumably Timor is a significant part. I cannot comment on whether they all served in Timor. But, again, General Dunn could give you a more detailed answer.

Senator HOGG—I have one further question. If I can go back to page 18, I will just clear up all my questions rather than having to go backwards and forwards. With regard to the \$40 million that you outlined as part of the \$80 million on the previous page—the two figures of \$40 million—you said that one was for ship refits, et cetera. Is any of that money set aside for equipment for reserves?

Dr Williams—Yes. As I said, the \$80 million you can split into two amounts of \$40 million. One is for the IT—the information systems—and the other \$40 million is largely logistics related. Of that \$40 million on logistics, there were the two components. One is for some particular ship refit work and the other is for remediation of some of the reserve equipment.

Senator HOGG—Do we know the split?

Dr Williams—I do not have the detail. I am not sure there would be a precise number at this stage because this would be refined by Support Command through the year. Again, we might take that up when we are talking about the Navy program perhaps. I venture to say—

Senator HOGG—Who would it be best to take that up with? Is there such a thing?

Dr Williams—If you wanted the reserve element, to see whether there is any indication from that side, the Army would be the place to take that up. If you were looking at the ship refit to get any information as to what ships and how much was there then Navy would be the appropriate area.

Senator HOGG—So that is an Army-Navy question?

Dr Williams—As I say, to some extent I am not sure, and I could certainly say for the IT equipment that we have not yet refined what the break-up will be.

Senator HOGG—Could I then take you to page 23—

Dr Williams—Excuse me, Senator, could I just go back? I have just had suggested that if you like you can take that last issue under Support Command right at the end and that might pull it all together for you, if that is convenient, rather than doing it under Navy and Army.

Senator HOGG—All right. There are people listening and so long as someone will answer the question, I do not care where we get the answers specifically. Let me take you to table 1.12, major capital equipment. Again, I flagged this issue the other day in trying to go from the PBS to the PAES. The reason I am so intent on questions here is that with the PAES we were advised that \$380 million had been taken out of the capital budget. It caused me to have a closer look. I have actually drawn up a table for myself and it raised a few issues in my mind in, again, trying to track what was there and what was not there in terms of projects that appeared in last year's PBS—why they were not there this year and whether they were part of the slippage. If they are part of the slippage, then what I am looking for is some sort of notation to tell us that that is part of the slippage or that this is part of the addition to the capital budget and so on. I looked at the Evolved SeaSparrow, for example, and the cumulative expenditure to 30 June is \$165.9 million. Yet if you look at the estimated cumulative expenditure to 30 June 2000, it is \$134 million. Can you tell us simply why?

Dr Williams—I can give an initial comment, and then Mr Roche may wish to give more detail. With all of these projects at the start of the year, you need to make an estimate of how much progress will be made. There has been some fairly strong ANAO and other criticism of Defence of making payments on occasions before the earned value, so clearly we are dependent upon the rate at which the companies achieve their work. To some extent, what we project at the start of the year does not always come to fruition and so there will be, at times, a difference in payments. That is a general statement, but if you wanted specifics on that project, Mr Watters could help you.

Mr Watters—I will have to take the details of that on notice for you, but, as Dr Williams said, it is often that these projects do slip through the course of the year. The Evolved SeaSparrow Missile is being provided for installation on Anzac ship 05 which is due for delivery later next year. We understand that plan is still on track.

Senator HOGG—If I take you through—and you will see that I do read these documents fairly systematically—the cumulative expenditure—

Senator Newman—We can see that.

Senator HOGG—I know you know that, Minister. The cumulative expenditure—I didn't go to the annual report though—was \$165.9 million and the budget estimate for 1999-2000 was \$74 million. We then go to this year where it says the estimated cumulative expenditure to 30 June this year is \$134 million, and yet in the additional estimates that is one of the projects that has slipped by \$45.4 million.

Mr Watters—That project is being conducted by a consortium of 13 NATO countries plus Australia. There is some flexibility as to how much we pay into that consortium from year to year.

Senator HOGG—The slippage there, or the reduced expenditure and the PAES, was \$45.4 million. Is that purely a timing factor that you are talking about?

Mr Watters—I do not know the precise details but I can get those for you.

Senator HOGG—If you go to the high frequency modernisation, again the cumulative expenditure to 30 June 1999—the estimated expenditure—was to be \$112.6 million, yet in this year's PBS the estimated cumulative expenditure to 30 June 2000 is \$95 million.

Mr Watters—There has been some slowdown on that project. There has been some slippage.

Senator HOGG—There were also projects that were not reported in the PBS of 1999-2000 yet were reported in the PBS of 2000-01 that show expenditure to 30 June. Why were they not included in the PBS last year? I will give you examples: Bushranger, the M113 upgrade, Seahawk, MILSATCOM, and I know some of those might be down the bottom but they were a global figure as opposed to being a specific figure in the 1999-2000 PBS.

Mr Watters—Do you want to go through each of those in turn?

Senator HOGG—Could you give me some indication, please?

Mr Watters—MILSATCOM went to contract towards the end of 1999. If you go back to the PBS of 1999-2000 it appeared as one of our projects that at that stage was not yet to contract.

Senator HOGG—Yet it was included in the global figure of \$488.5 million—is that correct?

Mr Watters—I cannot see that figure.

Senator HOGG—On the right-hand side.

Mr Watters—That is correct, yes. These tables are constructed according to spending in the budget year. They are therefore the 20 largest spenders in the budget year.

Senator HOGG—I accept that. What about the M113 upgrade?

Mr Watters—The M113 upgrade project, I believe, at this stage is still not yet to contract. We are proposing to spend \$31 million on it according to the table you have in front of you.

Senator HOGG—It is not to contract yet the estimated cumulative expenditure to 30 June is some \$39 million.

Mr Watters—There has already been some expenditure on components. There is a contract change proposal being proposed for that one.

Senator HOGG—Is it to contract or is it not to contract?

Mr Watters—It will be done as a contract change proposal. There is an existing contract with Tenix to refurbish vehicles at Bandiana. The upgrade will be done at Bandiana as a contract change to that refurbishment contract that is already in place. There have already

been some components purchased for the M113 upgrade in anticipation of the main contract being signed in the near future.

Senator WEST—When was that contract let?

Mr Watters—That is a Support Command contract which I believe is of some standing.

Senator WEST—I am confused, and I suspect Senator Hogg is as well, as to why in last year's PBS you have \$48 million, or however many million it is, for items that are not yet to contract, and yet we start to ask and they appear. I am confused as to why some of them—

Senator HOGG—Senator West is expressing my confusion very well indeed.

Senator WEST—Why have we got some that are specifically stated here 'not to contract', listed as such, and this year we have not got a clue what is to contract and what is not to contract?

Mr Watters—At any point in time there could be 20 or 30 projects in the white book that are not yet to contract. We did not show them in this year's table—that is correct.

Senator HOGG—This is one of my criticisms, because we must be able to follow this. This is not a document that is put together for the purpose of Defence, and Defence alone. It is for people such as us to use. I go through and see that for air to air weapons \$84 million is estimated to be spent to 30 June 2000, and yet I do not think it rated a mention in the top 20 last year.

Mr Watters—That is explainable. These numbers do jump around a little bit. They are not steady state projects; they do peak and trough as progress occurs.

Senator HOGG—My question would be: why were air to air weapons and air to surface not mentioned in the top 20 projects at the bottom of page 29 in last year's PBS? There were projects that were mentioned last year at the bottom of page 29 of the PBS—

Mr Watters—Sure.

Senator HOGG—which have now fallen off the top 20 list for this year.

Mr Watters—We can go through those, if you like. The FFG progressive upgrade is now in contract. That went to contract in June 1999.

Senator HOGG—I have got that up in my top list, so that is all right.

Mr Watters—That is right. The additional light armoured vehicles is a contract change proposal that is not yet in contract. Light tactical aircraft is still not yet in contract. Airborne early warning and control is currently in contract negotiations. And, as I mentioned earlier, military satellite communications is now in contract. That went into contract towards the end of 1999.

Senator HOGG—Have you got last year's PBS there?

Mr Watters—I have an extract from it.

Senator HOGG—If you go to the night fighting surveillance capability—

Mr Watters—Yes.

Senator HOGG—That does not rate a mention this year. Or the active missile decoy.

Mr Watters—The night fighting surveillance capability appeared in the PAES, but it is likely that the expenditure has dropped down to take it out of the top 20.

Senator HOGG—If things like that do happen, then it is handy for us to get an explanation on the ins and the outs, as to why they are in and why they are out. I do note that invariably there is an explanation, in this case in the PBS on pages 24, 25, 26, 27 and 28,

which is a reasonably detailed explanation of the project. But what that does not do is specifically identify, in some cases, what the initiative to be addressed this year is. What I am trying to do is get a base laid such that we know where the changes are happening in the PBS, why they are happening and, therefore, in some way are able to attribute the change in costs.

Mr Watters—This table is simply designed to explain which are the largest projects in the white book according to annual spend. The explanation then tries to give you a potted summary of where those projects are at.

Senator HOGG—I accept that. But having placed it in the PBS, one sits down and tries to follow what is happening. It is the same for the program of works at page 29 in the PBS. I will raise that in a few moments. I am looking for some sort of consistency, so that when people are here, they are not suspicious of what might or might not be happening. If something has fallen off the top 20 list, if there could be a notation saying it has fallen off the top 20 list for some reason, that would help. If something was additional or new to the top 20 list, we could clearly identify it as being a new project.

Mr Watters—We will try to do that for you next time. I think one of the things that you need to bear in mind though with the top 20 list, particularly for the projects not yet to contract, is that the numbers can be very variable at this stage of the year because how much we pay as a down payment on contract signature is always subject to negotiation. That is why we did not show the numbers for the projects not yet to contract stage in previous documents.

Senator HOGG—I accept that. But the additional estimates offer an opportunity for significant changes there to be drawn to our attention.

Senator WEST—On that 1.12 table, how many of those projects are yet to go to contract or are having the contracts amended?

Mr Watters—M113 is a contract change proposal. Out of that list I believe that is the only one that does not have the main contract in place yet.

Senator WEST—So the rest have all had contracts signed?

Mr Watters—There has been some contract activity on the M113 upgrade, but the main contract change proposal has not yet been negotiated.

Senator WEST—What has happened with the light tactical airlift capacity that was on the list for last year? Is that the Caribou replacement?

Mr Watters—That is correct.

Senator WEST—We will get to that when we get to Caribou?

Mr Watters—That is right.

Senator WEST—Have the additional light armoured vehicles gone to contract?

Mr Watters—No, that is not in contract yet either. That is also being done with a contract change proposal. We have already procured 150 of those ASLVA vehicles and we are buying additional vehicles as a contract change proposal. That is currently being negotiated and is not yet into contract.

Senator WEST—So we don't yet know how much those additional vehicles are going to cost?

Mr Watters—We would have a reasonable idea. It is not signed and sealed in contract terms yet.

Senator WEST—Thank you.

Proceedings suspended from 3.45 p.m. to 4.03 p.m.

ACTING CHAIR—I understand, Mr Corey, that you have some information that you want to provide to the committee in answer to some previous questions from Senator Faulkner.

Mr Corey—I have got a number of answers here to Senator Faulkner's questions on the Federation Guard. The Federation Guard did not accompany the Prime Minister to Korea on his recent visit, nor was there any plan to do so. I have got a list of activities that I am tabling of what the Federation Guard has done since it has been established. The only overseas task in that was the catafalque party at Gallipoli—13 people at Gallipoli on Anzac Day. The other question related to the article in one of the papers, I think in the Melbourne *Herald*. It reported on Phillip Flood making a statement about the Federation Guard involvement in Australia Week in London. The public relations people in Defence did follow up that article. They followed it up with both the minister's office, and received confirmation that no decision had been made, and with Foreign Affairs and Trade's public relations people. They also said that they felt the article was speculation and they were aware that no decision had been made. Subsequently, there have been a number of journalists who have followed it up with our public relations people and they have been referred on to the Department of Foreign Affairs and Trade.

ACTING CHAIR—Thank you, Mr Corey. Those answers will be conveyed to Senator Faulkner.

Dr Williams—I indicated that I would have a word to Senator Hogg in the break just in connection with the numbers you were seeking. I stress again that the figures we have got at this moment in terms of the suboutput break-up are somewhat indicative only, but I can pass that over to the senator to assist him to do some of the reconciliation.

Senator HOGG—I would be quite happy for that to happen.

ACTING CHAIR—Yes, Mr Corey.

Mr Corey—Just one other item on the Federation activities: Senator Faulkner also asked what activities Defence was going to be involved in next year as part of the Federation celebrations. No decision has yet been made on that. Proposals are being developed within Defence and we expect them to go to the minister some time in July this year.

ACTING CHAIR—Thank you, Mr Corey. We will return to questions.

Senator HOGG—I was just going to make some reference to table 1.13 at page 29. I am again doing the exercise going from the PBS to the PAES to the PBS this year. On the Townsville RAAF redevelopment stage 1, if I look at the documentation from last year it had approved cost in 1998 prices of \$70.1 million and the budget estimate for that was last year \$2 million. The approved cost has now gone to \$79 million. The estimated cumulative expenditure to 30 June this year is \$1.3 million and the budget estimate for this year is \$20 million. Why has the approved cost gone up by nearly 10 per cent?

Mr Bain—Senator, the original figure of \$70-odd million did not include provision for the light tactical aircraft project and that is the sole reason for the variation.

Senator HOGG—So the extra \$9 million or so is for the light tactical aircraft?

Mr Bain—Yes, or facilities associated with that project.

Senator HOGG—Right. Is that an add-on to the existing contract or is it a new contract?

Mr Bain—The position in relation to the light tactical aircraft has not been confirmed yet, so that would need to be an adjustment.

ACTING CHAIR—It has not been to the Public Works Committee either, has it?

Mr Corey—No. It has not.

ACTING CHAIR—I did not think so.

Mr Corey—But as part of the approval for the light tactical aircraft project there was a facilities component in there. I think this figure here now, the \$79 million, reflects the combination of the two projects, but that element has not been to the PWC as yet.

Senator HOGG—So there are two projects there: one at contract and one yet to go to contract.

Mr Corey—That is right.

Senator HOGG—And that is the difference of the \$9 million. The \$20 million is therefore estimated to be spent, in 2000-01, on which of those two projects?

Mr Corey—That \$20 million is forecast to be spent on the ongoing \$70.9 million redevelopment project.

Senator HOGG—So what about the other project? Is any of that \$9 million to be spent?

Mr Corey—I am not sure, Senator. We would have to take that on notice, but I doubt it.

Senator HOGG—All right. And if I can take you to—

Mr Corey—As the chairman said, it has not been to the PWC yet and so with the time frame for that to get through it will be very doubtful if anything will be spent against the light tactical aircraft.

Senator HOGG—Yet it appears in the budget?

Mr Corey—No. What is shown on this statement is the totality of the project. The expenditure that is in the budget is the \$20 million which is against the redevelopment project.

Senator HOGG—But not all of that approved project cost is approved at this stage?

Mr Corey—It has been approved. The light tactical aircraft project, which included a component for facilities, was approved.

Senator HOGG—Thank you very much for that explanation. I take you then to the Eden Navy ammunition facility. Is that one and the same as the expenditure back in 1999-2000 at page 21 where the approved project cost is \$73.1 million?

Mr Corey—I do not have the detail in front of me, but it is the same project.

Senator HOGG—It is just that the approved project cost in 1999-2000 was \$73.1 million and I note that, according to the current PBS, the approved project cost is \$40 million.

Mr Corey—I would have to get the detail. Just to give you a bit of background, this project is one that started off as an ammunition facility at Point Wilson. Subsequent to the Public Works Committee consideration of this project, a decision has been made to scale down the facility, do the ammunitioning a different way and build the principal facility at Eden rather than Point Wilson. There will still be some expenditure at Point Wilson, which was principally for import of munitions. The other part of the component is for what is happening at Eden. I think we will have to get you a reconciliation of those figures.

Senator HOGG—I would appreciate that because there is a substantial difference between an approved cost last year of \$73.1 million and an approved cost of \$40 million according to this year's PBS.

Mr Corey—There was an approved cost originally of \$235 million.

ACTING CHAIR—I can maybe help by saying that the Public Works Committee rejected the original proposal. It was approved but it was rejected. That is why it is now a \$40 million project.

Mr Corey—We will get you a reconciliation.

Senator HOGG—If you can. The other issue is the Albion decontamination. In last year's PBS, it was an approved project of \$38.6 million in 1998 prices. In 1999 prices, it is now \$28.6 million.

Mr Corey—Off the top of my head, I would say there is a typo in one of them, either last year or this year. We will have to check that.

Mr Bain—Over the last year, the remediation plan for the Albion site has been further developed. These figures reflect the current position where we have a better handle on those estimates.

Senator WEST—While you are looking at the Eden Navy ammunition facility, page 34 of last year's PBS indicates that the approved cost was \$67 million and that expenditure to 30 June last year was \$6 million. There are some more figures to throw in about the Eden facility.

Mr Corey—As I said, we will get you a reconciliation because it has kept moving. As we have identified the solution to the problem more firmly, the estimates have been varied.

Senator WEST—Yes, I have some more questions to follow up on it in Navy too, so Navy can be alert.

Senator HOGG—If you can give us a reconciliation on those three items, it would be appreciated.

Mr Bain—Certainly.

Senator HOGG—Last but not least, the Australian command and staff college at Weston is \$28 million. The approved project was \$25.7 million and it is now up to \$28 million. Why the increase? It is not a large increase but it is about \$2 million.

Mr Corey—I would suggest that it is probably the out turning of the costs. I would have to follow that up. They are approved at a value at a time and then we out turn the price and cost-cap them. I assume that is the explanation, but I will confirm that.

Senator HOGG—Are there any plans for housing for that project at the Australian Command and Staff College at Weston?

Mr Corey—There will be a change in the demand in Canberra for defence housing.

Dr Williams—You are referring to the Defence Housing Authority quarters?

Senator HOGG—Yes.

Dr Williams—As I understand, there is a development planned to support the college at Weston. You might want to take that up with the Defence Housing Authority that could give you some details at the end of the Defence session.

Senator HOGG—Any idea what the project costs are?

Dr Williams—I could not give you the details. I understand there is a development somewhere in the Stirling area that is in the planning stage. Again, the people from the authority could give you more detail.

Senator HOGG—Do you have a ballpark —

Dr Williams—No, sorry.

Senator HOGG—Not even a ballpark figure?

Dr Williams—No.

ACTING CHAIR—I understand that when the discussions were being held in relation to the move from Queenscliff to Weston Creek one of the issues raised at the Public Works Committee hearings was whether there would be a requirement for extra housing if the staff college were to move to Weston Creek from its current location in Queenscliff. I will have to check the record but I understand that one of the answers given during that inquiry was that there would be no requirement for extra housing if they moved from Queenscliff to Weston Creek.

Dr Williams—Again, this is really a matter for the Defence personnel executive and the Defence Housing Authority. There would be an issue of whether there were a net increase in housing—and the housing authority is an independent agency—and they would make a judgment on how they provide the housing. They may make a judgment that they wanted to get out of some old housing in Canberra and move into new. Again, you would need to explore that with them. I am not sure whether the new housing planned in that area is a net increase, or is perhaps just part of their ongoing program of building where they need, and moving others. It may not be a net increase but, again, they can clarify.

ACTING CHAIR—It is my recollection that it was not the Defence Housing Authority that gave us that answer.

Mr Corey—I could probably answer that. The overall impact on defence housing would have been a zero sum gain. We would have been getting out of housing either leased or owned in Queenscliff and offsetting it against the housing requirement in Canberra. Whether it is leased or owned, I guess we would have to ask the Defence Housing Authority. That would have been the basis of the advice to the PWC.

ACTING CHAIR—I will have to check that record.

Dr Williams—Perhaps I could give an answer to one question that Senator Hogg asked earlier. In relation to the cash rollover of money, as I said earlier, under the full accrual arrangement now we do not have constraints really in terms of the cash we can roll over. In fact, we would at this stage expect a surplus and rolling some money into the next year.

My advice is that going back to the 1998-99 and the 1999-2000 transition, we did not roll over cash. In fact, we brought forward an amount so we actually had a bring-forward on our 1999-2000 appropriation of \$179 million. That was in order to meet some payments towards the end of the year. You will see that, I think, reflected in the summary we have given you of the \$304 million. You will see that that is one of the adjustments that occurred.

Senator HOGG—Thank you, Dr Williams. The next question I need to raise is in respect of page 33, market testing decisions expected in 2000-01. Is that best asked here or do we wait for later?

Mr Corey—Probably it is better asked now. Some of it will be Support Command by the look of most of those and some will be across a whole range of groups.

Senator HOGG—I want to ask about the health services.

ACTING CHAIR—Should some of these have been done with the outputs? I think when we get to the outputs it might be easier to handle those things.

Senator HOGG—The next set of questions goes into what is happening in section 2. Could I take you back to page 11 in the overview, to the third dot point, the \$100 million in new initiatives for reservists.

Dr Williams—That relates essentially just to the sum of those figures we referred to earlier, the \$80 million and the \$20 million. The \$100 million is the sum across those areas.

Senator HOGG—Okay. In respect of the operation in East Timor, I understood we were to have a percentage of the costs incurred by us recovered from the United Nations. I think it was a third, if my memory serves me correctly. When can we expect those costs to be recovered and are they reflected in table 1.5 on page 14?

Dr Williams—The table on 1.5 gives the total cost estimate. We will be fully appropriated to cover that amount, so that will cover our costs. We do expect to receive some receipts from the UN. The estimates depend on a fairly complex set of rules the UN applies, but our general rule is probably a third is a reasonable indicator for the operational part. We certainly will not be refunded for the mobilisation force generation we are doing here, but we will for the operational part.

Senator HOGG—No, I understand that.

Dr Williams—On your second question, the money here will cover our payments and our expenses. We will then have a return from the UN. There would be some delay when that occurs. My understanding is that that would be reflected in our administered statements.

Senator HOGG—Where would that be? That is what I was looking for.

Dr Williams—If you turn to table 2.6 on page 42, for example, what you have got is the budgeted statement of revenues and expenses for our 'Administered'. The 'Administered' is largely relating to military superannuation. However, in this case the funds that we receive—the revenues—will include some money from the UN. If you look at the amount remitted to public revenues down the bottom, you will see a figure that is \$96 million in 1999-2000, which would be essentially the contribution of military members to the superannuation. You will see that figure jump to twice that amount in the next year and subsequently. The increase is partly because of adjustments in the amount but it is largely the receipts from the UN, which is paid back to the public purse.

The expenditure is covered in our operating statements. The revenue that goes back to government is treated through the Administered. You will see, similarly, up the top—if you look at 'operating revenues'—revenues from government which pays the superannuation and you will then see a figure below that which is 'other'. And again, you will see the jump from \$110 million in 1999-2000 up to the \$204 million which is, as I say, essentially the UN receipt. So as far as it is treated, the money comes into our administered operating statement and then is out to government.

Senator HOGG—What happens if that doesn't come in?

Dr Williams—It does not cost Defence anything because being on the administered statement if we get less in then less goes out. So from a government point of view it would have an impact on the overall government position, but it does not affect the Defence budget. There is also a timing issue as to when it comes in but, again, that is an issue for broader government. So by treating it in the administered, Defence, if you like, is not at any risk. We are fully appropriated and we claim monthly to make sure that we are claiming only on Timor, but whatever funding we need is covered. When the UN receipts come in they go into our administered operating statement and then are paid out to government. So it is a risk on government not to Defence.

Senator HOGG—I understood that within the last week the UN warned that it might not be able to pay nations for the contribution to the East Timor operation because the US Senate has again blocked the US payment to the UN—is that correct?

Dr Williams—I am not aware of that personally. I do not know whether we have any experts on the UN. I am not aware of that myself but, again, from a Defence point of view it is really not an issue. It is for a whole-of-government and I guess it is a threat to the whole of the budget if that were true.

Senator WEST—There was a vote in the US Senate that affected this, with a couple of those renegade rebel senators making the key difference, as I recall. I am sure it was on Cable and—

Dr Williams—There has been an ongoing issue in the US—

Senator WEST—It is not a new issue.

Dr Williams—But I am not sure where it is at the moment and I am not aware of what effect, if any, it would have on this particular issue. As I say, from a Defence point of view, it is really an issue for whole-of-government in that it is really, from our point of view, whatever comes in comes into administered and goes straight out to government.

Senator WEST—If the government is going to recoup less revenue from commitments to the UN, has Defence looked at what that impact might be upon their involvement?

Dr Williams—From our point of view what we have been given in our budget and what has been projected in the forward estimates is the full amount we need to undertake the operation. So from our point of view the government has fully committed to the activity and I guess one could say the UN receipts are somewhat of a bonus. If the receipts turned out to be less than people might have planned for that would clearly have an impact on the overall government position but, as it stands at the moment, that does not affect Defence because the table 1.5 gives the full amount. We have the full appropriation cover for the budget and forward estimates period that we have judged we needed. So at this point in time it should have no effect on Defence.

ACTING CHAIR—In other words, the UN aren't going to pay you; they are going to pay the government.

Dr Williams—They are going to pay the government. It is handled through our administered statement as a bookkeeping exercise, but the appropriation here is not net of that. This is the gross amount we need so that from our departmental operating statement there is not a problem. We have the funds to cover it and the forward estimates projecting that will continue beyond the budget year.

Senator WEST—For Defence planning, what is going to be the impact if Finance does not get this UN top-up?

Dr Williams—As it stands at the moment there will be no impact. If the government were, in a future decision, to say they wish to scale down activities because of that, then that would be a decision for the future, but that is not the situation at the moment.

ACTING CHAIR—Mr White, it sounds like you are itching to contribute.

Mr White—I will try to throw some strategic light on the situation. Yes, I do understand that the recent Senate vote has placed some form of veto on the US providing from within its very substantial—roughly 25 per cent, I think—contribution to total UN funding. It has assessed contributions under the normal Security Council processes for a number of operations, of which East Timor is one, and it goes to those systemic problems that some elements of the US Congress have with the UN. I do not think it relates to any particular reservations on the part of those congressmen about the East Timor operation itself.

It has assessed contributions under the normal Security Council processes for a number of operations, of which East Timor is one, and it goes to those systemic problems that some elements of the US Congress have with the UN. I do not think it relates to any particular reservations on the part of those congressmen about the East Timor operation itself. I would venture to say that, were that to affect the reimbursement of Australia for the costs of elements of the Australian deployment, it would be a very serious issue from the government's point of view, and it is one we would take up pretty vigorously, both with the UN and the United States. Of course, the US administration would entirely agree with us; we do not have a difference with them on that. I will venture this thought: the scale of the strategic, humanitarian and policy interests we have in supporting UNTAET to me suggest the government would be inclined to continue the level of our support for UNTAET and to try to swallow the cost by other means. Whether it chose to do that by eating other bits of the defence budget or by raiding other parts of consolidated revenue, I would not specify, but I make the general observation that the government's priority for the level of ADF contribution to UNTAET seems to me to be very high and robust.

Dr Williams—Looking at the numbers, we are talking about \$100 million of the expected receipts against what is an outlay of about \$948 million. It is a lot of money in absolute terms, but relatively it is not a huge driver of our contribution. The overwhelming costs are really for us to bear anyway.

Senator WEST—The point I was trying to get to was the one that Mr White made: that, depending on what goes on in the US Senate, there are some potential ramifications for the Australian budget and the Australian government.

Mr White—The other point that is worth making is that there is a lot of toing-and-froing on these issues within Washington and between Washington and New York. There seems to be a fairly regular routine of confected crises which somehow end up being resolved at the end of the day.

Senator WEST—It is an election year in the US as well, so there are a lot of forces at play that we have no control over.

Mr White—Of course, a lot of things within US politics are related to issues like birth control and abortion, which are very important issues in the relationship between the US and the UN but do not really relate to these things. It is worth making the point, certainly from my experience but I think it is that of my colleagues and other Australians as well, that the role that Australia has played in relation to East Timor is extremely well regarded in Congress. I guess there would be some scope for us to try to revisit particular issues with them.

Senator WEST—Maybe we should get them to reverse the decision they made last night on agricultural subsidies and put into payment to the UN. It might affect Australia in a much better light.

ACTING CHAIR—This is a drop in the ocean compared with that.

Mr White—It proves to be a very difficult linkage to establish, as you know.

Senator HOGG—I am starting to get to the end of my questions in this overview area. For the record, could you just run through an explanation of the table on page 15?

Dr Williams—Essentially what this table is really trying to identify are the amounts that government will appropriate for us, which, as indicated in the other tables, come from various bills. The majority of the funding comes through bill No. 1, so you will see that on the extreme left-hand column, where you have \$16,104,670. That is the major appropriation covering the defence budget plus the capital use charge.

You will see that the total table is divided into ‘departmental’ and ‘administered’ at the top level. Under ‘departmental’, bill No. 1 is the major appropriation and covers capital use charge, et cetera. We have at the moment no special arrangements, so it is just the one bill. If you move across to ‘administered’ you will see that the major amount, \$1,757,525, comes under a special appropriation which is covering the administered funds, largely for superannuation.

If you move across to ‘administered’, you will see that the major amount of \$1.57 billion comes under a special appropriation covering the administered funds, largely for superannuation. A small amount of the administered budget also comes from the bill No. 1. That is a small amount of money which relates to the Young Endeavour scheme, which is the little add-on to our administered. That is part of administered but is actually appropriated under bill No. 1.

There is another final element I should raise. You will see on the right-hand side, down towards the bottom corner, the departmental equity injection of \$752 million. That figure is also covered under bill No. 2.

Senator HOGG—And the capital use charge?

Dr Williams—The capital use charge will be part of bill No. 1, part of that \$16 billion figure.

Senator HOGG—Just take me to where the capital use charge is in the document. I saw it before.

Dr Williams—If you look at table 1.7, just over the page, you can see there on the second last row of numbers that the appropriation for capital use charge is around \$4½ billion. You have the figure of \$16,104, which is about the third number from the top. That is the revenue from government for our outputs. It is the figure that is reflected over in table 1.6, as the bill No. 1 for ‘departmental’. That includes the actual cost of outputs and the capital use charge component of that, which is the \$4.6 billion figure, second from the bottom.

Senator HOGG—So that is relatively static.

Dr Williams—Yes. Basically that is an assessment of what our net assets will be at the start of the year. We take 12 per cent of that and then the government appropriates us for that amount. That is what the figure is determined on. It just reflects the shift in our balance sheet.

Senator HOGG—The other table is 2.5 at page 41. This is the overall movement for the projected 12-month period. Is that correct?

Dr Williams—Yes. This reflects the shifts in the various assets on our balance sheets. They are broken up into category land buildings, specialist military equipment et cetera. You have a particular value at the start of the year, so there is a value here represented at 30 June. There are then expected additions as a result of acquisitions and developments. There will be some revaluations. We have a rolling process of valuing all of our stock on a three-year basis. We try to roll over the new valuations for everything. There will be some adjustments reflected in that column there. We are then sell some items, so you have the disposals indicated that are planned for the year. That is things like the property sales but also the disposal of some military equipment on the books.

You then get to a gross value at the end of the year. There is then an adjustment for the depreciation on that stock which is also factored in the bottom half of the table. That is the estimated depreciation based on the estimated lives and estimated value at the moment. We have a straight-line depreciation to assess the depreciation per annum.

Senator HOGG—Are those figures reflected anywhere else in this PBS?

Dr Williams—The total figures would be reflected in the balance sheet position. The numbers underpinning the analysis in the balance sheet give a further break-up of the details.

Senator HOGG—Draw my attention to that.

Dr Williams—Table 2.2, the departmental balance sheet, is the one I am looking at. I am just trying to find the particular numbers. To give you an illustration, if you take table 2.2, for the budget estimate year 2000-01 you have the one entry which is the non-financial assets, land and buildings and that is \$6.762 billion. Then you will find that table 2.5 attempts to break that up somewhat more fine grain, so that it will have down the bottom a separate figure for land and a separate figure for buildings. When you get infrastructure, plant and equipment, it gives you a break-up of commercial vehicles, specialist military equipment, et cetera.

Senator HOGG—Say no more. I am with you now. I was trying to relate what I was seeing in table 2.5 back to—

Dr Williams—It is the balance sheet rather than the operating statement and it is meant to give a break-up.

Senator HOGG—Yes. On page 39, cash used in the purchase of specialist military equipment, I understand that is down.

Dr Williams—No. The cash used for the purchase of military equipment, which is essentially within the capital budget, has gone from an estimated outcome from 1999-2000 of about \$2.3 billion up to a figure of \$2.9 billion.

Senator HOGG—Sorry, it is down in the out years. Is there a reason for that?

Dr Williams—A fairly small adjustment. This really is an issue that will need to be addressed in the white paper in that what we are doing at the moment for the out years is working on a forward estimates projection which is a zero growth budget. What we have to do is work out the allocations across our major input areas. So, if you like, this is the amount that we considered is available. It is a small reduction on the current year and that would reflect rising costs for personnel, et cetera. There is also a slight increase this year because we have had the submarine injection of \$128 million and some of the \$40 million for logistics that would be reflected there. So this year is a little higher. Largely, the white paper will need to address that issue of what is the priority and what is the amount for future years.

Senator HOGG—I understand the figure is down on last year's figure.

Dr Williams—No. Perhaps I can work through for you. It is a little complex to follow back through the previous two documents because there have been a couple of changes.

Senator WEST—That is a polite way of putting it.

Dr Williams—This is not one of the more difficult areas.

Senator WEST—That is still a polite way of putting it.

Senator HOGG—Is this another guide to the galaxy? I know what you are going to do when you retire from your current position.

Senator WEST—You have lost me on a whole stack of the other ones, but you have not lost me on this one yet.

Senator HOGG—I have just worked one thing out. I now know why you people make these so devious and complex: so that you can retire and write a guide to it and make it a best seller. That is why you do it.

Dr Williams—I do not think the audience would be large, Senator. What makes this fairly complex is that if I can go to the capital budget, which is perhaps the best way to look at this rather than the cash flow, the capital budget picks up the major equipment element. The cash flow also looks at expenditure on other—

Senator WEST—That is table 1.11, is it?

Dr Williams—Table 2.4. There have been changes.

Senator HOGG—What do I compare that with?

Dr Williams—Let me go back and give you some numbers to try to compare previous documents.

Senator HOGG—It was \$2.7 billion last year.

Senator WEST—It is on page 45.

Dr Williams—First of all, let me give you the shift for the 1999-2000 years. I have three figures. The first figure was in the 1999-2000 PBS; we then have the AEs figure, the PAES; and now we have the current figure for that year. What we have here are the numbers represented for specialist military equipment, which has shifted from \$3.03 billion to \$2.27 billion in the AEs and then slightly up again to \$2.33 billion in this PBS.

Senator WEST—No, you will see that 2.7 does not go up to 2.3.

Dr Williams—From the PBS we were at \$3.03 billion, the PAES was \$2.274 billion and it is now \$2.329 billion. You need to make a couple of adjustments to that to really make a fair comparison. First of all, to make life a bit simpler with the comparison, I will add on the purchase of property, plant and equipment and get the total for the capital payments. I will work with that at the moment to get the totals. Here you will see the figure \$2.894 billion as the total for those two categories. If I work backwards to the PAES, the figure that appeared there was \$2.822 billion, which is slightly less than the expected outcome, and the figure going back to the previous PBS was \$3.578 billion. You may recall that at the AEs the last time around we explained that there were two broad factors at work. One factor was that we had actually made a real shift out of the capital program at AEs. There was the \$380 million from the white book. There was also a small amount from the green book as well. The result of that was to account for a fair proportion—about half of the shift from the last PBS to the PAES. That accounts for that number.

Senator HOGG—What was the shift?

Dr Williams—We have gone from \$3.578 billion to about \$2.822 billion, so it is \$700 million or \$750 million.

Senator HOGG—It is \$750 million.

Dr Williams—That was explained at AEs as being partly this real shift—money pulled out—but also partly a classification issue. We had included in the PBS figures at the last round an amount for the purchase of inventory. You will see in previous documents that we had a figure for inventory. At AEs that was increased, and I can probably find the figures. It was increased by the order of \$300 million to \$330 million. The shift from PBS was half. About \$330 million was merely a mapping issue. We had included under specialist military equipment an amount that really should have been allocated to inventory. It was a classification issue. But there was a real drop of about \$380 million. What you can say is that the PBS—

Senator HOGG—So, it is down from last year's?

Dr Williams—Perhaps you should take about \$330 million, roughly, off the PBS figure to reflect the fact that it wrongly included some inventory in there. You could say—

Senator WEST—It is still down about \$380 million, did you say?

Dr Williams—Let me go on a bit further. If you actually make the adjustment for inventory, you will find the comparison at the PBS would have been 4.227. I am adding the inventory in here to try to give you a fair comparison. It is a bit of an odd number that I am giving you. It is the SME and property, which is the capital budget, but it is also adding inventory which we buy with cash and then actually record as an expense on our operating statement. If I add that inventory in and take account of the correction that occurred at the AEs, you will get the figures going from 4.227 to 3.804 at AEs. What you see there is the real reduction from the white and green books—the capital program. It is a real cut of around \$400 million or so from those areas. It is then shifted back up to about \$4.011 million in the PBS.

There is one further adjustment that I need to add to that: the figure in the latest PBS also includes Timor, the previous documents did not. If you look at the outcome expected that we quote in the PBS, you have to also subtract the amount that is included in the latest PBS for Timor, which is of the order of \$0.091 billion. I will then give you an adjustment for Timor. I am looking at the non-Timor amount. I am trying to give you as level a playing field as I can.

What we are saying is that the 1999-2000 year has gone from the budget estimate—taking account of all the inventory et cetera—of 4.227 which dropped back to 3.804 at AEs, which was a real cut in the major investment programs. Our expected outcome at the moment is about 3.92. So for the current year, 1999-2000, we are saying we took some \$400 million or so. Our current estimate is that we may actually put a little bit back in towards the end of the year, so the outcome looks like being a little higher than we predicted at AEs.

I can then move on. I have got a similar analysis—I will not go through the details but perhaps give you the bottom line—which looks at the 2000-01 estimates. There are a few little glitches in that. Let me first of all give you the figure. The last PBS quoted a figure and I will do the same calculations. What I have got is the capital budget, I have added in the inventory and there was no Timor, so I get a figure of 4.188. That was last year's PBS for the capital budget and inventory. At the AEs, I believe, in looking through the figures, that although we made the correction to the inventory in the budget year we did not do it for the forward estimates period, so the figures are actually in error. But if we make an adjustment for what the correction should have been, then we would have been down to about 3.986. So we had reduced at AEs our estimate of what we were going to spend in the budget year.

Coming to the latest PBS, the equivalent figure, removing our current estimate for Timor, goes to about \$4.051 billion. So what we are really saying is: if you go back to the last PBS, we had estimated, including inventory but not including any Timor amount, 4.188. It is now 4.05. Compared with our expected outcome, we have gone from 3.92 this year, an actual increase up to 4.05 next year.

Senator HOGG—Your guide to the galaxy is looking very good indeed.

Dr Williams—This represented some of my sleepless nights, Senator.

Senator WEST—You are also an insomniac, are you?

Senator HOGG—So that then relates back to page 22, does it?

Dr Williams—Page 22?

Senator HOGG—Page 22 where you have got capital investment.

Dr Williams—Yes, it will. The figure of \$3.327 billion, on the bottom right-hand corner of table 1.11, gives you the total capital expenditure. You will see that is the figure that is on table 2.4—again, the same total capital payments budget for the 2000-01 budget year.

Senator HOGG—So the \$3.327 billion is the total—

Dr Williams—The total for specialist military equipment, land and buildings and other infrastructure, software et cetera, so that is the total capital budget planned for the year, and the capital budget is a cash budget. So you can see it represented in table 2.4, the departmental capital budget.

Senator HOGG—And the capital projects—

Dr Williams—Sorry, if I can just continue, if you go to the cash flow statement, you will see that same figure translated in the total cash used under, again, specialist military equipment. So it is reflected in the three places as a consistent figure. And it is that way because it is a cash rather than an accrual amount—it is the straight cash payments.

Senator HOGG—All right. What are the three new projects on page 22?

Dr Williams—The three listed on top of page 22 were the three that were approved by government in this budget. You are looking at the table with the dollars in it or the actual list of projects?

Senator HOGG—It says there under ‘New projects’, \$10.6 million.

Dr Williams—What that reflects is the first year spend on the projects that were approved in the budget. That figure will generally be fairly small because, as I commented earlier, for most, certainly bigger, projects, they have very little spend early and then tend to ramp up because you are not in contract typically early. The amount you spend in the first year will vary very much from year to year, depending on the nature of the projects. If it is a major new project it will probably have very little spend early. If it is a follow-on phase of a previously approved project, you may spend more in the first year. What we have here is relatively few projects and, by their nature, they do not require much expenditure. So there is a small amount for those new projects in the first year and the majority of the money is for items that were already programmed in previous years—the white book projects that are continuing on.

Senator WEST—My problem has been that this year’s defence capital budget table and last year’s defence capital budget table in the first column of identifying the four items bear no semblance to one another.

Dr Williams—Which table is that, Senator?

Senator WEST—Last year it was 1.14 on page 24; this year it is 1.11 on page 22. Apart from the name at the top, you would be hard put to actually recognise that it is the same.

Dr Williams—What we are now using in the current table 1.11 is what is required under the new financial reporting statements. We have tried to align this with the financial reporting. Again, you can see essentially the same kind of thing —

Senator WEST—I can see the same figures now that you have run the figures off, but I was having difficulty.

Dr Williams—Sorry, I did not catch that.

Senator WEST—I was having difficulty because I could not see anything that was similar.

Dr Williams—The figure in the bottom right-hand corner of both tables represents the total capital budget, so that is the same figure.

Senator HOGG—Senator West's assessment there is a fair one because I have had other places where you have switched things that were on the bottom up to the top, et cetera.

Dr Williams—We are trying to align it more with the financial statements.

Senator HOGG—Yes, but the confusion that you have created in the process has been of substantial order.

Dr Williams—I think you would find that, although the names are different in this table, there is a close alignment between the four in the last budget statement and those in the current, not totally but there is a reasonable alignment. What we now have is a better alignment with what is required under the financial statements, and that was the objective in the shifting.

Senator WEST—That alignment will be the same next year?

Dr Williams—We should be consistent, unless someone imposes a new standard on us.

Senator WEST—Who are they trying to confuse, you or us?

Senator HOGG—Can I take you back to page 22? One of the projects there is, 'aircraft self protection— collaboration with the United States'. Is that going to impact on Project Echidna?

Dr Williams—Experts can give more detail on this than I can. You may wish to pursue it later. Very broadly, what I understand is that we have a collaborative activity with the US, in which we contribute both people and some money, looking at the fairly long-term development of electronic warfare. So it is into the research investigation. Some of that could come forward and deliver products in the medium term.

Project Echidna was really looking for a solution for the medium to long term. This would be seen as something which could inform that and was obviously closely related to it. Strictly, this is not Project Echidna. There were then already some interim solutions we are fitting right now to meet the short-term needs of various aircraft.

Senator HOGG—It won't necessarily impact on that particular project?

Dr Williams—With electronic warfare, the nature of it is that it is heavily software driven. It changes dramatically as new radars and other remitters are brought into the region with new characteristics. You need software which can be readily adapted so that you can adapt to fairly significant change. As a result of that, we want to try and have some capability in-country to be able to understand and develop some of the software aspects of this. By working in collaboration with the US, what we are trying to do is to build up our expertise, to get some access into their technology and their development, so we can have better ability to respond to rapid changes in-country. That is a long-term objective.

As well as that, Echidna is trying to draw on that and other things to provide a solution. As I say, we have interim solutions being fitted to meet our short-term needs.

Senator HOGG—My next question goes to page 32, 'Portfolio evaluations'. What are these evaluations? I have seen them mentioned in the past. It mentions there the Defence Audit and Program Evaluation Committee and what they did for the calendar year 2000.

Mr Neumann—These have not been started yet. The terms of reference are being circulated at the moment. Essentially, we try to look at an issue. We did one a couple of years ago on the Defence Community Organisation, for example; and there is one in draft at the moment on risk management in Defence. The defence audit committee selects them out of the ones put up by a working group which consists of representatives from all the groups each year.

Senator HOGG—Where do these audits end up—at the committee and that is it? Do they go into a black hole?

Mr Neumann—No, they end up with the secretary in CDF and they are followed up through the audit recommendations of the management system database.

Senator HOGG—Do they bring real changes within the defence structure or within the defence culture?

Mr Neumann—Perhaps not as quickly as one would like. With regard to the one on the Defence Community Organisation, for example, it was accepted that their use of statistics and their recording should change. That was accepted and that is being implemented at the moment. So that is a change in approach, if you like. The customer provider one, which did not go down very well amongst some senior members, is being picked up in the purchaser provider arrangements with the department of finance that Dr Williams spoke about earlier. So they do bring change, but change perhaps rather more slowly than some of us would wish.

Senator HOGG—Are they designed to dovetail into changes being anticipated by broader defence changes that are in motion?

Mr Neumann—I am not sure they have actually been dovetailed in that sense. As I said, they come up from a working group. I go out each year and say, ‘What are people’s suggestions?’ That comes up to a working group which sifts through them, and then the audit committee and the Defence executive has a view as to which ones should be done for that particular year. We usually only end up doing about two or three. They are the top two or three, if you like, from perspective of the top Defence organisation.

Senator HOGG—Of the three that are listed there for 2000, how many will be completed?

Mr Neumann—I expect them all to be completed this year.

Senator HOGG—Are the recommendations that go to the audit and program evaluation committee made public?

Mr Neumann—The reports are available. They can be made public if you wish to see them.

Senator HOGG—No, I am just curious.

Mr Neumann—The recommendations usually go straight to the secretary in CDF.

Mr Corey—They are an internal review mechanism. They are part of our ongoing reviews of how we look at ourselves to see how we are performing. They are used for internal management review purposes. I have just been reminded that the outcomes are reported in the annual report.

Senator HOGG—Thank you very much. Can I take you to note 3 on page 49. I thought it was easier to deal with this note rather than go back to the original part. We would have to come back to this note anyway. I note that in the employee expenses the salaries, wages and leave for military are up by 8.26 per cent over the budget figure in 1999-2000. This is not the estimated actual. This is the 1999-2000 budget figure. I worked from the PBS. I notice that that 8.26 per cent is still probably correct over the additional estimate figure. Can you give me some explanation as to why that has happened?

Dr Williams—I can, Senator. If I take that particular figure, the salaries, wages and leave for military, what I should do is go to the additional estimates figure—as you will recall, there was a fairly significant shift from capital into personnel at the time—and the corresponding figure that I have is \$2.595 billion.

Senator HOGG—That is correct.

Dr Williams—That was the figure that we started with. The figures now presented here for the estimated outcome for the year include an amount for the Timor operation. So a significant part of the shift up is the funding for Timor because of the increase in salaries, wages, et cetera from the military. There may be some variation between the AEs and what the final end of year outcome would be, depending on where the numbers fall, but largely that shift is Timor related in terms of that difference.

Senator HOGG—So in looking at that figure in relation to the 1999-2000 budget, the 1999-2000 budget had no Timor factor in it.

Dr Williams—It had no Timor factor, but also it quite significantly understated the personnel costs, as we explained through the additional estimates. The impact of the 50,000, the raising of the readiness of the brigade, et cetera, was a significant part of the reason for shifting the money out of the investment program, the \$380 million, into personnel. So that personnel had a substantial boost at AEs, which resulted in that figure \$2.595 billion. If you add on the Timor amount and, as I say, my adjustments as we get towards the end of the year, that gets you to the figure \$2.831 that we have in the current expected outcome. That is slightly higher, by a fairly small amount, than the figure for the budget year.

Senator HOGG—But if one looks at the figure for civilians, it is nowhere near as large an increase as for the military.

Dr Williams—For the civilians, there will not be a huge impact for Timor.

Senator HOGG—That is correct.

Dr Williams—So that does not have anywhere near the impact on it. The figures I have here again was that the AEs would be 0.811, whereas the estimated outcome is 789. Again, that can be a range of factors, depending on what we achieve. There may be some Timor in there, but it would not be a significant amount. Now we are down to 757 for the budget, and that relates to the reduction in the numbers of personnel. There are obviously lots of ups and downs in terms of the salary rises. There are numbers dropping and all of those things balance out to give you the effect you see here. I would also point out that this is an accrual figure. So it does include some of the leave and other things and there have been some adjustments in some of those areas as we do actuarial assessments and revise some of that. So that is part of the swings and roundabouts. But broadly the difference is Timor.

Senator HOGG—That part of the swings and roundabouts, are we able to identify that separately in here?

Dr Williams—Not at the level here particularly. Basically, the difference in the figure between AEs and where we are now is essentially Timor—as I say, there will be minor adjustments—and any shortfall in the end of year outcome. That would be clearer in the next round when we have the Defence report, which has an actual year outcome rather than the current estimated. In terms of moving to this current year, again the variations are small. There will be an increase for a salary rise. There is a small reduction, I understand, in reviewing some of the accrual elements that were considered to be slightly overestimated before, and there is a slight drop in numbers which will take it down. The effect of all of those is to leave it pretty close—2.83 down to 2.75.

Senator HOGG—If I looked at the superannuation contributions there for military, they went up on the 1999-2000 budget, yet the civilian contribution on the 1999-2000, whether it be the PAES, the additional estimates or whatever it might be, is down.

Dr Williams—The AEs figure I have for the civilian employer contribution is 0.111.

Senator HOGG—Yes.

Dr Williams—It is 0.110 for the actual for the year and 0.106 billion for the budget, so a slight drop again, but only a fairly small drop into the budget year.

Senator HOGG—What is the reason for that? A reduced number of civilians?

Dr Williams—A reduced number of people, yes. There is a range of small adjustments, but predominantly—

Senator HOGG—That is fine. I note that housing military has gone from 282 in the 1999-2000 budget to 313 in the additional estimates. The estimated actuals are 334 up to 414 for the budget.

Dr Williams—Yes. If I go again, starting at AEs as the starting point, it was 313 and 334 is the outcome. That just reflects, for example, particularly Timor where we have moved people. There have been certain entitlements. Families could move back to their place of origin if the spouse was employed away in Timor. The major shift in going from the estimated outcome to the 414 in the next year relates back to that \$69 or \$70 million figure that is supplementation. So the figure for the budget year takes into account the additional tax DHA will pay and the greater rate of return they are expected to achieve. So if you add broadly the \$70 million of supplementation, plus other minor adjustments to our numbers of people, that gets you to the figure of 414 for the budget.

Senator HOGG—The only other figure there was the ‘Other’, which goes from 38 in the budget 1999-2000 up to 284.

Dr Williams—If I go back to the previous AEs, there was a mapping issue that I referred to at the last AEs meeting in which for workers compensation there was an amount of, I think, about \$135 million that was wrongly allocated. If I can go to the figures in the AEs that were the result of that adjustment, it was about 209 becoming 260 and 284. There, again, will be some elements of Timor in that. There will also be the general trends of rising costs. The other category includes things like isolated establishment allowance, reunion travel, health, et cetera. So there is a shift in the cost of health, for example, that will be reflected in overall rise. Some of the Timor things will obviously have an impact on reunion travel and the like, so there will be some Timor effect there as well.

Senator HOGG—Thank you for the answers on that. I will take you back to page 39 for a moment. It was an issue that I raised with you and I just remembered that I did not pursue it, and that is the issue of interest. I notice the interest estimated actual is \$14,019,000. The budget estimate is up to \$20,480,000, \$20,980,000 and \$21,480,000. That is a significant increase, and the interest that will be realised will be over that \$14,019,000.

Dr Williams—As I said, the expectation is that we will do somewhat better than we thought, and we have recently been in discussions with the department of finance. The assessment is that next year they would expect us—given overall economic circumstances, Timor et cetera, full year effect and a slightly larger amount—to be able to achieve interest at a level of \$20 million. So we factored that in and essentially that is what we assume we will get, and that would have been deducted from the appropriation we would have otherwise had. It is partly that we believe we can do better than was the initial estimates at the start of the year, because we can manage a bit more efficiently than we thought. As I say, Timor and other factors—the size of the budget—also account for the shift. There is then an out-turning which gives you the rise over the remainder of the forward estimates period.

Senator HOGG—Thank you. Is it the place to ask a general question about the DRP, or should we save that until later on?

Dr Williams—You might want to ask it now. We can see whether we can deal with it, Senator.

Senator HOGG—What are the significant changes in the DRP for this year and where is the DRP actually at? One could form the view that it is stuck down the back—

Senator WEST—Getting further and further back.

Dr Williams—We need to get the experts. Commodore Lemon can deal with it.

Senator HOGG—Where is the DRP at? Is it alive and well and kicking, or is it in its death throes?

Cdre Lemon—The DRP is basically running on a 1996 baseline. We are going through a quality assurance process at the moment. We believe that, of the original \$773 million worth of savings which were quoted as estimates, we have a reasonable expectation that we will achieve the \$730 million.

There were a following \$146 million worth of savings which were ‘possible savings’. We are moving into a very difficult period trying to actually recover those. You could say we have achieved a lot of the more difficult savings but, because of the fact that the program is so old and we have had reorganisation and shifts in structure since, it has been very difficult to track and relate the costs. We are looking to try and draw the program to a close, not to cast the program out but to bring it forward where we have a consolidated list of what is outstanding and what has not been achieved. We want to bring it together with new reviews and new initiatives to try and bring forward a continuous improvement accounting measure where we are accounting from year to year what we are planning to achieve, what has been achieved and the status so that we are not continually referring to a four-year-old baseline. We are currently in discussion with the department of finance on their initiatives for savings in the defence budget and we hope to pull all these together this year.

Senator HOGG—So really it would be fair to say that we are looking at the winding-down of the program as an identifiable program?

Mr Corey—As an identifiable program, all we are doing is saying that we have achieved these savings under the defence reform program. The other initiatives that are going on we will wind the follow-on into that. So we can account for it in that sort of context. I think as Syd was saying we have got a baseline trying to establish a baseline that keeps moving. We keep doing more things and making different decisions and to try and reconcile it is a bit like the budget estimates.

Senator HOGG—I will have some other questions on the defence reform program. I note it is a section at the back from page 115 on. When should those questions be asked?

Mr Corey—If Syd is willing, you can do them now.

Senator HOGG—All right, and then you can go home. I was given some documentation recently at the briefing. I am just trying to find what I have done with them. They were very helpful indeed. I went through them. I think you are aware of the documentation that I would have been given. How does that relate to table 4.3? Can it be related?

Cdre Lemon—Yes, if you go to table 2 of your notes, that represents table 4.3.

Senator HOGG—It is a more up-to-date version.

Cdre Lemon—It is an expanded version. Each of those total lines actually appears in the PBS. If you take what is referred to in the briefing notes as table 2, on the first page you have defence command and management.

Senator HOGG—Yes.

Cdre Lemon—You have then a series of groups of data and a break-out. That column of the total actually is a line in table 4.3.

Senator HOGG—Yes, I now know. The first question that I have relates to personnel planning. The resources for reinvestment in 2000-01 are \$38.2 whereas in the 1999-2000 PBS they were projected to be \$115.1 to maturity of \$276.9, and yet the cumulative resources available for reinvestment under the current table peter out at \$106.0 which is substantially down. I wondered why.

Cdre Lemon—This year personnel planning drops from the \$115 previously purported to \$38.2. That accounts for the bulk of the drop.

Senator HOGG—That is right. The bulk of the drop seems to be this year. Why is that?

Cdre Lemon—It is principally related to the note that is in there under note (4) which is the variations against 'Health, housing and removals'. They have all been bought in and accounted for centrally under DPE. The savings are originally apportioned out to the groups. It is difficult for the groups to account for these and they all come home in DPE against 'DPE actual expenditure'. Tracking all that back, when you take in the changes in health, housing and removals, we did not achieve the forecast personnel reductions because we have gone back not only in attempting to get to the \$50,000, which has slowed down the reduction program, but we have also had some increases in respect of Timor. We basically have not achieved it in the DPE bottom line.

Senator HOGG—So I can assume that it is not going to be achieved in the longer term?

Cdre Lemon—No, we do not think so.

Senator HOGG—How will we be able to assess the long-term benefits that have been gained out of the defence reform program? Will there be some overall assessment made which allows us to draw a conclusion that it was worth its while and there was some pain and some gain, or that really it needs to go a little longer before we see the full maturation of the benefits?

Mr Corey—Chairman, I might answer that initial bit and then Syd can fill in the detail. I think we have demonstrated the benefits largely of the defence reform program so far. We have reinvested significant dollars in manpower and in investment. The majority of the savings that were forecast under the defence reform program have already been reinvested within Defence and we have provided that to the committee before. I think most of it has been demonstrated. Now we are chasing the tail end of it. I guess as we fold it up into other reviews and tidy up the defence reform program we will come back and report to this committee where the reinvestments have occurred.

Senator HOGG—The tables go out to 2003-04. Can we expect we will not have projections out to 2003-04?

Mr Corey—That is our thinking at the moment. We probably will have but we will wind it into other reviews. These projections were made against the original forecast of the defence reform program. As we go through and make decisions how we rationalise the ongoing reviews with the defence reform program, we will come back and report to you and reconcile this.

Senator HOGG—And you will have some form of transitional documentation which enables us to follow that, of course?

Cdre Lemon—Yes. The intention at the moment is to finish our QA reports and then bring those together and draw an accounting line. There are lots of initiatives that go on to the payment to Defence.

Senator HOGG—That is the internal audit, Commodore, isn't it?

Cdre Lemon—Yes, in effect.

Senator HOGG—I think someone described it to me in those terms.

Cdre Lemon—Yes, you proposed to me last time, Senator, that it was an audit. I said it may not have the independence that you would desire of an audit.

Senator HOGG—We can always organise that for you, don't you worry about that.

Cdre Lemon—But the aim is to close off the shotgun approach and try to actually identify which initiatives have been successfully achieved. Not all of the groups originally, for example, were reporting by initiatives. The program that returned the greatest amount in cold dollars was the Corporate Support Program but the Corporate Support Program approached things not by initiative but by trying to achieve the savings by grouping large functional activities together. What we have to do is to go and determine, of all the hundreds of individual initiatives that were actually proposed, which ones have been achieved and are still manageable, and bring forward the ones that are not so we are not crossing out and throwing away the DRP. We are trying to, if you like, get a subtotal and a carried forward figure so we have something that is current to work and proceed with.

Senator HOGG—Is that the reason for the reduced number of market testing decisions expected in the 2000-01 year, as at page 33 on this PBS, or is market testing continuing to go at the same rate as it did previously?

Cdre Lemon—We had market testing activities under what was the Corporate Support Program proceeding before DRP. DRP accelerated the market testing program by a factor of four.

Senator HOGG—We used to have substantial lists in the previous PBSs of those areas that were being market tested. Whereas on this occasion it is down to a mere eight areas and, also, the number of positions being market tested have been reduced quite substantially.

Cdre Lemon—That is partially a function of achievement. We have actually—

Senator HOGG—Yes, but I am asking whether this is indicative of what is happening with the defence reform program.

Cdre Lemon—As I said before, we have achieved a lot of the easy yards, and a lot of the easy yards were achieved in the market testing program because we had specific activities to market test and we had large numbers of organisations and people to market test. That program has been pushed and is coming to a conclusion. We will, and we have been, pursuing that original schedule. Once we draw the line under the DRP and have our carry forward figure, we will continue to add to that program. Our aim is to try to have a continuous improvement schedule where we actually report what we are trying to achieve this year and what we reported last year relating to current baselines. Our activity against the original DRP schedule of CSP will obviously decline as achievement has been made.

Senator HOGG—Thank you. Let me take you back then to page 118 of the PBS: the reinvestment there by major initiative. Can you just run us through briefly the significance of

the total in figures? I notice that the total is 869.3 then there is 'Other' which takes the total gross resources available to 131 and then there is total net resources.

I presume that total net resources will be a recurrent expenditure of contracts that have been let and future contracts to be let under the market testing currently taking place. I do note that, as from 2002-03 and to 2003-04, contracts funded falls away slightly, and I am just wondering if that will continue to fall. I think you have already made reference to the fact that there is \$751.8 million of total resources available for reinvestment. Can you take us through that?

Cdre Lemon—The top part of this table, down to the gross resources available, is basically recurring savings. The top section, down to the total, relates to savings against specific issues and programs. We calculate the superannuation and fringe benefits against the program. One problem with the defence reform program is the way it was structured. It did not talk in net value. It was structured so that if you did this type of activity, you could save money. It did not net out the costs. The provision for contractor support—contracts funded and residual provision—relates to the cost of actually funding the activities for CSP and redundancies. The residual provision drops as the contracts go up. The problem we have with some of the contracts is that the ones that were let a long time ago—say, in 1998—will come up for renewal at the five-year period and some of that represents an estimate of what we think the new costs will be. So there will be variations.

Senator HOGG—Will we be in a position once that renewal has taken place to test whether, in effect, there has been a real saving? It may well be that some of those contracts are more than what would have otherwise been anticipated—for a number of reasons. Will there be some way to test?

Cdre Lemon—My branch has been set up to take over from DRP SMART, and that is one of the functions that we actually have to do to try to institute in the organisation, against initiatives like this, follow-up activity. We have found that in the past CSP contracts do change in value and price as the period goes on, and we need to monitor it. Unfortunately, the measure of success at signing the contract is not necessarily the mature success, or otherwise, achieved. We have to go back and do as you suggested.

The one-off capital gains relate to the sale of capital facilities. That represents a significant change in this PBS, because the capacity to actually dispose of facilities has become a limitation. Equipment and stores are sales of equipment and stores. There was a general reduction in the provision for equipment and stores sales, because the reduction in the inventory is not realising anywhere near what may have been expected. What is an extremely valuable military spare part when it is for sale on the open market becomes so much scrap metal. I will have to follow up on the Defence cooperation, I am sorry.

Senator HOGG—All right.

Cdre Lemon—Those total gains added to the net represent what is available for re-investment.

Senator HOGG—Using broad terms here, this is drawing to a close. I know you are not closing the whole thing down per se. Given the headings under which the initiatives are listed there, would we be able to see as time goes on those same headings or will the change in your outputs and change in your structures which are envisaged necessarily change the presentation of the savings?

Mr Corey—I think, as Commodore Lemon was saying, the defence reform program initiatives by category, as they are listed there, are really difficult to reconcile with where the

savings have been made now because of the way the savings have been achieved. In the corporate support area the initiatives have been grouped into base support in a more general sense and it is very difficult. These are the way the savings are identified in the defence reform program. They have been achieved but whether we could actually do a reconciliation between the achieved savings against those headings I would doubt very much.

Cdre Lemon—With the savings initiatives that we have out of the DER we came up with a lot of initiatives. It would be my hope in the future to manage this on an initiative-by-initiative basis rather than to group them into large aggregate areas. In order to do that transition and during the close or rule-off of the DRP, we would be able to link the initiatives back to there to provide a transition.

Senator HOGG—I note on page 120 that the re-investment now is couched in terms of the new outputs. I am not saying that there is anything wrong with that. I have been trying to deal previously with the re-investment program across—

Cdre Lemon—I can provide you with a copy of your brief in the old format against the old outputs.

Senator HOGG—I was just wondering, if you have translated that, what else are you going to translate as well into the new jargon. If it is something that is worth while for us following, we still need to be convinced that the savings and the achievements have been there.

Cdre Lemon—The intent that I would have which has not been cleared by anyone so may be subject to change is that in future when we make savings we actually account for them against the decision. It is somewhat misleading the way we report. It is not intentionally misleading but we report where the guidance is transferred to and subsequently in changes to the budget that guidance can change and the organisation tracking it are not aware of it. You would be aware that a lot of money has been subsumed by personnel costs and when money has been taken out of the capital program there is not a guidance trail which specifically says this million dollars was provided by DRP so it is very difficult to rationalise where it has gone. In the future, if we are doing it on an annualised basis we would report where the money is transferred to by activities or by event or by the issue and we would do it on a year-by-year basis rather than trying to keep a cumulative total for transfers. So changes in the structure would be less relevant.

Senator HOGG—I thank you very much for that. We have spent a great deal of time on this in the past because it has been up front. It has been very much one of the leading aspects of what has been happening in defence as far as I am concerned and from what I could see.

Could you keep in mind that it would be helpful to the committee to get some understanding or some idea of the internal assessment that you make of the DRP. That will inform the committee as to your measure of how successful or otherwise you have been in the DRP across a range of areas. I ask you to take that on board as I did, I think, on the previous occasion, because it is something that I have followed with great interest over the time. That is all on the DRP. Thank you very much. Dr Williams, you are going to provide me with the list of things that were in last year's PBS but not in this year's?

Dr Williams—I can refer that to someone who can. You wanted a particular list?

Senator HOGG—I just want to know what was there last year that is not there this year. I think defence cooperation stands out as being one.

Dr Williams—One can be made available.

Senator HOGG—If someone could make that available for me, that would be helpful indeed. Last but not least on the overview: at the additional supplementary estimates 1999-2000, on 3 May I asked a three-part question. The third part was:

Did the Prime Minister, his office or his department provide any advice to the Minister on those appointments?

That is, the appointments of the Chief and the Vice Chief of the Defence Force and the service chiefs. The response that came back was:

The minister wrote to the Prime Minister on 10 April 2000, requesting that Cabinet consider his recommendations for the appointments. To the best of our knowledge, the Prime Minister, his office or department did not provide any advice to the Minister on these appointments.

I would have thought that it would have been more appropriate if I could have had an answer from those people that were affected, rather than ‘to the best of our knowledge’. Can you take it on notice again and ask the minister to respond?

Mr Corey—We can do that.

Senator HOGG—Where I can get a direct answer, I would prefer the direct answer. I understand the way in which it was answered, but if you could do that for me that would be helpful indeed.

[8.44 p.m.]

Output 1—Defence operations

Senator HOGG—Chair, could I just ask a point of clarification—I think Mr Corey would be the best to help me. There are a number of sections at the back of this booklet under the heading ‘Department of Defence, section 4, supplementary information’.

Mr Corey—Have you got a page, Senator?

Senator HOGG—From page 106 onwards. I just want some assistance from you as to where the questions in this area should be asked. For example, the headings include ‘People and business process initiatives’, ‘Australian Defence Force exercise program’—we have done ‘Defence reform program—and then there is the ‘Capital facilities expenditure by electorate’.

Senator WEST—They are discretionary grants.

Mr Corey—They are identified in the addendum, Senator.

Senator HOGG—Oh, I am sorry, I have got so many bits of paper here.

Mr Corey—Yes, it is a little confusing. The people in ‘Learning aspects’ will come under the personnel area. We will do the exercise program with the group we have got up now. So if you like, we will identify them for you as you come through.

Senator HOGG—You will identify them for me? That is all right. And what about the capital facilities? I presume that is—

Dr Williams—That will come under the Defence Estate.

Mr Corey—As you go through, we will identify them for you.

Senator HOGG—Thank you very much, Mr Corey.

Senator WEST—This is a new output for us, isn’t it, this one with the title of ‘Defence operations’. Can you outline to us exactly what the output now covers and all the components please?

Dr Williams—I could answer that for you. As I said briefly earlier on, the intention was to try and divide our outputs up into three broad types. There is, if you like, the ‘doing’ bit, whereby Defence is actually delivering to government a specific product, of which Timor is an example. There is the potential to do things, which are the capability areas, and they are broken up into three outputs, Army, Navy, Air Force largely—so how much do we spend just to have the capacity to do something— and, finally, policy advice.

So the first one on operations is meant to pick up the doing part of the defence organisation. For example, with Timor, it will pick up all the additional costs associated with the Timor activity. With the actual underlying costs of some of the assets—if for example we deployed a ship there—the depreciation et cetera would still exist under the appropriate capability output because we have that as part of our base, but the additional costs associated with using it in a particular engagement are under this output. So it is trying to capture the additional cost to us of doing business, of doing real activities. It will also pick up some of our defence cooperation activities, so it is not merely military operations, but also some of the activities we do with other countries in terms of defence cooperation. As well as that, the military geographic information, for example, where we are delivering a product now, collecting information, et cetera, is there.

Senator WEST—What outputs under this old one are now in new output 1? Can you say there is one, six, nine, 11, 22 or what?

Dr Williams—I will go through that broadly. I just stress again that we had 22 outputs. We were looking to refine that to 27, which not only added some new ones but did some rejigging, and those new 27 have been grouped into five outputs, so there is not a total relationship. In some areas, a majority of a particular one of the 22 is here, but part of it may be elsewhere. In broad terms, command of operations, the old output 1, is here; the old output 6, military geographic information, is here; the international relationships, the old output 20, should be in part here—as I said, the DC program end of it largely—contribution to national support tasks, the old 21, is here. Defence operations is an entirely new one. It is picking up Timor, the additional costs of activities, and it will pull funding from across a range of areas. So, for example, Army, where it has a capability, that will be listed under Army, but the additional cost of deploying that to Timor and sustaining it would be included under that new suboutput of military operations.

Senator WEST—International policy has been split between 1 and 5. What has gone where and what is the rationale behind that?

Dr Williams—Very broadly, the defence cooperation end of the business is listed under ‘Defence Operations’. That, if you like, is the ‘doing’ bit. The policy division, for example, provides policy advice to government. Some of our representatives overseas and those sorts of people would be included under policy advice as they are really part of preparing policy advice to government.

Senator WEST—Can you go through each of the performance targets in this list for 2000-01 and explain for each why it has been made a target and how you will be able to assess whether the target has been achieved at the end of the financial year?

Air Vice Marshal Nicholson—I am representing the Vice Chief. I could start on page 66 of the portfolio budget statement. The five subdivisions now within this output are command of operations, military operations themselves, military geospatial information, international activities and regional engagement, and the national support tasks. Performance targets are listed there. Some of them are qualitative and some of them are quantitative.

Senator WEST—I am interested in how you plan to assess and measure whether that target has been achieved. Are they measurable? If they are not measurable, they are not particularly good targets, are they?

Air Vice Marshal Nicholson—Correct. Could we deal with them one by one. Because each of these are related to actually doing something, that activity or operation, exercise, regional engagement activity or whatever it happens to be will have some sort of report associated with it and it is assessed as a matter of course, activity by activity.

Senator WEST—So at this stage you do not have any guidelines or criteria as to how you are going to assess those targets?

Air Vice Marshal Nicholson—We have for some of them. For example, the Chief of Defence Force Preparedness Directive is translated into a service preparedness directive which each of the service chiefs acts against and an operational preparedness directive which the Commander Australian Theatre designs. That has specific preparedness requirements—for example so many aircraft available at such and such a notice for such and such an operation. They are specifically and quantitatively assessed at each of the force element groups. That applies for all of those force element groups. So the first aspect is that relating against the CPD, the Chief of Defence Force Preparedness Directive, and that is explicit and quantitative for the most part.

Senator WEST—And those are measurable against the performance targets in your priorities that you have set?

Air Vice Marshal Nicholson—Yes. For example, if you look at the first dot point under ‘Command of Operations’ on page 66:

- No preparedness shortfalls against Australian Theatre Operational Preparedness Directive.

That operational preparedness directive puts into quantitative terms the broader direction which is required by the Chief of Defence Force Preparedness Directive, the CPD. That is expressed in the way I just said—for example, one brigade group with a 30 days notice to move and to be able to conduct a certain number of roles. It is quite explicit. I cannot, of course, give you those details here.

Senator WEST—I am interested to know why some of these targets have been made as targets. It is quite simple that it is for good measure, but why these and not others? I am happy for you to go through each one of them.

Air Vice Marshal Nicholson—Starting with the first one, the CPD translates into the OPD. I have just explained that. In order to reach the operational preparedness directive, exercises of particular sorts are conducted on a regular basis. The exercise program is tailored to prepare forces to meet those particular preparedness requirements. That covers the second dot point. The third dot point is in relation to the command of operations, having the requisite number of personnel and being adequately trained.

Senator WEST—How are you going at meeting that target?

Air Vice Marshal Treloar—It is a moveable feast, but the headquarters for the Australian theatre is manned with the appropriate operational people. It varies, but it is about 90 per cent to 95 per cent. We seldom get 100 per cent because of a variety of administrative and posting reasons, but by and large it meets the requirements laid down for us to do our job.

Air Vice Marshal Nicholson—That will vary at different levels of headquarters, of course.

Senator WEST—Are you going to make the information about whether you have met these targets publicly available? Some of this is getting close to operational details, and you are not going to tell us, when we sit here and ask you, because it is not material that we want on the public record. Therefore, apart from the fact that you will tell us yes or no, how can you prove that you have done it?

Air Vice Marshal Treloar—If I can put it another way, the headquarters that I command had to be prepared to conduct evacuation operations out of East Timor in September last year. That required a certain number of aircraft on a certain time readiness and people on the ground to go out to evacuation operations. We did that operation quite successfully, as you are aware. We brought people out from UNAMET. Looking at some of the points we had to do to meet strategic objectives, the government required us to prepare a force and deploy it for INTERFET. We did that. So they are some of the more tangible examples of the dot points being put into action. There are a variety of things that we should plan to do should the government or the strategic circumstance dictate that. Apart from exercises, you cannot dictate an operation until you are actually called upon to do it, but we do plan and conduct exercises and report on the results of those exercises.

Senator HOGG—That is an after-the-fact happening though.

Air Vice Marshal Treloar—For exercises, Senator, that is correct.

Senator HOGG—Our difficulty, and we have had this out before, is: how do we measure it? We have been presented with a budget, and you are presenting us with the after-the-fact information.

Air Vice Marshal Nicholson—It is not just after the fact. The preparedness directive is assessed on a regular basis and reported against on a regular basis. In addition, there are particular events known as ‘on occurrence’ reports. If a particular force element group is unable to meet that requirement, then it reports immediately. So it is being monitored continually. There are certainly ‘after action’ reports on operations and on exercises. To answer your specific question, Senator West, about whether we can tell you what we have measured, we cannot tell you that in open session. We can tell you that we have met it, but we cannot tell you what that target is.

Senator WEST—Maybe we will have to consider a private meeting of the committee at some stage.

Air Vice Marshal Nicholson—I would not see any difficulty in providing that information in camera.

Senator HOGG—That is the difficulty with estimates, as you know. We cannot take the estimates committee in camera.

Senator WEST—Because this is a public transparency of—

Senator HOGG—It may be possible—and this was raised at our meeting the other day—to confider another meeting. That is the best way I can describe it at this stage. It will enable us to ask the questions and you to give us the answers without in any way disturbing this estimates process.

Senator WEST—Anyway, we were up to ‘100% achievement of strategic objectives’.

Air Vice Marshal Nicholson—Again, specifically applied, generally from the government for particular periods. As I have already said, each operation or exercise or international engagement has a post-operational report, and we identify a range of deficiencies. There are two mentioned there. One is actual command deficiencies, an aspect which we consider to be

specifically important as part of our capability; the second one is the performance of the forces themselves. Each exercise and the preparation of forces to meet the CPD has a number of specific objectives. The forces are assessed against those objectives as to their success or failure, or degree of success or failure.

Senator WEST—It is those objectives that we are interested in knowing you are going to be using to measure this. ‘No post-operation reports identifying command deficiencies’. Is that a self analysis of whether there was a deficiency? What are the criteria that are being used—the guidelines and everything else—to identify if there were command deficiencies?

Air Vice Marshal Nicholson—It is internal in that it is internal to the Defence Force. All exercises and operations include a group to specifically assess whether or not they have been successful. This group is drawn from the commander staff, the theatre staff, the brigade staff or whatever is the level of forces involved, and we also use the expertise of the Defence, Science and Technology Organisation to assist in that sort of thing. But it is internal to the Defence Force, it is not an external validation.

Senator WEST—And ‘100% achievement of individual joint exercise objectives’—a similar thing, is it?

Air Vice Marshal Nicholson—Yes.

Senator WEST—What about the quantity? ‘Tempo of campaigns, operations and exercises commanded’. What does that mean? ‘Tempo’ I keep thinking of as Latin American dancing.

Air Vice Marshal Nicholson—The term, ‘operational tempo’ is the rate of activity or the rate of effort associated with particular events or an operation or exercise. One of the general problems that we have with tempo is that there are two. Concurrence—that is, doing more than one thing at the one time. The second one is the reconstitution of forces—for example, forces that have been involved in East Timor and have rotated back out are now on rest and recreation and leave, and build-up of new members to units to rotate back in, that sort of thing.

Senator WEST—When did you start using the phrase ‘tempo of campaigns’? That is a new one on me. I have been around this field for a few years now and that is a new—

Air Vice Marshal Nicholson—I think it is because we are reporting it more fully. The term ‘operational tempo’ has long been used.

Senator WEST—You must have just kept it from some of us before.

Air Vice Marshal Nicholson—Going down the page, ‘Extent to which available resources satisfy operational and exercise activity’. This again comes out in the post-activity reports. Did we actually have the ships, aircraft and trucks to move people to and from the exercise and things like that? Finally, ‘Number of operations conducted’—have we actually done everything that the government asks?

Senator WEST—The next one is ADF military operations. Are there other performance targets you could have put in there or you decided not to?

Air Vice Marshal Treloar—Each of these targets is broken down into subtargets, internally, for our own benefit, so we can look how we have done. I guess we are judging ourselves—as Pete says, it is internal. You could in fact choose any rewording of those targets, but they have to relate to the capability requirements that the government has given us, the demands, which run on the left-hand column.

Senator WEST—So there are targets and then there are subtargets?

Air Vice Marshal Nicholson—The best one for me to use as an example is the Chief of the Defence Force Preparedness Directive which the theatre commander, Air Marshal Treloar, translates into the Operational Preparedness Directive. That runs to 40 or 50 pages, in very great detail, about exactly how many—I will use Air Force examples—aircraft and crews and the rate of effort they should use and the kinds of tasks that they should be able to do. So in a particular exercise you might say that, overall, the exercise objective has been achieved, but this particular thing was not achieved or was achieved to 90 per cent—for example, only five aircraft were launched rather than six. Did that affect the exercise? No, we were able to complete it, but we did not actually meet the six. It is that kind of detail, in very great detail.

Senator WEST—So there are subtargets underneath this, which are probably some of the areas that we are interested in. Moving on to the ADF military operations one, what is the rationale in that?

Air Vice Marshal Nicholson—Effective command. Basically, with the deployed forces—meaning forces that have been deployed away—are they effective in getting them there? Can they operate when they are then deployed?

Senator WEST—What are likely to be the subtargets in that?

Air Vice Marshal Nicholson—Typical sorts of things would be: the forces are required to be deployed in a certain time period—was that time period met? The numbers that were required to be deployed—was that met? Were the communications sustained at the rate and frequency required throughout the operation, and so forth.

Senator WEST—The next one is that agreed military objectives are satisfied. That is what—win or lose?

Air Vice Marshal Nicholson—No, it is much more specific than that. As opposed to the strategic objectives—the dot point in the previous one—this is much more specific. This is for forces that have been deployed already, so they have been deployed for a particular reason—for example, they were deployed in East Timor to do a particular job. That job can be broken down into a number of subtasks, each of which can be assessed, both in absolute value and in degree, if necessary.

Senator WEST—The next one, the number of operations conducted as required—how are you going to measure that? Are there subtargets for that?

Air Vice Marshal Treloar—The number of operations conducted are the ones that are driven by strategic requirement and change of strategic circumstance. That is one of those that is not a pre-plan, an exercise you can plan during the year, but an operation that we are going to have to conduct as it arises and the government decides it needs to be done—for example, East Timor.

Senator WEST—You then have the geospatial information. That is the provision of hydrographic, topographic, aeronautical, meteorological and oceanographic information. What is the background to this one?

Air Vice Marshal Nicholson—Generally, geospatial information in the past was just maps. Now it also includes digital data, photographs and all kinds of information about the topography, the cultural features, the towns, villages, bridges and so forth of the area of operations that the deployed commander might require. In fact, it is required at two levels: it is required for the planning of the operation and it is required for the actual conduct of the operation.

Senator WEST—Can you run through those performance targets, the reasons, and what some of your subtargets might be?

Air Vice Marshal Nicholson—The operational requirements are: can we cover the area? We have a number of sharing arrangements with nations—regional nations and our major allies—to exchange geospatial information, so if we do not have it, we can generally get it from an ally or a friend. We have bilateral and multilateral arrangements for doing that. So the first thing is: do we have coverage of the area required? That is an answer yes or no or to some degree. In fact, that is covered in the second dot point, that it is to the required standard and specification and in the format required. Increasingly, the format will be in a digital data format so that it can be transferred directly through command support systems.

At the moment, most of our geospatial information is provided by via maps to the field commanders, although those maps are produced themselves from a digital database. In fact, the prime part of our exchange of information with our major allies is exchanging digital information rather than maps and charts. The intention is eventually to be able to transfer that digital information directly through the command support systems to the deployed commanders.

Senator WEST—Presumably between the three forces there are differing requirements on some of this. In an FA18 or an F111 you would not want to be having to pull out the paper map.

Air Vice Marshal Nicholson—In fact, we do both, as it turns out, and you read out the areas earlier. There are several different agencies: the Defence Topographical Agency produces landform maps, the Hydrographic Office produces hydrology and bathospheric information on the seabed and shores, and the Aeronautical Information Service provides airborne en route charts and terminal approach charts and those sorts of things that are necessary for aviation operations.

Senator WEST—Do those three groups talk to one another?

Air Vice Marshal Nicholson—Yes. They are three separate groups: the Defence Topographical Agency is run within Army, the Aeronautical Information Service is within the Air Force and the Hydrographic Office is within the Navy. Their tasking comes from an organisation called the Strategic Military Geographic Information Directorate. As a matter of fact, we are conducting a review to see if that tasking can be done more efficiently.

Senator WEST—A purple service or something like that, a purple unit?

Air Vice Marshal Nicholson—Yes. That will be one of the options that will be proposed by the review.

Senator WEST—When does this review commence?

Air Vice Marshal Nicholson—It commenced late last year or early this year—about six months ago—and it is due to complete its findings around the middle of the year.

Senator WEST—And that is being undertaken internally?

Air Vice Marshal Nicholson—They are using internal advice, but it is an external consultant that is doing that.

Senator WEST—Who is the consultant?

Air Vice Marshal Nicholson—I cannot tell you that now, but I can get back to you on the name.

Senator WEST—I would like to know who the consultant is, how the contract was let and the amount of money, please.

Air Vice Marshal Nicholson—Yes.

Senator WEST—Thank you. Can we keep travelling through the targets, please?

Air Vice Marshal Nicholson—The third and fourth dot points after quality I think I have already covered. They are basically dictated by what the objective of the operation or exercise is and what the commander's requirements are. On the first quantity target, which is to achieve planned production targets, for INTERFET, for example, the Defence Topographical Agency produced about a million-plus different charts which were provided to all INTERFET forces. There are annual production requirements that are set out in quantitative terms and that was a particular one that was ramped up for that operation.

Senator WEST—On this mapping, particularly in relation to allies, friends and near neighbours, I am wondering if you have any consultation or contact with other Australian agencies—one of the ones that springs to mind is the Land Information Centre in New South Wales which was doing a lot of work with some of our neighbouring countries on their mapping needs. Do you have liaison or contact or consultation with them?

Air Vice Marshal Nicholson—Yes, we have very close contact, especially with AUSLIG, the Australian Land Information Group.

Senator WEST—Yes, I know them.

Air Vice Marshal Nicholson—By the means of exchange, we avoid duplication of the production of information to make sure we are distributing it in the correct format. We do the same sort of thing either directly with other nations or indirectly via an agency such as AUSLIG. It is a very close-knit geospatial information community generally. Some are straight commercial arrangements whereby we simply buy the data; some are arranged under a memorandum of understanding with a friendly nation or a friendly agency.

The next is international activities in regional engagement. Each year on a rolling basis, and looking out some years, the international policy division formulates an international engagement plan which accords with the strategic assessment of the most important areas of government. The visits of ADF elements and of exercises is driven by that priority. In fact, that Defence International Engagement Program, the DIEP, covers not just things like exercises but also visits, both reciprocal and one-off, and exchanges for training and other purposes.

Senator WEST—New targets?

Air Vice Marshal Nicholson—This plan is published on an annual basis, reviewed six-monthly and rolls out two or three years in advance. So the targets are that we want to be able to do this number of visits to this country and this number of ship visits to this country and so forth, whether or not those targets have been achieved.

Senator WEST—Is this part of the international policy?

Air Vice Marshal Nicholson—We can rarely make this available.

Senator WEST—Does the international policy component that got split between outcome 1 and outcome 5 get—

Air Vice Marshal Nicholson—This is the 'doing' part. The other parts are the policy part, which is why we are doing it, and the strategic assessment aspect.

Senator WEST—And that is in 5?

Air Vice Marshal Nicholson—That is correct.

Senator WEST—What are the national support tasks? Explain these, please.

Air Vice Marshal Nicholson—I will start the answer and Air Vice Marshal Treloar can perhaps continue it. Within the CPD, the Chief Defence Force Preparedness Directive, in addition to straight war-fighting tasks, there are also a number of tasks which can be classified under two categories: defence forward aid to the civil power—counterterrorism sorts of things, for example—or defence aid to the civil community. For example, there is a P3 aircraft on short notice, 24 hours around the clock, for maritime search and rescue, which is a defence aid to civil power. That is the sort of thing that will be in the national support tasks.

Senator WEST—Your targets?

Air Vice Marshal Nicholson—Again, they are very similar. For example, if you go to the fifth dot point under quality, there are search and rescue tasks. Did we meet them or didn't we, and to what degree? Similarly, all of these other tasks that are listed above it are specific tasks: can we do it and to what degree?

The number of tasks that may be conducted cannot be predicted year to year, of course. We have a good idea of how many to expect. If there is a Southern Ocean yacht race, because it comes into our maritime area of responsibility for search and rescue, we can expect that there will be more of those in this particular year, and so forth. By and large we cannot predict bushfires or floods or those sorts of things, so the number goes up and down. The measure will be: were we able to do the tasks that arose? If we did not, to what degree couldn't we? If you look down at the last couple of dot points, they are for what we generally call coastal and littoral surveillance. It is part of defence aid to the civil community, in this particular case to Customs, to Immigration and Coastwatch—an agency of Customs—and also to a lesser extent to Agriculture for detection of—

Senator WEST—AQIS?

Air Vice Marshal Nicholson—Correct. There are P3C flying hours.

Senator WEST—Is that the Orion?

Air Vice Marshal Nicholson—Yes. They are used in conjunction with Coastwatch aircraft for the longer range and more extended patrols. There are 1,800 days for the Fremantle class patrol boat for detection of and particularly in response to illegal fishing and suspected illegal immigration vessels.

Senator WEST—Is this number up on previous years?

Air Vice Marshal Nicholson—No. What is done each year goes up and down but not very much, although the number of hours budgeted has been fairly constant for some years now—250 hours for Orion and 1,800 sea days for Fremantle.

Senator WEST—What happens if the Orion goes over that 250? Does that then start coming off the operational side of RAAF?

Air Vice Marshal Nicholson—Generally yes. Flying hours are one of the performance measures that Air Force uses and budgets for, in particular the support. So going over the flying hours for a particular aircraft type can be sustained for a short period, but over an extended period it means that the costs of support and support items, particularly the lead time involved, might complicate the issue, so that is judged on a case by case basis. If it were to go up slightly or down slightly, it would not matter. If there was a significant long-term trend, that would be a different matter.

Senator WEST—That would have a direct impact upon the RAAF and their flying hours for the rest of the PC3 fleet?

Air Vice Marshal Nicholson—Correct, because the resources that are allocated for maintenance—those maintenance dollars, if you like—are quite closely coupled to the flying hours.

Senator WEST—The same would go for the 1,800 ship days?

Air Vice Marshal Nicholson—Yes. They are patrol boat days.

Senator WEST—Don't you call a patrol boat a ship? I thought all vessels were ships.

Air Vice Marshal Treloar—No, it is a patrol boat.

Air Vice Marshal Nicholson—This budget is actually for patrol boats, isn't it?

Air Vice Marshal Treloar—Yes, it is.

Senator WEST—The 1,800 ship days for the patrol boats can have an effect across the whole of the Navy fleet as well if it goes over?

Air Vice Marshal Nicholson—No, it is primarily across the patrol boat fleet.

Air Vice Marshal Treloar—That is correct. The amount of ship days that are provided and planned on is 1,800 per year. If they go above that, it is eating into the support required for the rest of the patrol boat component of the fleet. It is the same as for aircraft, but in both cases they do go above it. It is not entirely blank, because there is some training value provided to each of the services in conducting these activities.

Senator WEST—I am glad you mentioned the training bit. That just reminded me. I suggest you go and have a look at some evidence given to the Joint Committee on the National Capital and External Territories about the minimal training value of aeromedical evacuations—that there is really no training value in them.

Air Vice Marshal Treloar—I am not quite sure what you are talking about.

Senator WEST—Over the dinner break I will try to find the *Hansard* and show it to you. What does 1,800 ship days mean? How does that work out, please?

Vice Adm. Shackleton—Those 1,800 ship days are a number that was agreed quite a number of years ago with Coastwatch to provide Navy patrol boats in areas of surveillance—to support overall Coastwatch surveillance activities. So it is 1,800 patrol boat days.

Senator WEST—What does that mean?

Vice Adm. Shackleton—That means that we have a patrol boat, and it could be two at a time or three at the time or one at a time, which cumulatively over the year adds up to 1,800 days.

Senator WEST—At sea?

Vice Adm. Shackleton—At sea.

Senator WEST—How many days did we use or do we look like using this financial year for both the aerial surveillance and the patrol boats?

Mr Corey—This information will be reported in the Defence report, which will be taken in the additional estimates context, and it will have much more meaning to it.

Senator WEST—I do not have the annual report with me, but last year how did we go?

Air Vice Marshal Treloar—Last year, the previous financial year, we provided 1,868 patrol boat days and 401 hours of P3 surveillance flying.

Senator WEST—How are we looking so far this year?

Air Vice Marshal Treloar—To the best of my understanding, the P3C surveillance flying time is approximately on track pro rata. I could not get an exact figure on that. With patrol boat days as required, it looks like there will be perhaps a shortfall of about 38 days on the 1,800. I might add that that depends upon the requests from the Coastwatch for these resources to be made available. It does not necessarily mean there is a deficiency or a shortfall from the provision by the service.

Senator WEST—You say a shortfall of 38. Does that mean it will go to 1,762?

Air Vice Marshal Treloar—Correct. That obviously would be a part of the request that has been made by Coastwatch, vis-a-vis the availability of the boats.

Senator HOGG—Is there any way that a cost can be attributed to each of those performance targets?

Air Vice Marshal Nicholson—Do you mean to measure them?

Senator HOGG—Just as a measure of knowing what the cost is.

Air Vice Marshal Nicholson—Each operation or exercise or activity is costed as an individual event.

Senator HOGG—So, if we took all of those performance targets in the right-hand column of the 2½ to three pages there, there would be a cost that could be attributed to each of those in a sense? Or is it a global figure?

Air Vice Marshal Nicholson—No, each activity is individually costed.

Dr Williams—There are probably some where we could give a cost, but I would say in general we would have some difficulty for the reasons I outlined earlier in respect of attributing to outputs. We are looking to develop an activity based costing model. That involves acquiring computer systems and also a fair bit of mapping work, et cetera. Until we have that we will not be well placed to do the sort of thing you are asking for on a general basis.

Senator HOGG—If I can just go back a step—and clearly where I am coming from, there are no tricks in this—if you look at pages 63 and 64 and the top of page 65, you have priorities for 2000-01. Would it be fair to characterise the priorities for command of operations, ADF military operations, the military geospatial information, international activities in regional engagement and national support tasks as ongoing commitments that would happen from year to year regardless?

Air Vice Marshal Nicholson—No. These are the priorities for the next budget year.

Senator HOGG—The reason I raised that is, if you turn to the middle of page 65, you have capability enhancements and enhancement initiatives for 2000-01. It lists capability enhancement initiatives for the command of ADF operations in the military geospatial information, but there are no capability enhancements for international activities in regional engagement and national support tasks.

Air Vice Marshal Nicholson—No.

Senator HOGG—Can you explain? I might be missing it.

Air Vice Marshal Nicholson—As was discussed earlier in your hearings, the structuring of the force—that is, the capabilities that we want—are against war fighting tasks. We do not specifically structure to do operations other than war, which is what you mentioned. We would use the force in being to do those particular tasks. We would not enhance specifically to do those tasks, the theory being that if they can conduct their war fighting tasks, they can

conduct these other tasks. That is the reason why I think the Chief of Army said that we would not anticipate using forces for policing operations for example, because they are not trained in that and we do not anticipate training them in that sort of thing.

Senator HOGG—Thank you very much for that explanation. It clears one thing up in my mind. Let us go back to the priorities for 2000-01 under those various headings. As I discussed with Dr Williams and others at our briefing, they are fairly decisive statements. If you look under ‘Command of operations’: develop and maintain—just ignore the other words for a moment—determine the operational preparedness; identify strategies; achieve strategic objectives; provide military strategic planning; develop national and defence policies; progress, upgrade, modernise, provide and so on, they are all very much things that require action on the part of this particular output, and similarly under the other headings. I raised with Dr Williams and others the likelihood—and it has been that said we have never had it in the past—of getting some sort of understanding of what those particular actions, action projects or programs that fall under this output contribute to the overall cost of \$1,387 million, given that somewhere over at pages 69 through to 71 we have a number of variations in price under ‘Real’. All we are trying to do is look for some benchmarks—some guidance from which we can judge some things. I understand that the preparedness directives are not going to be made public for operational reasons.

Air Vice Marshal Nicholson—Yes.

Senator HOGG—I can concede that. Nonetheless there must be some benchmarks that we can use to gauge whether the expenditure is up or down or whether it is static and, at the end of the year, looking at the annual report, whether or not there has been the achieved level of expenditure, whether it has been greater—in which case what has stimulated the greater expenditure or—if it has been less, what has caused it to be less. It is not anything else other than something that we can use as being indicative of what is happening. That level of detail within the PBS may well be of itself a difficulty—I do not know; I have not thought this completely through I must admit—but when I came to the explanations on pages 69 through to 71, whilst in some of those things I could see relevance in the variations, some of the explanations for the variations bore no relevance at all in trying to interpret the outcome hoped to be achieved under output 1.

Air Vice Marshal Nicholson—These priorities are just that; they are priorities. They are not exclusive. There are lots of other things that we would hope to do within output 1. These are the ones we would most like to do. The process is a little bit the reverse of the way you described. The question is: can we do all these things within the resources that are allocated? If there is something that is not on this list which the government would like on this list then we would put it on and drop something off if the level of resources remained the same. We could certainly describe each of these in some detail if you would like.

Senator HOGG—But those particular priorities must all in some way contribute to the total price that has been arrived at of \$1,387 million. Is that correct?

Air Vice Marshal Nicholson—That is correct, yes.

Mr Corey—I am not sure that the provision would have the precision that you may be suggesting. We have a broad range of activities there, and we have not got the financial systems to do the estimating or capture the costs. It would build up the \$1,387 million against each of those headings.

Senator HOGG—I am just trying to find out how you build up the \$1,387 million to start off with. That is what I am trying to do. There must be some formula or some methodology

that you use to establish the \$1,387 million. I said at the private briefing that our concern is that we are now moving from 22 outputs to 27 outputs, but there are only five which are the face of the defence force. There is a huge pool of money within which things can be moved around. We are trying to identify how things may well be moved around within, say, output 1.

Air Vice Marshal Nicholson—The simple answer to the question is that the figure of slightly less than 1.4, which is the operating and maintenance costs for the next budget year, is almost entirely directed to achieving the CPD—that is, the near term readiness requirements. The capital investment is to look after the future force. So virtually all of that money is designed to achieve the CPD.

Senator HOGG—Can costs be attributed to the significant points which may occur on 63 through to the top of 66? Is there a short answer for that?

Dr Williams—In our present systems, no, we could not give you reliable information other than in the odd exception, the reason being that the items listed here are not a comprehensive list of all the activities and what we are doing. Even if one could ascribe cost to that, it is identifying the variations, the priorities and the particular things that are the focus this year, so it does not necessarily address the ongoing base of what we are doing. It would not be a matter of ascribing costs to each item and that that would tally at the end; it is more focusing on what the emphasise should be. Furthermore, as I identified earlier, our systems at the moment are input based. We would really need to get our activity based costing methods up to scratch to be able to do this, even if we wanted to try to capture some at the margins. As I said before, we are at least a year to two away from having that.

Senator HOGG—I accept that, and I appreciate your comments. I am just trying to see how members of this committee can look at the accountability factor which the new accrual process places upon the Department of Defence. Let us look at the ADF military operations, for example the fifth point says:

Provide ADF support to the Sydney Olympic Games (Operation Gold) involving some 4,000 personnel..

Air Vice Marshal Treloar—We could cost that.

Air Vice Marshal Nicholson—That is one that we could cost.

Senator HOGG—That is what I am saying. There are some of them that you would not be able to cost, and I understand that, but it would seem to me that it is not an unfair expectation on our part to want to know about substantial costs in your structure such as those. For some of these I can understand that you may well say, 'Well, look, the reality is we couldn't cost it; it is not a substantial item but nonetheless it does perform part of the priorities for 2000-01. We are not trying to dodge or duck and weave,' and then we may well avoid asking for explanations like these on page 69, 'Employees—Military' with a change of \$4 million, and 'Revised provisions because of changes in methodology of allocating allowances and revised calculation of long service leave and annual leave expenses', it is \$11.3 million. I think I know what that means, but in trying to relate that to whether you people are achieving your priorities—your capability enhancement initiatives for the year and the performance targets—it does not really tell me a great deal.

I found another amount, though it is not a significant amount. Under 'Suppliers real' there is one negative \$7.8 million 'write-off of assets under construction'. You people who are sitting on that side the table are very well versed with how you constructed it and what it means—and I understand that and I accept that—but, from my side of the table, although I am not doubting the sincerity with which it was put together, if I were told that the ADF support

to the Olympics last year was X million and this year it is X plus 10 million, I could weigh that up—I could say you have done something extra; I could say you have expended extra effort—and that is something that the broader public out there could accept. For example, if Operation Blazer specialist support by two personnel has gone from Y dollars to Y plus five dollars, that is something that is tangible. That is all I am getting at, given that there are targets there that are going to be very hard for us to test things against. Dr Williams, I accept fully the limitations of the present set-up and I genuinely understand the difficulties that are there, but it may well be that, if Defence is working to regain or restore confidence in itself, as I understand it is, then it might consider looking at that into the future and assisting this committee and its own image.

Proceedings suspended from 6.43 p.m. to 7.46 p.m.

CHAIR—The committee is now back in session and we continue with Output 1, Defence Operations.

Mr Corey—Chair, before we start again, I have some more information on SeaSparrow that Senator Hogg asked about earlier. He asked why it had been revised downwards from last year's PBS. The note that I have here says, 'The missile development and testing program being conducted by the NATO SeaSparrow Consortium has incurred delays. The low rate initial production contract is now due to be signed in August 2000, some six months later than expected. Missiles will be available for test firing from Anzac ship 05, the first Australian ship to be ESSM equipped.'

CHAIR—Thank you, Mr Corey.

Senator HOGG—Please turn to page 69, table 3.1.2. Is there a comparable table in the 1999/2000 PBS? I do not care who answers it, but don't fight.

Dr Williams—Basically, what we did in the previous one, as I recall, was provide for each of the 22 outputs some information on the cost variation. So there would have been similar tables. What we have tried to do this time is to put in a little bit more information. From memory, rather than give what was simply 'Employees', 'Suppliers', we have tried to give a breakup here in terms of 'Military', 'Civilian' et cetera. In fact, I have just had a copy passed to me. Previously we just had 'Expenses', 'Employees', 'Depreciation', 'Other expenses'—

Senator HOGG—Can you point me to a previous table?

Dr Williams—If you go to the 1999/2000 PBS, page 63 would be an example.

Senator HOGG—I see it, and it has got the capital use charge.

Dr Williams—Yes. We have tried to provide a little bit more of a breakup here to give a better feel for the shifts.

Senator HOGG—For reasons that we have already canvassed, which we will not again, there is no direct relationship between the two. Underneath that table you give an explanation of the significant variations by 'Employees—Military' et cetera. There are two headings, 'Price' and 'Real'. For the purpose of *Hansard* could you identify the difference between price and real price?

Dr Williams—Regarding 'Price', in fairly simple terms, if you take the first one for example, where there has been a salary rise, what we are saying is that it was not a variation, if you like, in our output or our work achievement. Basically, it was the same number of people. What we were doing was increasing the salaries in line with the salary rise. It does not reflect a real variation of funds contributing to an activity. It is simply a global adjustment or a

price exchange or whatever. The real ones are where there has been a real effect. For example, East Timor funding going up or down, or something of that sort.

Senator HOGG—If we just go through the first heading, under ‘Price’ it says:
+\$7.9 mFull-year effect of the ADF Enterprise Productivity Arrangement.

Dr Williams—Yes. Part of the attribution process is that we look at the number of people in the military, we work out what the total increase was across the portfolio and attribute the appropriate proportion to this particular output. If you go to the second one, you will see there is an increase of \$5.9 million relating to the Defence Housing Authority. That, essentially, is part of that supplementation figure that we discussed earlier. Again, it is additional money to Defence that is paid out. It is not a real change, as such.

Senator HOGG—So neither of those are real changes. Then you go to the real changes, and just lead us through those.

Dr Williams—Perhaps if I hand over to Mr Smith.

Senator HOGG—Yes, that is fair enough.

Mr Smith—The first one is a real change, which reflects the different East Timor requirements from last year to this. The second one—

Senator HOGG—Could I just ask there about ‘different requirement’; does that mean that the requirement appears elsewhere?

Mr Smith—No, that is just a comparison of what we require this year.

Senator HOGG—Right. The difficulty that we are operating under is that we do not have the base from last year to the base of this year. You have just done the subtraction.

Dr Williams—Yes.

Mr Smith—The next one probably actually should have been in there under the price because it is really a more accurate calculation of how we attribute the allowances and leave expenses under the change to accruals budgeting. We are trying to improve the accuracy of those allowances as we allocate them to groups. Whereas in the past in an attribution process they may have been attributed to an output on a per capita basis, they are now being attributed in terms of the nature of the activity and the skills of the persons doing it, which affects the allowances that they are paid. The next one is efficiency gains through our market testing process run by the corporate support group.

Senator HOGG—What are ‘non-core areas’?

Mr Smith—Market testing in clerical admin services, garrison support and those types of areas.

Senator HOGG—Right—all the areas where you have been doing the testing.

Dr Williams—Yes.

Mr Smith—The next one, Support Command Australia and Army are saying that there will be lower occupancy levels for some positions, so some positions will not be filled to the same extent as they were this year, so there is less money on military salaries. The next one is attribution to this output of fringe benefits tax savings that are held by the portfolio and attributed out, so they are down this year. The last one is a fairly minor change again; it is a variation of personnel numbers slightly downwards compared with last year.

Senator HOGG—Mr Smith, to get the negative \$4 million, is it the sum of all the ‘Reals’, given that that is not totally comprehensive—is that the way it is meant to—

Mr Smith—It is the sum of all of those—‘Price’ and ‘Real’.

Senator HOGG—Then you have similar explanations that occur under the other headings?

Mr Smith—Yes.

Senator HOGG—Are you able to point out for our benefit, without taking you through the detail of each of those, where the significant changes are in Output 1 that we need to look at?

Mr Smith—I think the key change in all of Output 1 is the Timor—

Senator HOGG—Under ‘Suppliers’?

Mr Smith—It will come up under ‘Suppliers’, under ‘Employees’; it will come up under ‘Inventory Consumption’. Taken together, changed requirements from East Timor are probably—

Senator HOGG—There is a big swing and roundabout there. There is +\$55.8 million—

Mr Smith—In ‘Suppliers’. There is \$48 million the other way in ‘Inventory Consumption’.

Senator HOGG—Is there a net figure for that?

Mr Smith—No, I have not worked it out.

Senator HOGG—All right; it does not matter. Are there any other significant issues that we should look at?

Mr Smith—Yes. Given that this is a global output 1, there is \$32 million under Safe Haven. Delivery to hydrographic ships is probably another key one in the change. That has quite an impact when you take on the depreciation, capital use charge and all of that. ADI debt is something that is attributed across all outputs—the write-down of the outstanding loans to ADI. As I said, the other area will be capital use charge generally where there is a rollout of new equipments relating to this output.

Senator HOGG—For you to come to those conclusions, whether they are pluses or minuses, you have used a base figure from a set of figures you have had for 1999/2000 and —

Mr Smith—Where the differences are this year.

Senator HOGG—Ultimately, we should be able to track those base figures through the whole process, should we?

Mr Smith—Yes, you should.

Senator HOGG—Why were they not there this year?

Mr Smith—It is a question of choice of how you present it. People have tended to produce this in terms of the accounting items in the financial statements you could present in a different way. It is a matter of which way you feel is the most helpful.

Senator HOGG—Which way you press the computer button that spits it out.

Mr Smith—Yes.

Dr Williams—Can I comment on that, Senator Hogg. If you go back to the previous PBS, essentially in the presentation against each output—there were more outputs admittedly—there was probably less information than is contained in the current one. In terms of the base, basically at table 3.1.2, for each total category you can get the current figure this year and the difference. So it is giving you the total now. The subsequent explanations down below do not give you every item. It does not attempt to give everything, but just those that have shifted. In

essence, there is more visibility here, admittedly for a smaller number of outputs, than there was in the previous PBS.

Senator HOGG—Just on that write-down of assets; that was \$16.4 million. How did you work out that \$16.4 million of the asset was attributed to Output 1? Is that just, ‘We will divide by five or by whatever else and that is it’?

Mr Smith—We would have to ask someone in the acquisition organisation how they have done that. That is their calculation.

Dr Williams—In short, if there are particular assets which are clearly related to this output, then we could identify that and part of our attribution process would be doing just that and allocating the funds. Where there is something which goes across a number of areas, or is less clearly defined, we may default back to some attribution process which would probably be done on a pro-rata basis, rather than a fifth that would be in proportion to the broad size.

Senator HOGG—So there is some pro-rating of it?

Dr Williams—Yes. As I said earlier, this is one of the difficulties in trying to convert it from inputs to outputs. There are judgements to be made about, is this something which affects purely one output, or sub-output even more so, or is it something that is specific?

Senator HOGG—So that is \$16.4 million that will not be seen again by output 1. Is that correct? It is just completely written-off.

Dr Williams—In terms of—yes.

Senator HOGG—Because the whole loan is written off.

Dr Williams—Yes.

Senator HOGG—Does that affect the output at all in the longer term?

Dr Williams—It should not do, in that if you go right back to basics and to the overall portfolio position, what we have in total is a zero growth budget. In other words, we have not lost in real terms from the previous year, but we have had the add-ons that we covered right at the start in terms of extra money for submarines. In net terms, the portfolio as a whole is actually better off taking account of all the various ups and downs and shifts.

Senator HOGG—Just going back to that \$93 million; that was \$93 million that Defence lent to ADI?

Dr Williams—Essentially yes.

Senator HOGG—Essentially it was a \$93 million loan from Defence to ADI?

Dr Williams—Yes. That amount was written off but we also have been allocated a figure of \$33 million. In our operating appropriation from Finance we have actually been appropriated \$33 million specifically to cover part of that loan. So we have had a write-off of \$93 million and we have had \$33 million handed back. It is presented as two steps. So there is a net loss of \$60 million.

Senator HOGG—A net loss of \$60 million?

Dr Williams—Yes, but in terms of this current year we have factored in, and it is on that list that we provided which showed all the variations from last year to this, an increase of \$33 million associated with that part of the loan that we have—

Senator HOGG—Sorry; what sheet was that?

Dr Williams—This was the \$304 million—the explanation of the shift between, or various swings and roundabouts—

Senator HOGG—Right, that \$304 million.

Dr Williams—Yes.

Senator HOGG—You said \$33 million there—\$33 million came in.

Dr Williams—Yes. We have got two entries if you want. There is a \$93 million write-off—

Senator HOGG—Pardon me, but where is that \$33 million visible in the PBS?

Dr Williams—It is within the revenues from government but it is not visible in this document unless—no, it is not visible there.

Senator HOGG—Wouldn't it be better if amounts such as that were visible—for your sake and my sake?

Dr Williams—It is a matter of how much breakup we give. As I say, it is covered in that explanation of the shift over the \$304 million.

Senator HOGG—Just draw my attention to that in the PBS; I might be missing something.

Dr Williams—In the PBS it basically comes under revenues from government—

Senator HOGG—Yes, I understand that.

Dr Williams—So we have got the total amount, and that is one element of that.

Senator HOGG—But it is not written in the PBS?

Dr Williams—It is not written in the PBS as such. The notes do not go down to that level of detail.

Senator HOGG—That is what I thought you said and understood you to say.

Dr Williams—The \$304 million—the note we gave you with the explanation will show that as one of—

Senator HOGG—I am sorry, I have not seen that note yet. The secretariat obviously have it and I just have not seen it, hence my ignorance on that matter, Dr Williams. Thank you very much for those explanations. I think we can move on to some other questions that we have under output 1.

Senator WEST—Can I just get clear in my own mind the sale of ADI. The government sold it; it gets the money. What happens to the loan that Defence made to ADI?

Dr Williams—Of that \$93 million, basically the net result is, rather than Defence get the \$93 million back, we will get \$33 million. The way it has been treated in the financial statements is to write down the \$93 million as a loss, as an expense, but our appropriation is increased by the \$33 million. So essentially, of our loan, we have only had returned \$33 million rather than \$93 million.

Senator WEST—So you are actually \$60-odd million worse off?

Dr Williams—Well, the balance remained with government as a whole.

Senator WEST—Why was that?

Dr Williams—It was a decision as part of the sale process.

Senator WEST—You don't think you got done, do you?

Senator HOGG—Defence misses out.

Senator WEST—That is right; Defence does miss out. Last week the foreign minister indicated that he thought the Australian Defence Force could not really offer Fiji much

assistance. This is hypothetically, and not with specific reference to Fiji, but what sort of options could the Defence Force provide to assist a regional neighbour with a scenario of some sort of unrest not unlike Fiji—not referring to Fiji, and not looking at that in particular, but the general hypothetical issue of what assistance could the Australian Defence Force offer a neighbour with some problems?

Air Vice Marshal Nicholson—I will start. There are a number of aspects. The first one would be to assist in the evacuation of Australian citizens. That is the most likely situation. That could take two forms. One would be where we are assisting the evacuation, and a second where we may have to protect the evacuation. That would be in a situation where law and order in the place we were evacuating Australian citizens from, and perhaps other authorised nationals—other countries may well come to the Australian government and ask for us to assist in that respect—had broken down and we needed to protect their evacuation. Those would be the two most likely situations.

We would use elements of the force in being and they are actually written into the CPD—the Chief Defence Force Preparedness Directive—and in very great detail in the Operational Preparedness Directive which a theatre commander produces—the kinds of typical force sizes and aircraft, ships and soldiers that might be needed to do that sort of task. Not written into the CPD, but as part of our contingency planning, would be the idea of actually going to the assistance of another government. The specific forces for that are not identified because the situation could vary very much.

Air Cdre Clarke—I might point out that there are a couple of restraints on the latter sort of activity—those that specifically relate to the military providing civil policing support or the sort of support that you might envisage in an environment where the constitution of another country was under threat. Just as we are not permitted in Australia for that sort of interference, nor would we be legally entitled to do so in another country's environment without specific sorts of requests from legitimate authorities in those countries. It is not a matter of the government providing an intervention capability, but rather an invitation being provided to the government for some sort of intervention.

Senator WEST—How does evacuating Australian citizens help the country that has the problem? It helps our citizens, but how does it help the country that has the problem?

Air Vice Marshal Nicholson—The decision to help the country that has the problem would be, of course, a decision of government and would, of course, not be taken at all lightly. The much more likely circumstance is simply to protect Australian nationals.

Senator WEST—So you are saying that we do not have many options. Is that it?

Air Vice Marshal Nicholson—No. It is a matter of what the government wants us to do.

Senator WEST—What I am asking you is, as a defence force, in a hypothetical, what options can you provide? As a government, I can maybe come up with all sorts of weird and wonderful things that you would not be able to offer, but what options can you advise me would—

Air Vice Marshal Nicholson—I do not think I can speculate on that question. I am sorry.

Senator WEST—Okay. So if the penguins are going to take over New Zealand, the penguins are going to win, are they?

Senator HOGG—Well, the Brumbies couldn't!

Senator WEST—The Brumbies could not—I know. Okay.

Senator HOGG—Can I move on to ask about our involvement in the Cambodian Mine Action Centre and the clearing of mines.

Air Vice Marshal Treloar—We had a small training team in Cambodia that were training others how to delouse minefields. That training was completed—and I am going from memory now—about September last and our training team has withdrawn from there.

Senator HOGG—We have no further involvement in that program?

Air Vice Marshal Treloar—That is correct.

Senator HOGG—Are we giving any money to the program at all to assist in the clearing?

Air Vice Marshal Treloar—I cannot answer that, I am sorry.

Senator HOGG—Is there anyone who can?

Air Vice Marshal Nicholson—We will take that on notice.

Senator HOGG—I will tell you the reason for my asking the question. I think what we have done there is excellent because it is a country clearly riddled with mines, but there was a report in the *Australian* the other day that said:

Aid donor countries reacted with frustration yesterday after the embattled Cambodian agency responsible for removing landmines announced it would have to halt operations at the end of the week because it is out of money.

Air Vice Marshal Nicholson—I spoke earlier about the Defence International Engagement program or plan. The Defence Cooperation Program has a similar rolling program to assist countries with various activities, including training and so forth, according to the priorities that are set under that plan.

Senator HOGG—It may well be that I find out the answer from the Department of Foreign Affairs and Trade.

Air Vice Marshal Nicholson—To my knowledge, we are not contributing any Defence Cooperation Program funds to mine clearance in Cambodia, but we will confirm that tomorrow.

Senator HOGG—Thanks very much. On another issue, is it correct that the US Defense Department has resumed training Indonesian military officers in the US?

Air Vice Marshal Nicholson—I read the same press report.

Senator HOGG—In the *Sydney Morning Herald*?

Air Cdre Clarke—As I understand it, the US are reviewing their cessation of relations with Indonesia. In the US system the sorts of things that were reported in the press—involved in exercises and bilateral activities with specifically the Indonesian Air Force, Navy and Marines—are proposed but are not yet cleared by the US administration, as I understand it.

Senator HOGG—Did we have any knowledge that this was about to resume, just as part of our normal relationships with the United States?

Air Cdre Clarke—I would suggest that the fact that they have not resumed and we know about it already implies that we have knowledge.

Senator HOGG—Do we have any concerns about the resumption of such training?

Air Cdre Clarke—I would not comment on the US's attitude for engagement with Indonesia.

Senator HOGG—All right.

Senator WEST—On the issue of more media stories, there is a story in the *Financial Review* of Friday, 19 May which quotes Dr Andrew Krepinevich, of the US Centre for Strategic and Budgetary Assessments, as being concerned and warning that it was not clear that nations knew how to defend increasingly information based economies from info war threats. Have you read this article and do you agree with some of his concerns?

Air Vice Marshal Nicholson—Yes, I have read the article. There was a study done under the auspices of the Attorney-General's about a year to two years ago which identified the vulnerabilities of the national information infrastructure to which Defence and other departments contributed. They identified the same kinds of threats.

Senator WEST—So we are open targets to some sort of cyber warfare, or potentially?

Air Vice Marshal Nicholson—That is correct.

Senator WEST—What action are you taking to protect us and our interests from this type of warfare? Another 100 soldiers with Steyr rifles will not really work.

Air Vice Marshal Nicholson—This general area is called information operations, and we are in the process of developing capabilities in that area. The first area that is of most concern is that of information assurance, that is, to stop people getting into our networks, our communications and our computer networks—I use the term to cover both. We have an ability to detect intrusions and we have, in the last year, particularly as part of the Y2K and subsequently, built what are called firewalls for our most sensitive networks so that it is very difficult to penetrate those networks.

Senator WEST—We have fairly good firewalls here and we still got the Love Bug in. Was any of Defence's network affected by the Love Bug and subsequent variations?

Air Vice Marshal Nicholson—No, it was not. It was detected at the firewalls and intercepted.

Senator WEST—So you had no Love Bug, or no joke invasions?

Air Vice Marshal Nicholson—No, there was no damage done by the Love Bug. Certainly there were some intercepted.

Senator WEST—Do you know how many hits a year you have of attempted entries?

Air Vice Marshal Nicholson—I cannot answer that question. I could get that information for you.

Senator WEST—Yes, as a matter of interest. How much does ADF spend a year on cyber defence capability?

Air Vice Marshal Nicholson—I am hesitating because I am not sure that we can actually attribute it like that. We could tell you how much we spend on defence information systems, but I am not sure that we could break it down exactly like that. For example, the security of a network can be attributed across all outputs. I am not sure that we would be able to break it down to the sort of granularity that you are talking about. I will take the question on notice and see what I can find out.

Senator WEST—I am interested to find out what the security of the network is costing? I am also interested in knowing what we are spending on research and updating each year? The research capability side of it is equally as important as the existing software, the existing firewalls and protective elements, because we are seeing the speed and the rate with which viruses can be thought up, by minds with little else to do, increasing, and how easy it is for them to mutate. The Pentagon has been infiltrated on a couple of occasions in the past, according to media comments or stories elsewhere, and not necessarily in recent times.

Certainly, if they have been infiltrated then this one gets infiltrated, not to a major degree but it still gets some coming across. I am pleased that Defence is not, but I am interested to know what you are doing and how much you are spending just to keep that one step ahead of the hackers and the virus writers because it is a pretty important situation. We do not want the whole system going down.

Air Vice Marshal Nicholson—Certainly.

Senator HOGG—Could I revisit the issue of the Indonesian soldiers and the speculation that they are going to be trained in the United States? Have we changed our attitude in any way as to the training that we are providing to Indonesian defence forces?

Mr Corey—You may be better pursuing this under output 5 when Hugh White is here tomorrow morning.

Air Vice Marshal Treloar—I am not sure about the training side but on the exercising side we do not have any exercises program to run in this coming financial year with Indonesia until it is cleared by government.

Air Cdre Clarke—There has been no change and no relaxation of the restrictions that were put in after the beginning of the INTERFET operation in East Timor.

Senator HOGG—Just going back to the answer that you gave me in respect of the Americans: did they consult us in any way about what they were going to do on a regional basis?

Air Cdre Clarke—I think Mr White could answer the question more clearly than I could. I am aware of some activity but I am certainly not across all of it. It is not directly in my sphere.

Senator HOGG—So we will have to wait for Mr White.

Air Cdre Clarke—I would prefer that you did that to get a more precise answer in this environment.

Senator HOGG—That is fine. With regard to East Timor itself, do we have an exit date or an estimation of the time of withdrawal from East Timor for our Australian troops?

Air Vice Marshal Treloar—We are withdrawing 400 of our troops on 30 June. Currently, we have just under 2,000 troops in East Timor. Just under 1,600 of those are there for the long-term support as long as the UN mandate is in place. The 400 that are being withdrawn are those forces that the government left in place to allow the United Nations time to effect civilian contracts for things like food distribution, petrol oil lubrication distribution, waste collection and communications. The mandate for UNTAET is to be renewed or revised in January next year.

Senator HOGG—So at this stage you would say that, until that is revised in January next year, we can only look as far as January next year, or is there a commitment that goes beyond January next year?

Air Vice Marshal Treloar—I am not aware of that commitment but I am a doer. I think that in this particular instance Mr White is the person to answer that question for you.

Senator HOGG—Is it fair to say, until I discuss this with Mr White, that our commitment is there until the UNTAET commitment is reviewed next year in January?

Air Vice Marshal Treloar—I think that would be a fair assessment to make.

Senator HOGG—Has there been any change to Australia's contribution to UNTAET since our last estimates?

Air Vice Marshal Treloar—There have been minor changes to the forces in and out. For example, we placed four Black Hawk aircraft to support the United Nations for night air medical evacuation while the United Nations again put a contract in place to take up that capability. They were withdrawn during the last week in April so that we could prepare them for the Olympic Games. That had given the United Nations time to decrease the gap between the capability that we had provided for them and their own contract.

Senator HOGG—Are there any concerns that perhaps we have withdrawn too many troops too quickly from East Timor and, as a result, that has increased the militia activity on the border?

Air Vice Marshal Treloar—When we moved from being the lead nation in INTERFET to being one of the supporting nations, the agreement was that we would take the northern portion of the East Timor and West Timor borders for our own area of operations. That was assessed to be a reasonable area for the employment of one battalion group. It was assessed to be a demanding or challenging but reasonable position.

Senator WEST—What is the situation like in East Timor at present?

Air Vice Marshal Treloar—It is generally quiet but, having said that, it is unpredictable. There have been cases of intermittent militia activity on the border and it is difficult to predict precisely when that will occur.

Senator WEST—I am thinking in terms of what it is like in Dili. Are there shortages of food?

Air Vice Marshal Treloar—No. When I was there a few weeks ago there were no shortages of food and people were moving around the streets in normal fashion. Vehicles were on the road which were not there late last year, and groups of people were eating at markets—those sorts of activities.

Senator WEST—It is just that I had a report from an acquaintance who had spent some time there with an NGO—certainly her information from April is a few weeks old—that there were food shortages for the locals living in Dili. There had been some protests taking place in Dili. I am seeking to get some handle on what the situation is.

Air Vice Marshal Treloar—All I can say is that I didn't see that or was made aware during my last visit there. It looked reasonably good. The markets were full of different produce. There were lots of different carts and people selling their wares there early in the morning through to mid-morning. It was not just a five-minute market activity. When I visited that area in October and November and there were two or three dozen of those particular market stalls available. Now there are scores of them.

Senator WEST—What about outside of the market areas though?

Air Vice Marshal Treloar—The shops and the central business district have all been completely destroyed. There is not much activity as far as people selling wares outside of the market area, that I saw anyway.

Senator WEST—How expensive is the food for an East Timorese person?

Air Vice Marshal Treloar—I don't know, I cannot comment on that.

ACTING CHAIR—I was wondering whether that might not be a better question to put to Mr Chris Moraitis from the East Timor branch of Foreign Affairs. He might be able to give you the answers to those, rather than the defence forces.

Senator WEST—Defence actually have bodies over there, probably more than Foreign Affairs have. But I will do that.

Senator HOGG—Returning to East Timor for a moment, there have been some reports of shortages of weapons and ammunition for ADF personnel in East Timor. Is that correct?

Air Vice Marshal Treloar—I do not believe so. I would defer to Chief of Army if he had another comment, but for my own understanding of the supply of ammunition, there has been provision for adequate supplies. In fact, we have been bringing ammunition home.

Senator HOGG—That is interesting because I was led to believe that the Rocky RSL Sub-Branch took this matter up with the Prime Minister and General Cosgrove recently when they visited there. Someone from the Rocky RSL Sub-Branch was interested enough to take it up and generally some of their information is fairly spot on. Obviously, according to your comment, that does not seem to be the case.

Air Vice Marshal Treloar—That is correct, Senator.

Air Cdre Clarke—On the surface, it would appear to be incorrect, because the original provisioning for that operation was designed for a much higher tempo than was actually the case. I would be surprised if it were the case that we were short.

Senator WEST—At the last hearing you took on notice some questions from Senator Quirke about the Steyr and the M4. The answer indicates that the cost per unit of the M4 is approximately \$9,000 with the extra accessories added to the rifle that were required by the special ops group. Was it not possible to add the necessary accessories to the Steyr to meet the same requirement?

Air Vice Marshal Treloar—I would have to defer to Chief of Army to answer that question. I am not an expert on the Steyr rifle, nor the M4.

Lt Gen. Hickling—I am no small arms expert, but I do know that the M4 is what they call a modular weapon. You can add bits and pieces to it. The Steyr is not designed for those additions. That is the reason why, for special forces, we have gone to the M4: it has greater versatility, given that they are expected to operate on lighter scales. They need to be much more versatile. They cannot carry the variety of weapons around that you can expect to have in, say, an infantry battalion with the normal supporting arms. The M4 offers them a range of options to use in different circumstances and it has the ability to plug on a variety of accessories which you cannot use on the Steyr because the Steyr was not designed for that.

Senator WEST—So it gives you the option of something like machine-gun capacity, or greater—

Lt Gen. Hickling—It provides a variety of siting options and also of ammunition options which you cannot get with the Steyr. That is the basis of it.

Senator WEST—How many M4s were purchased by the ADF?

Lt Gen. Hickling—I would have to take that on notice.

Senator WEST—Apart from the special ops groups, are any other groups using it?

Lt Gen. Hickling—The M4 was bought for special operations forces. I would not expect it to be issued to anybody else.

Senator WEST—You are not aware of its being used by anybody else?

Lt Gen. Hickling—Not aware.

Senator WEST—Neither am I. I am just—

Lt Gen. Hickling—There would certainly be some in places like training units and so forth, but not in operational units other than special forces, to my knowledge.

Senator WEST—The training units for the special operations forces would have to have it, of course.

Lt Gen. Hickling—Yes.

Senator HOGG—There was a highly reported incident earlier this year between FA18s and a 707 and some Indonesian military aircraft. Could you tell the committee exactly what happened. Have there been any other occasions in the last nine months when Australian military ships or aircraft have been intercepted or engaged by Indonesian forces?

Air Vice Marshal Treloar—There was a routine deployment of F18s and a Boeing 707 tanker aircraft from Australia to Singapore. The aircraft were flying in an advertised international air route, on an advanced flight plan, with a diplomatic clearance. The intercept of the aircraft by the Indonesian F5s was unexpected, unanticipated and completely out of the ordinary, and it took place inside of that international air route. The F5s closed to the F18 formation and made some hand signals which I do not believe were understood by the F18 pilots. Then the F5s departed back to their home base.

Senator HOGG—That is slightly different from the report that appeared.

Air Vice Marshal Treloar—In what way, Senator?

Senator HOGG—I am not saying it did not happen that way, but your version seems to be a lot more low key—

Air Vice Marshal Treloar—That is probably the way I described it.

Senator HOGG—than the way the media reported it. Are you saying there was a bit of a media beat-up?

Air Vice Marshal Treloar—I am just trying to describe it as it happened. I am describing it from an airman's point of view.

Senator WEST—Is there a set of internationally recognised hand signals amongst pilots? There are on the road, I know, but I was wondering about the air.

Air Vice Marshal Treloar—Yes, there are.

Senator HOGG—Please, no demonstrations.

Air Vice Marshal Treloar—They appeared to be friendly hand signals, but the pilots in the F18s could not tell what these hand signals were.

Senator HOGG—So there was no concern?

Air Vice Marshal Treloar—There is always concern when another aircraft flies up unexpectedly into your own formation.

Senator WEST—If you are close enough to see his hands.

Air Vice Marshal Treloar—It depends on the circumstances in which it happens. When it is unexpected, you certainly pay a lot of attention to it.

Senator HOGG—Were there any other similar incidents in the nine months prior to that with either ships or aircraft?

Air Vice Marshal Treloar—No, not to my knowledge certainly with aircraft. I do not believe so with ships but I am not as sure of that one. Ships would pass each other in a routine fashion. I do not believe that has been happening in international waters.

Senator HOGG—Thank you. I understand there was a process undertaken for lessons learnt from East Timor. Can you bring us up-to-date on that process?

Air Vice Marshal Treloar—There is a process being undertaken to pull together all the lessons from the various forces that took part in East Timor. We endeavoured to capture the activities and record them as they occurred. We have teams that are pulling those various activities together for the individual lessons learned so we can put them together in a larger or a more complete report. The endeavour is to report to the Chief of Defence Force by about August this year.

Senator HOGG—Have you seen the same list I have seen?

Air Vice Marshal Treloar—I am not sure what you have, Senator.

Senator HOGG—‘Not the lessons learned database’. Are these appearing on your list?

Air Cdre Clarke—We do have the ‘lessons learned database’.

Senator HOGG—The ‘not the lessons learned database’. It says:

If you cannot get the stores you requested for several weeks, this does not indicate a problem with the movement system. This is a phenomenon similar to the Bermuda Triangle between Darwin and Dili where anything ordered on an OPDEM will mysteriously disappear. Ships and aircraft that pass through this zone will arrive half empty.

Does that ring a bell on your list? What about this one:

Cancelling up to 10 scheduled C130 flights per day has no significant effect on the movement of urgent stores as they would not have arrived anyway.

Is that on your list?

Air Vice Marshal Treloar—No, I do not have that database but I am glad to see that our troops still have a sense of humour.

Senator HOGG—I think that it is interesting. It goes on:

Deadlines that are physically impossible can be made feasible by simply raising your voice and making a chopping motion with the right hand into the palm of the left. This simple technique has been known to make ships and aircraft arrive in record times on regular runs.

Is that not a familiar list? If that is not the real list, then someone has obviously fed me the wrong thing, and I will have a lend of them later. Do you have a real list?

Air Vice Marshal Treloar—We are compiling a real list.

Senator HOGG—Can I trade you my list for your list?

Air Vice Marshal Treloar—Mine is not ready yet.

Senator HOGG—When will yours be ready?

Air Vice Marshal Treloar—As I said, we need to pull together our reports and report to the Chief of Staff Committee in August this year.

Senator HOGG—Are there any preliminary assessments of the list that has been pulled together?

Air Vice Marshal Treloar—Some of the assessments that are taken from individual areas are really things of how well we did, for example, in deployment, sustainment and areas where we were short in some of our supplies and how we overcame those. They are the sorts

of lessons we are drawing together. You need to look at the whole of the report in context, rather than take individual shortcomings or points that have been done well to get a fair assessment of how well or otherwise we did.

Senator HOGG—When that report is ready, I will do you a swap, and I think it will be a fair trade.

Air Vice Marshal Treloar—I will pass that on, Senator.

Senator HOGG—I genuinely do look forward to that report because it will be interesting to see the feedback that you have got on that issue.

Air Vice Marshal Treloar—I am being advised that I should raise with you the fact that some of the information we have in that may need to be given to you in camera. It just depends on the type and level of reporting.

Senator HOGG—We accept that and, as always, we are not seeking to breach any security matters. There has been a lot of reporting about the completion of the Olympic security training exercises. Can you give us an update on that.

Air Vice Marshal Treloar—Two joint task forces are being formed to support the Olympics under the code name of Operation Gold. One task group is based on special forces and it has been doing a training program from 2 May through to 2 June as a concentration period. It is the culmination of much training that has been going on since the middle of last year and this particular period will mark the end of the formal combined training. They will still be training but training as individual smaller components. The other joint task force is the task force that deals with the general support—

Senator HOGG—Could I just stop you there. Is that the major exercise we saw across the media the other day?

Air Vice Marshal Treloar—It is part of it. The other joint task force is the task force that deals with general support and the security issues such as bomb hoax and bomb search render safe activities. A series of exercises has been conducted, in conjunction with the New South Wales Police Service and other government organisations, with code names of Bronze Flame, Silver Flame and Golden Flame—and Golden Flame is the one that was completed the week before last, and that marks the end of a variety of training activities in preparation for the Games. They have been a different exercise in style, from just a command post exercise where they have sat down and in essence gamed the activity through to putting troops onto the ground and letting them search and do some of the activities in the Olympic venues.

Senator HOGG—If there were any damage at any of those venues, who would pick up the tab?

Air Vice Marshal Treloar—The Defence Force. In fact, there was some damage to one of the areas of the Olympic venue. That was catered for in terms of an agreement that should there be any damage we would pick up the bill and have the damage fixed as soon as we possibly could. There is a contract, in fact, put in place to do that.

Senator HOGG—Are they additional costs or were they incorporated in the original costing?

Air Vice Marshal Treloar—I do not know the answer to that one, but I think a regime for that particular exercise would have been included inside the exercise costing.

Senator HOGG—Are there any lingering concerns about Olympic security and what might still need to be done without necessarily compromising—

Air Vice Marshal Treloar—No, we have achieved all we have set out to do in our exercising and they were thought through fairly carefully before those exercises were agreed to. I think we will sit back, having completed those exercises, review the post-exercise reports and make sure all the boxes have been ticked.

Senator HOGG—There has been a reasonably high level of publicity surrounding some of the security activities. Do you believe that there has been too much in a sense and that it may well have signalled too openly and too clearly what some of our means of addressing some of the problems might be?

Air Vice Marshal Treloar—That is always a concern but I think it is also a balance of being able to in some ways show the community that we are taking the activity seriously and indeed practising it. Some of the things that we need to practise you cannot necessarily hide at all; you need to do them within those Olympic venues—that is, in open sight. So it is a value judgment and I think, on the balance, we have achieved a reasonable result out of that.

Senator HOGG—Could you give the committee an update on Operation Bel Isi on Bougainville and any changes to Australia's participation in that operation?

Air Vice Marshal Treloar—Senator, Operation Bel Isi 2 in Bougainville has been going for just over two years and part of the understanding when the operation started was that we would endeavour to draw down forces when it was a practical time to do so. That time was considered to be when the peace monitoring was continuing without significant event and the various differing factions on the island were able to sit down together and discuss what they wanted with the government of Papua New Guinea.

That is being conducted right now with the ongoing discussions, speeches and talks. It has signalled a time for us to look at the force we have on the ground and, in fact, reduce the size of it. I would need to find the numbers exactly, but there are about 290 in total from the four nations in Bougainville. The total number deployed as at 6 May is 296, including 223 Australians.

The intention is that through the current rotation of forces—and people stay there for a four-month period, but every two months there is a rotation of half the force—by the end of May, we should have drawn down by just under 50 people—in fact, 48 people, of whom about 42 will be Australians. The overall objective is that by the end of this year we will have drawn down to a much smaller force size. That size is still being considered with the task that it will have, but it will be in the vicinity of 35, 40 or 45.

Senator HOGG—What is the total cost of the operation annually? Is that reducing?

Air Vice Marshal Treloar—Yes, it will reduce as people come out. The cost of having people deployed to support them overseas is significant.

Senator HOGG—Is that reflected in this PBS?

Air Vice Marshal Treloar—I would have to pass that.

Mr Smith—What was the question?

Senator HOGG—The question is: in respect of the operation on Bougainville, is our contribution there decreasing and is that visible in this current PBS?

Dr Williams—The information that we passed to you in relation to the \$304 million difference you will see an adjustment for Bel Isi funding. An adjustment occurred in 1999-2000, so you will get some feel for the shift there.

Senator HOGG—What about in the year 2000-01?

Dr Williams—If you wanted to get that we would have to take that information on notice.

Senator HOGG—Could you take that on notice and just let me know what is happening to the costing of the operation there.

Dr Williams—If I could just clarify in relation to Bel Isi. I am advised that at the moment the intention is that we would be looking at the funding in the additional estimates timeframe after the government has reviewed our long-term involvement there. Rather than take that on notice, perhaps we could advise you that we would be getting back to that in additional estimates in terms of the current year's expenditure.

Senator HOGG—All right, if we do that, Dr Williams—and I accept that—could you give me some idea of whether there is a costing allocated in this year's PBS for our involvement there anyway?

Dr Williams—There is a figure.

Senator HOGG—Is this the magical document you gave me? Is that the \$17.205 million?

Dr Williams—The \$17.2 million was the additional money from government in 1999-2000. I am just confirming. Any additional funding in 2001 would be considered at additional estimates once we have a better feel for what the government would be planning—

Senator HOGG—That is the additional money, so we can assume that the same level of funding has been maintained. Is that the assumption?

Dr Williams—No. The assumption here would be that as yet there is no additional money in the 2000-01 budget for Operation Bel Isi and that will be addressed in time for some adjustment at AEs if appropriate.

Senator HOGG—I understand that. How then will the funding for the operation continue beyond May until the additional estimates, or beyond June?

Dr Williams—We will be looking to fund from the current year's allocation up to the end of this year and then, if there were any further period beyond that, we would fund it from within our base and that would be adjusted at the time of additional estimates if it were necessary to get additional funding. So at additional estimates there would be visibility of what decision government takes on that.

Senator HOGG—But at present there is no—

Dr Williams—At present you have got the figure of \$17.2 million which relates to the current financial year—that is the additional money from government—and how much, if any, in the budget year will be determined at AEs.

Senator HOGG—Even though there is no allocation there that would not stop our continued operation?

Dr Williams—No, if the government decision were to continue then we would continue and the funding aspects would be adjusted in due course.

Senator HOGG—Funded from somewhere else and then swap the money back later?

Dr Williams—Yes.

Senator HOGG—Fine.

Senator WEST—On Defence and the Olympics, did you say what the cost would be to make good the damage done in the exercises?

Air Vice Marshal Treloar—I think I have a figure here for that. Sorry, I cannot find it. Can I take that on notice and I will get it back to you before we finish tonight.

Senator WEST—That would be great. Following on from the Bel Isi 2 operation, we have got troops in PNG, we have got troops in East Timor, plus some others out on minor UN roles; would the ADF be capable of dispatching a battalion group to the Solomons if the government decided it was necessary?

Air Vice Marshal Treloar—Could they?

Senator WEST—Would we be capable of dispatching that size force?

Air Vice Marshal Treloar—Yes. I say that with a little hesitation because it would depend on how long and all those sorts of issues to go with it for sustainment and support activities, and the size of the group when you were talking about that battalion group, but off the top of my head I think that we probably could.

Senator WEST—For what length of time are we talking about being able to sustain that? You would not want to have too many rotations or maybe even any rotations.

Air Vice Marshal Treloar—No, you would not. You would want a fairly short and sharp activity and it would depend on the rate of activity when they are in the country and what they are doing and all those sorts of things.

Senator WEST—There have been some reports in the media of late and elsewhere of military assistance being sought from Cuba by some groups in the Solomons. Have you got any comments and thoughts about that?

Air Vice Marshal Treloar—No, but I think I saw in the media also that those reports that they had actually sought assistance from Cuba were denied by the country that was involved.

Senator WEST—But do you think some of the groups might have sought assistance?

Air Vice Marshal Treloar—I do not know the answer to that.

Senator WEST—What would Defence's reaction be to the introduction of assistance from another force or another nation not unlike Cuba?

Air Vice Marshal Treloar—From a defence perspective, it is really not one of our immediate reactions but rather I would suggest again somebody like Mr White would be better able to answer that question.

Senator WEST—Thank you. In terms of Fiji, we have had announcements made today about what some of the actions are that we will take. Have we had any military or defence assistance or cooperation with Fiji?

Air Vice Marshal Treloar—No.

Senator WEST—So we have not had any—

Air Vice Marshal Treloar—When I said no, I am assuming you are talking about in support of the current disturbances there?

Senator WEST—No, I mean in the broad. Up until 11 or 12 days ago, prior to Speight doing his little thing—

Air Vice Marshal Treloar—We have patrol boat visits to the area and routine liaison with them from a defence point of view. I would have to take on notice to get back to you on the precise nature of those activities.

Senator SCHACHT—On that particular point, for example, do we provide any particular assistance in the patrol boat program? We provided a couple of patrol boats some time ago, didn't we?

Air Vice Marshal Treloar—I think quite some time ago.

Senator SCHACHT—Do we still do any training or have any obligation to assist them with the operation of those patrol boats?

Air Vice Marshal Treloar—I would have to defer to the Chief of Navy on that one.

Senator SCHACHT—Before this recent very unfortunate episode took place, did we have any Fiji armed services people in Australia doing training—be they in the army, navy or the air force, but particularly the Army?

Air Vice Marshal Treloar—I think we do.

Senator SCHACHT—Are they still in training now, or has that been suspended—I know this has all been happening in the last 24 to 48 hours. Are those Fijian soldiers or service people still in training in country today or has an instruction already been given by the government that that training be suspended?

Air Vice Marshal Treloar—It is not an immediate area that I would be involved with, but I am not aware of any such instructions by the government.

Senator SCHACHT—They are still being trained, whatever the training program is—weapons training, staff college training or whatever. You don't know how many numbers we have in Australia at the moment?

Air Vice Marshal Treloar—I would prefer to defer that question to our training people who I believe are here this evening.

ACTING CHAIR—I think you had a question that Admiral Shackleton might be able to answer in relation to patrol boats.

Vice Adm. Shackleton—Could I please have the question again?

Senator SCHACHT—I think it must be a good decade now I suppose since we provided boats under the patrol boat program, if I have the title right, to most of those South Pacific countries. We provided back-up training, facilities and so on. Is any of that still being provided to Fiji at the moment to keep their patrol boat running or to train personnel for the patrol boat?

Vice Adm. Shackleton—My understanding, and we really ought to seek clarification on this, is that we were providing ongoing assistance in the area. I think we ought to take that question on notice and provide you with a proper answer.

Senator SCHACHT—Is there any chance of getting that tonight or tomorrow morning?

Vice Adm. Shackleton—Tomorrow morning I think we should be able to do that.

Senator SCHACHT—In particular, do we have Australian naval personnel or defence personnel in Fiji at the moment as part of assisting with the operation of the patrol boat?

Vice Adm. Shackleton—I would have to look at that because I think the circumstances that we are in now may have changed.

Senator SCHACHT—Because of the recent crisis, they may have already been pulled out?

Vice Adm. Shackleton—I would defer to the ADF Headquarters people.

Mr Corey—I think probably these questions would be better directed to Hugh White under output 5 tomorrow morning. That would be the best place to answer a whole range of questions in this area. He would be in a better position to answer them.

Senator SCHACHT—Can we take it then, on this area, because Mr White is back tomorrow and we will be able to ask him these questions on where we—

Senator Newman—If you had been here earlier, he was here earlier. You could have asked him then.

Senator SCHACHT—I was here and I asked him questions earlier, Minister. We can handle those questions tomorrow about exactly where we are at with the defence cooperation, assistance or whatever you want to call it with Fiji.

Mr Corey—Yes.

Senator SCHACHT—Both within Australia and in Fiji.

Senator WEST—Can you also provide the committee with a list of all the countries that we provide military or defence assistance to in any form and the value of that assistance?

Senator Newman—What did you say?

Mr Corey—In any form.

Senator WEST—I presume you would want to take that on notice because I do not think that is the sort of thing you would have stuck in your hip pocket.

Air Vice Marshall Treloar—Yes, I will take that on notice.

Senator HOGG—Could I go back to something that was said to me earlier in response to my question on Indonesia. I meant to bring it up then, but when I was flicking through these the other day—and I thought I had marked it but I had not—the second exercise from the top of page 112 on Kartika Exchange, in the column headed ‘Forces’, says ‘Australia Army Other Countries Indonesia’ and, in the column headed ‘Objective’, says:

To broaden the military experience and knowledge of selected personnel and promote cooperation between the two countries.

Air Vice Marshall Treloar—I notice it is still on the list, but we have not been conducting any exercises with Indonesia at all and certainly we would not do so until we are cleared by the government.

Senator HOGG—No, I understand that, but in response to my question, I understood that we were not conducting any exercises with Indonesia and yet that is one that was listed there. Maybe it is just an oversight, but your assurances are that that is not being conducted.

Air Vice Marshall Treloar—That is correct.

Senator HOGG—Have there been any substantial changes in the exercise program from 2000 to 2001 compared with this financial year? This is one where I have not sat down and gone through it.

Senator WEST—Now is your chance to get one up on him, fellas.

Senator HOGG—No, if you want me to, I will.

Air Vice Marshall Treloar—There are variations in exercise programs.

Senator HOGG—Variations, but are there any significant changes in the exercises that are listed for this year? I notice, say, Tandem Thrust 01 is there, Tasman Exchange, et cetera.

Air Vice Marshall Treloar—They run every other year or so, so there are changes in that particular—

Senator HOGG—In that sense, yes.

Air Vice Marshall Treloar—Yes. Obviously, as I have just said, we are not exercising with Indonesia, so those exercises are a change between the two years. By and large, the rest of the exercise program is one that varies slightly or in the margins from year to year, but there is nothing that I can recall is significant.

Senator HOGG—All right, thank you very much for that. I now want to go back to the situation in East Timor. How many civilian defence personnel were posted to East Timor as part of the former INTERFET mission? Do we know how many civilians?

Air Vice Marshall Treloar—I would have to take that on notice and get back to you.

Senator HOGG—If you could, because that then leads into some other information that I need. I need to know how many are currently on secondment to UNTAET and whether these personnel are entitled to a tax free salary, extra allowances and field leave similar to the benefits available to ADF personnel in Timor. Can you come back with that? I presume you should be able to do that tomorrow?

Air Vice Marshall Treloar—I would hope so.

Senator HOGG—Then, dependent upon what your answers might be there, I may well have to pursue some other questions. If you can get those answers for us and come back tomorrow morning some time, I will address those issues. In respect of the Olympics, at the last hearing, it was said that some 1,600 reservists were participating in Operation Gold; however, Operation Gold information sheet No. 1, which was provided to local MPs in Sydney by Army Captain Mike Harris, says that it involves more than 2,000 reservists. There is a fair difference between 1,600 and 2,000. Which is the correct figure and are these reservists expected to come from outside New South Wales?

Air Vice Marshall Treloar—As far as the numbers go, I think I said at the last hearing when you asked me that question that it was a moveable feast, and it would depend upon the availability of the reservists at the time—if they can make themselves available et cetera. My information still indicates that it is in the region of 1,600 reservists, and those reservists certainly will come from all over Australia. Some will come in formed units, as part of a formed unit to support the Olympic Games Operation Gold, others will come as individuals and be attached or posted to the various headquarters and units.

Senator HOGG—So you have no knowledge of the Operation Gold information sheet No. 1 which was put out by Army's Captain Mike Harris where he stated there were more than 2,000?

Air Vice Marshal Treloar—No, I have not seen it Senator, but I will look for it.

Senator HOGG—I would imagine, if there were an increase from 1,600 to 2,000, whilst you said it was a moveable feast—and I do accept the difficulties you have there—it would be a significant cost nonetheless if those numbers had increased in that order, by that proportion.

Senator SCHACHT—After you returned from East Timor with the Interfet Forces, the request for the coming home parades that took place, were they generated from within Defence or did they come as a request from the Minister for Defence, the Prime Minister, or elsewhere?

Air Cdre Clarke—My memory was—and I will have to take the detail on notice—that it was a mutually agreed activity in a meeting between Defence and the ministerial staff to suggest that—

Senator SCHACHT—The ministerial staff of the defence minister?

Air Cdre Clarke—Yes, but it was an appropriate thing for personnel coming back from operations to be recognised in a certain way. The form of that changed as time went on but the actual initiation, which is what I understand your question is about, I will have to try and take on notice for you.

Senator SCHACHT—How many parades, functions, were held on the return of the forces?

Air Cdre Clarke—I do not know exactly, Senator. I will have to take that on notice as well.

Senator SCHACHT—Thank you. How many of those did the Prime Minister attend, the defence minister attend and the parliamentary secretary and the minister for defence personnel attend?

Air Cdre Clarke—I will take that on notice also, Senator. I am aware of some detail but I could not give you the exact numbers.

Senator SCHACHT—I am in no way begrudging that the return of the service people deserved very appropriate recognition, but I would also have to ask whether there is any costing on having to bring people together to participate in those activities, whether it was a parade in Sydney, the one in Townsville or even the one here in the Great Hall—a thankyou which was obviously, and quite rightly, appropriate. I have no objection to the table I sat at having what you might call other ranks in attendance. I thought it was most appropriate that the other ranks got to eat the food, drink the grog and have a good time, as well as the higher levels. I do not have any objection to it, but I would be interested to see, if it is possible, in a time of financial stringencies within the budget, how much was spent.

CHAIR—I am keen to bring output 1 to a close. Senator Hogg has a couple of other questions, and then we may have a short break.

Senator HOGG—No, the questions will be answered some time tomorrow. I should imagine that that will be a reasonably short process. If you want a copy of that list I had before, I will make it available to you.

Air Vice Marshal Treloar—Senator, there was a question before about the cost of damage during an exercise. The damage has been estimated to be around \$30,000. I understand there has been a report in the media of about \$100,000. That is not correct. A Defence assessor was on site to make an assessment of the damage and authorise the repairs.

Senator HOGG—Is that \$30,000 additional to the outlay or incorporated in the existing outlay for the operation?

Air Vice Marshal Treloar—As I said earlier, Senator, I do not know the answer to that. I would have thought that was included in a general assessment for the exercise in a contingency sense.

Senator HOGG—If there is anything other than that you can come back to us and let us know. Thank you very much.

Proceedings suspended from 9.10 p.m. to 9.23 p.m.

Output 2—Navy capabilities

Senator HOGG—A series of questions were asked in respect of the performance targets for 2001, the significant capability enhancement initiatives and the capability performance information. In this case, we are looking at table 3.2.1. In the interests of time, it is not our intention to traverse the explanation because we now believe that we have had the explanation to the previous one reasonably well put down. However, if you could draw our attention to significant factors in those pages it will expedite the matter, we hope, and may well cut short some of the questions we would otherwise have asked.

Vice Adm. Shackleton—Output 2, which starts on page 72, sets out our priorities, rolls in to navy capabilities and then moves in to the various force elements which Navy has

structured itself around in terms of the outputs for which I am responsible. Those headings talk about major issues, and I imagine one of those that we ought to talk about as a dedicated topic will be the submarine. I think it is important to realise that Anzac 05 next year will be delivered with the extended range SeaSparrow—the evolved SeaSparrow—which is an important development for this country in terms of both ship capability and weapons capability.

I will not go through those other force element groups on page 74, unless you would like me to, but perhaps on page 75 I should draw your attention to the capability details and the related performance targets. Those performance targets are connected to the performance targets that were referred to in group 1 in that the overall setting is set by the CDF Preparedness Directive. Commander Australian Theatre puts his operational directives together, and that is balanced against the very real constraints that budgets, resources and people bring to the equation. As you can see there, the quality for our major surface combatant force is to achieve levels of preparedness directed by the CDF, which is based on dealing with military response options with a warning time of less than 12 months. Part of that is to achieve the training standards that we need to get to in order to make that possible.

We have a structured training program. We benchmark our training programs around the world so we understand how long it takes us to get from one particular level of training to another. We have—and it is shown in the notes on page 76—a minimum level of capability. It is, in fact, a training construct which recognises that it takes time to get from that level of capability to the operational level of capability which is that which we have decided is necessary to go into combat operations. So we, like the other services, do not keep our forces, or all of our forces, at an operational level of capability because it is too expensive and it does not make sense in the environment that we are in.

In the case of the service combatants we have six FFGs. We are forecasting to have 1,762 days between all of those six ships at the minimum level of capability. I might point out that for Navy the minimum level of capability also involves safety, and that means to be able to go to sea, conduct operations, fire weapons, fly aircraft, do whatever it takes to be safe at sea. As you can see, the DDGs, of which we now have one remaining in service in *Brisbane*, is reducing in MLOC days from that which was previously reported last year. Now we have got an increase in MLOC days for the FFHs which is an acronym which means Anzac destroyers.

The Naval Aviation Force we measure slightly differently, but we still have the same requirement which is to achieve a level of preparedness to meet our potential operational requirements. That is measured, as you can see, in table 3.2.2 which is planned flying hours for this current financial year. There you can see the support for Sydney Olympics of up to three Sea Kings and a total of 30 days. The patrol boat force we have already talked about in that we want to have those 15 boats at over 4,300 days at minimum level of capability, and within that we will provide the support to the surveillance operations in the fishing zone and our exclusive economic zone.

Page 76 refers to the Submarine Force, again being driven fundamentally by potential operational requirements as set by the Chief of the Defence Force. You can see that three Collins is an increase over last year at 450 days and one Oberon is at 90 days for operations. We can perhaps talk about that if you choose to look at the submarines in more detail. The Afloat Support Force, likewise, at one AOR, which is the *Success* which has multiple support at sea capability; one AO, which is *Westralia*, which is a function of her repair program and the amount of time that should be available. In Mine Warfare Force we have now two minehunter coastals on line. That will be increasing again this year, and we have got 630

days where the minehunter inshores, which are suffering from equipment unserviceabilities, are in fact decreasing in their availability for operations.

You can see in the amphibious force we have got one landing ship heavy, which is *Tobruk*, at 260 days; two LPAs—*Manoora*, which is now running, is in the process of completing flying trials, and *Kanimbla* is scheduled, all things being equal, to come out of the dockyard by the end of this calendar year. We have six LCHs, four of which are in operations, the fifth is in maintenance, and the sixth is *Weewak* which we are in the course of recommissioning, but we are having some difficulties with the mechanical configuration of that ship. The one AKR is the *Jervis Bay*, which was leased for a period of two years to support Timor operations.

In terms of resourcing, there is an overall increase of 5.3 per cent in the price of Navy capabilities for this year which are made up through those dot points which you can see under that table. They are summarised over the page in table 3.2.3. Essentially we are having recruiting difficulties, so Navy's salary vote this year would not be as large as I would have desired for the number of people that I think I need. So that, in the financial sense, provides money back into Defence. We want to reduce inventory replenishment to remove obsolete and surplus items so that the stuff we have got in stock is the logistics that we need. There are increased logistics costs for some of the in-service support contracts, and that is especially true as we start to take on board more new ships such as Anzacs and minehunters. We have sought additional funding for more pressing logistic shortfalls, especially in the service combatant force—asset depreciation. We are going to exercise economies and, in organisational performance terms, we have already seen the benefits of having re-arranged the Navy into an output management approach.

Pages 78, 79 and 80 cover the explanation of significant variations which show the pluses and the minuses which account for the tables. What this document does not show is the contribution that other groups make to the amounts of money shown in table 3.2.3. We do have that breakdown should you want to see it.

Senator HOGG—What are those contributions? I think it would be helpful.

Vice Adm. Shackleton—There are a lot of them. Would you like us to submit this as a table to you?

Senator HOGG—Could you just table the document, rather than read it into *Hansard*. If there are any significant changes I can raise those with Mr Corey tomorrow and we can pass on the questions.

Vice Adm. Shackleton—We can provide that. Senator, that brings me to the end of my quick summary.

Senator HOGG—Thank you very much. Are there any significant changes in the targets over 1999-2000 in table 3.2.1 or the flying hours in table 3.2.2?

Vice Adm. Shackleton—There are changes but in absolute terms no, I would not call them significant. They are a function of the availability of the platform which, itself, is a function of maintenance cycles and operational usage. For instance, in AEs the six FFGs had 1,576 days and this year we are looking at 1,762. That is not a great deal over six ships.

Senator HOGG—No. All right. So there are only changes at the margin in those areas?

Vice Adm. Shackleton—Yes.

Senator HOGG—On page 77 of the PBS it says:

The mine hunter inshore craft are experiencing extended serviceability problems

For how long will that persist?

Vice Adm. Shackleton—That is an issue we are dealing with. The sonars in those ships are showing dramatic unserviceability. There is a question as to whether it is more cost effective to replace the sonar or decommission the ships. We haven't made that decision yet.

Senator HOGG—How long before you think you would be in a position to make that decision?

Vice Adm. Shackleton—I am reluctant to make that decision at this time because of the approach that has been taken in terms of white paper defence policy work, and I think it would be premature to make calls on what we are going to do within service capability. Should those ships continue to be needed for work then investment will be needed to bring them back to a level of particular capability. So I would prefer to wait and see how the government chooses to deal with it.

Senator SCHACHT—Is the problem with the minehunters the design of the boat or the design of the sonar?

Vice Adm. Shackleton—It is the technical performance of the sonar.

Senator SCHACHT—Why would you have to get rid of the boat if you can't fix the sonar?

Vice Adm. Shackleton—Because the sonar is very much an intrinsic part of the ship. The performance of these hunters was intended to do very shallow mine hunting. What we want to see is whether we can achieve the same result with other resources before we start to think about significant investment in these ships because there is some overlap in the capability. What I am saying is the technical solution may cost more to fix than buy a new ship.

Senator SCHACHT—Are you saying that to try and fix the sonar would cost more than buying a new ship?

Vice Adm. Shackleton—Yes. The sonar in these ships is quite old and is extremely difficult to maintain, which is demonstrated by its rates of unserviceability.

Senator SCHACHT—So the sonar is older than the ship?

Vice Adm. Shackleton—No. The sonar is old technology.

Senator SCHACHT—When it was put in, did it work all right?

Vice Adm. Shackleton—Eventually. We have had trouble with these.

Senator SCHACHT—For how long have some of these minehunters been available?

Vice Adm. Shackleton—These minehunters inshore are catamaran craft. I don't have the details in front of me. They are about 10 years old.

Senator SCHACHT—So for 10 years we have had the problem?

Vice Adm. Shackleton—No. The problem has grown over the life of the ships. The equipment has deteriorated and they now will need investment to bring them back to a level of performance.

Senator SCHACHT—Could you just explain to me why you can't put a new sonar in the existing ship?

Vice Adm. Shackleton—You can, but it is going to be very expensive.

Senator SCHACHT—So it is cheaper to put new sonar in a new ship?

Vice Adm. Shackleton—Let me try and keep it simple. The sonar is not working as well as it should now. It is going to cost a lot of money to get it fixed and bring it up to the level of

operational performance that we would like it to be at, or we would need it to be at. The question we have to answer is whether we want to keep this capability or not. Hence, I am not going to make significant investments in that until our defence policy is clarified.

Senator SCHACHT—Are you saying that it is a possibility that the white paper might show that we don't need an inshore minehunter capability?

Vice Adm. Shackleton—This particular kind of capability, yes.

Senator SCHACHT—What has changed in 10 years so that this capability that was needed 10 years ago is not needed now in our strategic position in the world?

Vice Adm. Shackleton—The minehunter coastals, the new ships that we are taking delivery of, have a kind of capability which is similar to that of the MHIs.

Senator SCHACHT—So some other ship could do much of what they are doing?

Vice Adm. Shackleton—Up to a point. The question is to what point is it going to be able to do it and that requires some more analysis.

Senator SCHACHT—Stretching my memory back to the late 1980s, on this committee or a joint foreign affairs and defence committee I learned that these inshore minehunters were to detect mines in places like harbours and entrances to harbours, such as Sydney Harbour or Port Phillip Bay. Have I got that description right?

Vice Adm. Shackleton—Yes, that is right. These were an Australian designed vessel intended to assist in the clearance of ports like Sydney Harbour, Port Melbourne, Port Hedland and the like. At the time, they were a very good solution. The capabilities we now have in the new Huon minehunter coastals are much better and they can be operated in similar places. The trade-off I have to look at is whether it is worth keeping the MHIs at all, given the cost of maintenance and the capabilities of these new ships.

Senator SCHACHT—Without giving any potential tenderer an advantage, if you decided to upgrade the capability on existing inshore minehunters, is it possible to give any rough idea of what the bill would be to upgrade the sonars? Are we talking \$50 million or \$500 million?

Vice Adm. Shackleton—Off the top of my head, I cannot give you an answer. My memory is that relative to the cost of the new ones, it is a bit high. All I want to say is that I want to have a close look at it.

Senator SCHACHT—Thank you for all of that, Admiral. The white paper will clarify your thinking on this and then you will make your decision?

Vice Adm. Shackleton—The government will make the decision.

Senator HOGG—You will make your recommendation to government; that goes without saying. Over the next 12 to 18 months is the time frame?

Vice Adm. Shackleton—I am reluctant to put a time frame on it because it would depend on how quickly the government wants to move when it has finished its white paper.

Senator SCHACHT—Despite the deficiency in the sonar on the minehunters, are they actually doing any work at all? Is there any training going on or are they all tied up at wharf 5 at some place with one Mayne Nickless security bloke looking after them?

Vice Adm. Shackleton—They are alongside at the mine warfare base at HMAS *Waterhen* in Sydney.

Senator SCHACHT—The whole lot of them?

Vice Adm. Shackleton—Both of them. That is all of them.

Senator SCHACHT—So they are not being used at all—there is no training? There are no sailors on board?

Vice Adm. Shackleton—There is one which is being used for training because it is important to keep skills and we are keeping the other one tied up alongside because it is unserviceable in terms of its sonar.

Senator SCHACHT—The catamaran design itself is not a problem?

Vice Adm. Shackleton—No.

Senator HOGG—Are you able to give me a breakdown of the cost to operate the naval aviation wing, in terms of annual maintenance cost, operating cost and capital cost? You might need to take it on notice or you can provide it to me tomorrow.

Vice Adm. Shackleton—We can do that. The best way of doing this, again, might be to give you a sheet of paper with some tables on it.

Senator HOGG—All right, if you can table that, that would be fine.

Vice Adm. Shackleton—We could do that tomorrow morning.

Senator HOGG—Thank you very much. I am curious about an item here on page 73, the third dot point. It states:

Improve training planning and training effectiveness processes for personnel to operate Super Seasprite helicopters, hydrographic ships and replacement patrol boats.

I read over the page under patrol boat force and it says:

Examine early replacement of the patrol boat force as an option that might represent a better value-for-money alternate and potentially more cost-effective strategy for the provision of a patrol and response capability out to 2020.

I understand there is no firm plan yet to replace the patrol boats; is that correct? It just seems to me that you have got the training going ahead before you have taken the decision to replace the patrol boats.

Vice Adm. Shackleton—As part of this—and I will ask Admiral Lamacraft to join me—we are looking at the training aspects of patrol craft that we may acquire to replace the Fremantles as part of our approach to make sure that we buy a complete package, as opposed to doing the training after we have decided what we are going to buy.

Senator HOGG—So it is not training personnel for the long-term haul on these?

Vice Adm. Shackleton—I think it is fair to say that we are obviously continuing to train people for the Fremantles as they remain in service.

Senator HOGG—Yes, I understand that. But the way that reads to me is that it is the replacement of patrol boats, and yet according to this you are still examining the early replacement of them?

Vice Adm. Shackleton—Yes, we are.

Senator HOGG—I cannot see how you will be training people for a replacement patrol boat that you have not decided upon yet, that is all.

Vice Adm. Shackleton—You are absolutely correct. What we will be looking at are training techniques that we would want to apply to a new class of patrol boat for all the reasons of making sure that we make a smart decision.

Senator HOGG—Thank you for that. One thing that never ceases to amaze me is on page 75: in referring to the patrol boat force, you refer there to the Bass Strait oil rigs quite specifically.

Vice Adm. Shackleton—Yes.

Senator HOGG—Why not the North West Shelf?

Vice Adm. Shackleton—I cannot speak for the North West Shelf, but we have an obligation to provide surveillance of the Bass Strait oil rigs and that includes demonstrating the presence of Australian warships around those rigs, in this case for 33 ship visits.

Senator SCHACHT—Who are we protecting Bass Strait from, Antarctica or something?

Vice Adm. Shackleton—No, there has been a longstanding counter-terrorist plan for those rigs.

Senator SCHACHT—Why would those rigs be more at risk from terrorist activity than the oil rigs and the gas rigs on the North West Shelf? Why is that not a requirement to provide patrols?

Vice Adm. Shackleton—I would have to seek assistance from the previous group.

Senator SCHACHT—Could we just get a comment?

Senator HOGG—It seems strange to me that—

Vice Adm. Shackleton—We provide ships to go past to demonstrate that we are there. I cannot answer your question.

Senator SCHACHT—Was it a commercial decision, for BHP or something?

Vice Adm. Shackleton—I think we ought to give you a more considered answer. Admiral Briggs is not the guy in charge of Bass Strait oil rigs yet!

Senator HOGG—It is a good sign when Admiral Briggs comes forward, though.

Vice Adm. Shackleton—I think we should give you a more considered position on what the answer is.

Senator SCHACHT—Admiral Briggs cannot do it at the moment? I would have thought that the North West Shelf is a more vulnerable spot for terrorists coming from somewhere else than maybe Bass Strait, whether they are criminal terrorists or political terrorists.

Vice Adm. Shackleton—That is a speculative point. Coastwatch is conducting surveillance and I guess that is part of their mandate.

Senator SCHACHT—If my geography is correct, New Zealand is the nearest foreign power to Bass Strait. We have several other countries that are closer to the North West Shelf than New Zealand is to Bass Strait.

Vice Adm. Shackleton—I really do not want to get into speculation.

Senator SCHACHT—I know. Will take it on notice for us—about why Bass Strait gets 33 ship visits for patrol of Bass Strait and the North West Shelf apparently is not required to receive any?

Vice Adm. Shackleton—We will send you an answer.

Senator SCHACHT—You will take it on notice?

Vice Adm. Shackleton—Yes.

Senator SCHACHT—If there is something that has to remain in confidence, please give us the answer, and ask that it be kept in confidence to the committee.

Senator HOGG—No, you cannot do that.

Senator SCHACHT—That is right. This is an estimates committee.

Vice Adm. Shackleton—The original position was that those Bass Strait rigs used to receive constant surveillance.

Senator HOGG—If there is a security issue in this—

Vice Adm. Shackleton—I am just trying to point out that it is not a question of how close they are to anywhere; it is a question of value to the country in terms of the level of protection and operations you would conduct, so I think what we ought to do is send you a considered answer.

Senator HOGG—If your considered answer gets into the area of security then we suspect it may be necessary to get an answer at some other time and place off you. I think they are the only questions we have in general in respect of those issues.

CHAIR—I have some questions, Senator Hogg. Very briefly: is the one DDG we have remaining with 365 MLOC days operational all year?

Vice Adm. Shackleton—Yes, that is the intention.

CHAIR—Does the 90-day notice for operations of the *Oberon* that remains mean that it is not operational but would be within 90 days?

Vice Adm. Shackleton—Yes.

CHAIR—Is it possible for you to give a very brief pen picture of the operational status or otherwise of the six Collins class submarines? Five of them are named here and I would like to know. Keep it brief because I am sure there will be some other questions on them for the information of the committee so that we know what we are talking about in terms of their operational status.

Rear Adm. Briggs—We have three Collins class submarines operating: *Collins*, *Farncomb* and *Waller*.

CHAIR—And the status of the other two?

Rear Adm. Briggs—*Dechaineux* and *Sheean* are the two fast track submarines undergoing modification at the moment and will be operational at the end of this year.

CHAIR—Are they in the water?

Rear Adm. Briggs—No, they are on the shore in ASC. They have both been launched, but the work is easier done with the submarines high and dry rather than in the water.

CHAIR—And the sixth one?

Rear Adm. Briggs—The sixth one, *Rankin*, is still being constructed. It is substantially assembled but there is a large amount of finishing off to do. We will see it launched in the second half of next year.

CHAIR—Thank you, Admiral Briggs. I have one question that follows on from your undertaking to give a considered response to the visits to the Bass Strait oil rigs. Could it be that they have traditionally been a convenient training opportunity for patrol boats?

Vice Adm. Shackleton—We try to take training opportunities every time we can. It would have met training objectives but I do not think those particular visits to those oil rigs would be specific training missions because of the nature that I talked about.

Senator SCHACHT—I do not know whether you or Admiral Briggs or someone else present does have a view, but I presume Navy would have a view or already have been

involved in the discussions the government has been having about the future of the Australian Submarine Corporation and whether it ends up in one ownership or another. Are there any issues, besides the commercial arguments which are a matter elsewhere, that you are being consulted about on what is the best outcome strategically for the future of the submarines in operational terms between the bid from the German HDW or Electric Boat from America?

Vice Adm. Shackleton—I will ask Admiral Briggs to take that one.

Rear Adm. Briggs—There are a number of factors there. We have been quite closely involved in specifying what it is we need to achieve a sustainable submarine capability and an industry to support it. The discussions on the commercial preferences are active at the moment, as you would understand. We are involved in that through the steering group that is managing it.

Senator SCHACHT—Is Navy represented on the steering group that is managing the outcome?

Rear Adm. Briggs—Yes, Mr Roche, the Under Secretary of Defence Acquisition, and myself are both on that group.

Senator SCHACHT—There has been some press speculation that the Americans have suggested that to go with the Germans might compromise some of their interests in transfer of capability and technical knowledge. I would have thought that as Germany and America are both members of NATO—they are on the same side—why would the Americans have any concern about us if we chose commercially to go with a German company?

Rear Adm. Briggs—I would not respond to the press speculation. I would make the observation, though, that submarine technology is particularly sensitive, closely held, and normally the sensitive information is only transferred government to government. So it is quite a closed shop. The German company HDW, is amongst, if not the biggest, conventional submarine builder in the world and exports extensively outside NATO.

Senator SCHACHT—But that does not create a problem for the Americans in their relationship with the Germans inside NATO apparently?

Rear Adm. Briggs—No.

Senator SCHACHT—Why does it create a problem for us?

Rear Adm. Briggs—It does create a problem if that technology finds its way outside NATO.

Senator SCHACHT—So what we are saying is that all HDW's technology in their boats is all totally generic to Germany in every form, and that there has been no transfer of ideas, even though they are NATO allies, between the United States and Germany over any technology so that the German submarine fleet, as part of NATO, is capable of operating with the Americans?

Rear Adm. Briggs—I would not be able to speculate on what may have happened there.

Senator SCHACHT—As a layman I find it a bit odd, that we should be pressured about this, or is it really just the Americans putting commercial pressure on and using this as an excuse?

Rear Adm. Briggs—I do not believe that is the case.

Senator SCHACHT—There have been press statements, which may be wrong or right—certainly in Adelaide in my home state—that if the HDW venture buying into the Australian Submarine Corporation does not take place the future of the Australian Submarine

Corporation in South Australia is rather bleak, to say the least. Those comments have come from the Australian Submarine Corporation senior management. Are they just unnecessary press speculations, or are those issues being raised by the present managers and owners of the Australian Submarine Corporation?

Rear Adm. Briggs—The Australian submarine capability requires a viable sustainable industry to support it. That is the outcome which the government is seeking and to which we are giving every effort.

Senator SCHACHT—With respect, and I know you are in a difficult position, Admiral Briggs, I am not sure that that is an answer that clarifies the matter. The very strong view expressed around the place in Adelaide is that if the corporation does not go with HDW the future of the corporation, as an industry in South Australia, is rather bleak.

Rear Adm. Briggs—I would not agree with that proposition.

Senator SCHACHT—You would not agree.

Rear Adm. Briggs—No.

Senator SCHACHT—So if we go with the Americans and the electric boat operation, the Submarine Corporation in Adelaide has an equally viable chance of surviving, as it has with HDW.

Rear Adm. Briggs—Mr Chairman, I am not prepared to enter into speculation on commercial matters here. I have made the point. The objective is to achieve a sustainable industry, and there is a lot of effort going into achieving that.

Senator SCHACHT—When you say ‘a sustainable industry’, does that mean that the capability of the present Submarine Corporation in Adelaide, under any of these two commercial opportunities that the committee you are a member of is studying, would be approximately maintained at its present level?

Rear Adm. Briggs—The building activity in Adelaide is coming to an end, as we have just covered. Regardless of the change of ownership, there would be a requirement for restructuring to now support the next phase, which is in-service with the six submarines. That requires the full-term docking or refit capability. The sorts of facilities at Adelaide remain very important for that function.

Senator SCHACHT—Are they the only facilities in Australia that can do that?

Rear Adm. Briggs—Yes, you can certainly build them in Western Australia, but that is not our current intention.

Senator SCHACHT—You have to build them with what we have available around Australia?

Rear Adm. Briggs—Yes.

Senator SCHACHT—You have that only in Adelaide at the moment?

Rear Adm. Briggs—We can dock the submarines in Western Australia—

Senator SCHACHT—Yes, of course.

Rear Adm. Briggs—but we do not have the depth of maintenance capability or the facilities that are in South Australia.

Senator SCHACHT—In the discussion about the two alternative commercial possibilities to buy into the Submarine Corporation and take it over, is any consideration being given to the idea that either one of those may say that there is a commercial opportunity to build further submarines and sell them elsewhere in the world?

Mr Roche—A commercial process is under way at the moment, and I wonder whether it is appropriate, really, for the committee to be asking questions that go to the claims of protagonists in that particular process, at this stage.

CHAIR—I share your sentiments, Mr Roche. Senator Schacht, you have asked your question and I think that Admiral Briggs has attempted to answer it without speculation. I do not know whether the committee's time is being used usefully by your proceeding with these questions.

Senator SCHACHT—Mr Chairman, I am trying to be extremely cautious. Until my old friend Mr Roche got to the table, the term 'commercial-in-confidence' had not been used by Admiral Briggs, and I respect him very much for—

CHAIR—I think his answers were very cautious. I think you can continue asking the questions, but I think that you will get a very guarded answer and I think it is appropriate that you do. Ask away; go for your life.

Mr Roche—Senator Schacht, the reason I made that intervention was that you are asking us to speculate about claims that may or may not have been made by people involved in the process, and I do not think it is appropriate for us to confirm or otherwise that these claims have been made, or indeed that the two companies you have mentioned are the only two protagonists in the exercise.

Senator SCHACHT—Ignore the companies; ignore the press claims. In its assessment of the commercial restructuring of the Submarine Corporation, would one of the committee's areas of interest be to look at whether any of the potential commercial bidders will say that they would like to look at the possibility of building further submarines at this facility and sell them elsewhere in the world subject to the normal arrangements Australia has about weapons sales around the world?

Mr Roche—Perhaps I could best answer that by saying that the government has five objectives for this process which it has put to the various bidders. The first objective is the completion of the six Collins class submarines and bringing them to an operational status. The second is through life support of those submarines. The third is access to the best technology, wherever it may be, to support those submarines. The fourth is rationalisation of the Australian naval shipbuilding industry, if possible and the fifth and last is the best possible economic outcome for the Commonwealth. It follows that, in looking at those objectives, rationalisation of the naval shipbuilding industry does involve, if possible, the ongoing existence of the shipbuilding industry and a sustainable one. If that can be achieved by additional work being brought in, then obviously that is a plus for that particular objective.

Senator SCHACHT—You may have already announced these five terms of reference or five points of the committee's review before and I have missed them. When you go through them they all seem reasonable. These days people talk to me about rationalisation of the Australian shipbuilding industry, but when I have talked to commercial shipbuilders they say that when the government says that that means closing it down. I have never seen rationalisation used to expand the shipbuilding industry or anything in Australia in the last 20 years. I am a bit nervous about rationalisation in the Australian shipbuilding industry. As far as I am aware, Osborne in South Australia is the only submarine shipbuilding facility in Australia. It is either open or it is closed.

Mr Roche—It is not the only naval shipbuilding in Australia. There is more naval ship—

Senator SCHACHT—You cannot build submarines anywhere else in Australia unless you put in a big investment, can you?

Mr Roche—It is true that the capital investment to build submarines is significant but it is equally the case that other ships could be constructed at very little additional cost at Osborne in South Australia.

Senator SCHACHT—Are you suggesting that rationalisation means that it is just not submarines that might be able to built in the future if there was an appropriate commercial restructuring within government policy?

Mr Roche—I am saying that it is possible that other work could come to the Osborne yard as one of the solutions.

Senator SCHACHT—Turning to point 3, Access to best technology, is there any view in the defence department that the best technology is only available from the United States?

Rear Adm. Briggs—In our experience, you have to pick and choose. No one source has all the technology you want; therefore, we would wish to keep our options as wide as possible.

Mr Roche—I would make the point that the submarines already are a fairly multicultural submarine with contributions from a—

Senator SCHACHT—I think it was the Americans who initially got the bid for the operational system, which never quite delivered despite all the best singing and praising from the top end of town in America—the operational side, the control system or whatever you call it of the computers—was it Rockwell? Have I got the right company?

Rear Adm. Briggs—That is correct. Rockwell is the initial—

Senator SCHACHT—And it never delivered.

Rear Adm. Briggs—It is a tactical data handling system supplier.

Senator SCHACHT—It never delivered, did it?

Rear Adm. Briggs—No, that has been one of the significant shortfalls.

Senator SCHACHT—Not an Australian company, an American company?

Rear Adm. Briggs—With extensive Australian involvement.

Senator SCHACHT—But it was led by America. It was American ideas and American technology, was it not?

Rear Adm. Briggs—Even there you have a mixture but, yes, predominantly.

Senator SCHACHT—Predominantly American. They did not deliver, so that proves your point I suppose Admiral Briggs that American technology is not always the best.

Rear Adm. Briggs—You need to survey the market.

Senator SCHACHT—In the broader Navy interest, there is pressure being put on about this access to technology on the basis that we rely on American technology in so many other areas of our defence capability that if we do not take it for the submarines and do the American deal it may well be not as forthcoming elsewhere?

Mr Roche—I have no doubt that people are putting forward all sorts of views, but the actual process which is being undertaken is in a process jointly led by the Office of Asset Sales and the Department of Defence, with representations from other departments. The commercial process and the examination of technology which are taking place are both objective processes where the technology available is being examined and measured against the requirement of the Collins class. It is not a process that has been conducted by assertion or by any particularly long held belief.

Senator SCHACHT—We have it on the record then that the American interest is in no way being tied to other Defence interests in Australia?

Mr Roche—This process is focused on the needs of the Collins class submarine.

Senator SCHACHT—I know it is focused. I appreciate what you are doing, Mr Roche. Can you state here quite openly that there is no other pressure, either direct or self-imposed, that we might be worried might cut ourselves off from other American technology?

Mr Roche—I have avoided saying that there are other pressures.

Senator SCHACHT—I know you have avoided saying it and I appreciate that very much.

Mr Roche—I am saying instead, in positive terms, that there is an objective process going on here that is assessing the technology available in the various countries against the need of the Collins class. A judgment will be made on that basis.

Senator SCHACHT—Of the one to five points you have made, are they all equal priorities or is there a priority list for the one to five you have read out to us? Does one of those have a higher priority over another of the five points?

Mr Roche—They are not necessarily in strict order, but the ministers involved have confirmed that the Defence interests in this process are paramount.

Senator SCHACHT—The Defence interests in the submarine project are paramount. That could slightly overrule Treasury's concern about the best economic outcome?

Mr Roche—Presumably.

Senator SCHACHT—Presumably! Is Treasury on the committee?

Mr Roche—Treasury have been involved.

Senator SCHACHT—Dear, oh dear.

Mr Roche—They have been involved and they have been consulted in the process.

Senator SCHACHT—Has Finance and Administration been involved in the consulting?

Mr Roche—Yes, they are fairly closely involved.

Senator SCHACHT—They are ubiquitously everywhere, aren't they, Mr Roche?

Mr Roche—Yes.

Senator SCHACHT—I think I now have a better picture of the operation of the committee and what really are the priorities. When you say that the ministers have made the project itself clear, is that the defence interest in getting six top-class operational submarines?

Mr Roche—In completing the Collins class submarines and bringing them to fully operational status.

Senator SCHACHT—When you mention through life support does that mean the ability for the submarines to be from time to time upgraded and renovated with new equipment as the technology systems keep changing?

Rear Adm. Briggs—Yes, but it is predominantly aimed at in-service maintenance, operating submarines and their routine maintenance, delivered at the operational base in Western Australia.

Senator SCHACHT—That does not include if someone came forward even from within our own organisation of Defence or from somewhere else to say that there is a new and much better technical operation computer system? That would be a separate item of investment?

Rear Adm. Briggs—That is normally a capital investment. An acquisition project would be formed for it.

Senator SCHACHT—I am not getting into a Crows versus Eagles style competition here about Western Australia, but how often would one of the Collins class submarines be having to go into the Western Australian base for the updating of the life of the submarine?

Rear Adm. Briggs—I am not sure I understand your question there.

Senator SCHACHT—If it was going to be a complete refit of the submarine, I presume that would be done in Adelaide at that facility.

Rear Adm. Briggs—That is correct.

Senator SCHACHT—Because I do not get my technical terms correct, give me an idea of how often a submarine would be in Western Australia. What would it be doing to maintain the through life support arrangements?

Rear Adm. Briggs—The operating submarines run from Stirling where they are based. They would typically run six to eight weeks and then be back at their base port for a couple of weeks maintenance perhaps. During those periods there will be routine and defect work undertaken and that will be with both the uniformed intermediate maintenance staff in the submarine base and contractors engaged to do that as well.

Senator SCHACHT—Once the six submarines are brought up to the level we want, what would you anticipate would be the expenditure by Navy in the base in Perth to provide, after every six or seven weeks at sea, a couple of weeks of upgrading? Is this an expenditure running in to tens of millions of dollars a year or hundreds of millions of dollars?

Rear Adm. Briggs—It is in the tens of millions and I can give you the figure on notice, Senator.

Senator SCHACHT—Good.

Rear Adm. Briggs—But I would not use the word ‘upgrading’ with—

Senator SCHACHT—No, I am sorry, it is just my technical difficulty of misphrasing. I appreciate you correcting me on that.

Vice Adm. Shackleton—Senator, you are trying to establish how often these submarines would go back to Adelaide, I think. Is that your point?

Senator SCHACHT—Yes, compared with how often they return to the womb, so to speak, for a bit of a refit.

Rear Adm. Briggs—The submarines operate for six years. At the end of that process they go in to a refit which is planned to take nine months—we are yet to do our first one but that will start next year. It is a bit like an aeroplane: you come out of a refit with an operating safety certificate as it were which runs for the six-year period. During that six-year period you dock them every 18 months and that is done in Western Australia for a hull clean and maintenance on hull valves, which you cannot do in the water, and defect rectification.

Senator SCHACHT—In Adelaide, for example, after six years would you have gutted the galley and put in all new stoves, new fridges, new airconditioning systems et cetera?

Rear Adm. Briggs—It could be that sort of work. An item that is invariably replaced at the end of the six-year period is a main battery for example. So it is the bigger more major work—work which requires longer periods of access and would otherwise interrupt the submarine’s operation. There is also a substantial amount of checking done on systems by

measurement and non-destructive testing to see that the pipe work and so on is safe for continued operation.

Senator SCHACHT—About the submarines, Admiral, you mentioned earlier that there was some shortage of staff numbers. Is that right?

Rear Adm. Briggs—That is correct.

Senator SCHACHT—Is that recruitment shortage in submarines as well?

Rear Adm. Briggs—Yes, we have a shortage of trained Collins class submariners.

Senator SCHACHT—Sorry, do you have trouble recruiting people to be submariners?

Rear Adm. Briggs—At the moment the training system has got adequate numbers but they are substantially *ex-Oberon* personnel being converted.

Senator SCHACHT—Is there going to be a problem post the *Oberon* people being converted? Is it difficult to attract, within the Navy, people to have a career in submarines?

Rear Adm. Briggs—It is difficult to say what will happen in the future, but it is true to say that we have, over the years, had a number of submarine manpower difficulties.

Senator SCHACHT—I have to say I do not blame people having difficulties with being in submarines. Being in one for only five minutes was claustrophobic for myself and I appreciate the bravery of people wanting to serve in them, but are you having trouble that, in our modern society, this is not an attractive occupation for people to be in?

Vice Adm. Shackleton—The Navy as a whole is having trouble recruiting. It is a function of lifestyle expectations, economic conditions and the like. The other point I would make is the submarine force is presently an all volunteer force, so it gathers people from within the Navy who volunteer to be submariners.

Senator SCHACHT—And how much extra do you pay them? They might say not enough.

Rear Adm. Briggs—There are several rates, Senator. There is a shore rate which is paid just for the skill. When you go to sea then you are paid for that skill plus an allowance for the discomfort and for the experience, so there is actually a stepped rate of seagoing submarine allowance.

Senator SCHACHT—Do you think increasing those allowances would encourage more volunteers?

Rear Adm. Briggs—It certainly is a factor. The submarine service allowance was last increased in June last year. It went up by 10 per cent to 27 per cent, so it was quite a substantial increase. That was intended to act as a retention and an attraction.

Senator SCHACHT—I have one last question on the staff of the submarines. When you complete the limited capability Collins class submarines by December 2000, will either of those have women crew?

Rear Adm. Briggs—All three operating submarines have females in the crew.

Senator SCHACHT—Now?

Rear Adm. Briggs—Yes.

Senator SCHACHT—There have been some unfortunate incidences elsewhere in the defence forces of sexual harassment, et cetera. Because of the unusual environment of work inside a submarine, have there been any problems between women and male submariners?

Rear Adm. Briggs—None that I am aware of. I think the process has been relatively smooth. That is not to say that there won't be incidents in the future, but in general I think it has been quite successful.

Senator SCHACHT—What percentage of women—up to five per cent on each of them or 10 per cent on average?

Rear Adm. Briggs—No, we have 11 qualified females at sea—it is three, four and four across the three submarines—and another three officers and one female sailor in training at sea.

Senator WEST—What are their ranks?

Rear Adm. Briggs—They are all sailors.

Senator WEST—So you are not splitting ranks? You are not putting one officer, one sailor—you have got more than that?

Rear Adm. Briggs—No, we obviously aim to have a minimum number to provide some mutual support. We do not have the luxury of picking one sailor and one officer, for example.

Senator WEST—The findings of *Swan* was that you do not have them split, but have a situation where they could have contact with one another on a daily basis.

Vice Adm. Shackleton—We have adopted a very careful program of ensuring that the gender issues in the Navy are understood by both sexes and that people understand the issues concerned. When I was at sea in *Waller* a week or two back, there were five female submariners on board and they seemed to have themselves quite under control.

Senator SCHACHT—Is there any position, theoretically, in a submarine now that is not available to a female submariner?

Rear Adm. Briggs—No.

Vice Adm. Shackleton—No.

Senator SCHACHT—That is all I have got on submarines. I look forward, Mr Roche, to your success in expanding the Submarine Corporation's activities in Adelaide and employing more people.

Senator HOGG—Just whilst we are on submarines, at the previous estimates I asked questions about Mr Prescott's activities. What role, if any, does he have currently since our last estimates? What sort of cost has been incurred since that time?

Mr Roche—I will ask Admiral Briggs to give details of the costs, but the process is essentially being managed from hereon in jointly between the Office of Asset Sales and Information Technology Outsourcing and Defence. Mr Prescott was involved in providing some initial introductions for the team, including the commercial advisers, Rothschilds, to a number of people that he had had dealings with. His role now is, I think, more of providing independent advice to the minister in relation to the process and in relation to the shipbuilding aspects of the case.

Senator HOGG—You are saying that he has two roles: one in respect of the submarines—and that is providing advice to the minister—and a separate role, which is to provide advice to the minister on shipbuilding?

Mr Roche—A separate but related role. The shipbuilding rationalisation, which could flow from decisions on the ownership of the Australian Submarine Corporation, is a matter on which Mr Prescott is providing some advice.

Senator HOGG—Can I have details of the work, number of hours and cost associated with that work?

Rear Adm. Briggs—Yes, I can give you the costs. I have the details as well to hand but they form a substantial number of several pages. In the period 20 September to 11 May, Mr Prescott was involved in advising a government on matters relating to the submarine industry. His expenses and claims totalled \$210,422.80.

Senator HOGG—How much of that was a straight-out consultancy fee and how much was reimbursement of expenses?

Rear Adm. Briggs—That will be apparent from the details which I can give you. I do not have that breakdown in front of me.

Senator HOGG—Okay. Give me that breakdown and then, if we need to come back to it, we can.

Rear Adm. Briggs—Certainly.

Senator HOGG—Do we know over what period of time?

Rear Adm. Briggs—Yes, that was the period 20 September to 11 May.

Senator HOGG—I was asking primarily about since the last estimates.

Rear Adm. Briggs—Mr Prescott has not been involved in providing advice since 11 May. The arrangements which Mr Roche is talking about are currently being developed and so there has been no charge during that period.

Senator HOGG—No charge accrued. It would be handy if I could have the breakdown between 20 September and 11 May.

Rear Adm. Briggs—Certainly.

Senator HOGG—There is currently no arrangement with Defence? What about with the minister's office?

Rear Adm. Briggs—Mr Prescott was engaged under a short form contract by the department.

Senator HOGG—By the department.

Senator FERGUSON—Was it a daily consultancy fee?

Rear Adm. Briggs—On the days he was active he was paid \$3,000 a day.

Senator HOGG—That figure of \$3,000 came to us at an earlier estimates.

Mr Roche—I think he will continue to provide advice under that same contract; I think that would be the proposal.

Senator HOGG—Right. So there will be no new contract struck.

Rear Adm. Briggs—We will extend the current contract and amend the terms of the directive.

Senator HOGG—Between 11 May and now, which is only 18 days, has there been an involvement by Mr Prescott with either the Department of Defence or the minister's office?

Rear Adm. Briggs—None that would incur a charge.

Senator HOGG—What is that supposed to mean?

Rear Adm. Briggs—As you can imagine, if you are developing the terms of a new directive, there has obviously been some interaction with Mr Prescott in forming the words and sorting out the detail of that. He has not been engaged in providing consultancy in that period.

Senator HOGG—Can we typify it as being that there has been no new work? The work has been clearing up work undertaken in that previous contract period?

Rear Adm. Briggs—In the period since 11 May Mr Prescott finished the first phase of his consultancy. That was to provide advice to government on the options for achieving a sustainable submarine industry. He provided a report at the end of February. As Mr Roche has said, he provided ongoing support to the process of setting up the OASITO and Rothschilds dialogue with a number of the companies. Once that had been done, on 11 May he stepped back from it, and he has not been involved in it since then.

Senator HOGG—Right. At whose beck and call does he remain now? Is it that of the Department of Defence or the minister?

Rear Adm. Briggs—The department is currently in the process of developing new terms of reference to meet the requirements that Mr Roche has indicated, so I guess it is the department.

Senator SCHACHT—Which is a rationalisation of the shipbuilding industry. Is that right? What was the new requirement, Mr Roche? I missed part of that.

Mr Roche—I understand, and Admiral Briggs has pointed out, that the arrangements have not been finalised. I guess I am trying to bring you right up to date. I understand the proposal is that he will continue to provide some advice to the minister in relation to the ownership of the ASC, but he will also be providing advice on the Australian naval shipbuilding industry, and that might be to the department or to the minister. It is not clear at this stage.

Senator HOGG—When will it be clear? Do we know?

Mr Roche—When the directive is completed and agreed.

Senator HOGG—What sort of time line? I am just trying to get—

Mr Roche—We are talking weeks—

Senator SCHACHT—Has there been an announcement about this new extended role in a different form for Mr Prescott—a formal announcement by the government that this is where Mr Prescott would now be putting his energies?

Rear Adm. Briggs—No, there has not, because the process is not yet complete. We do not have an agreement with Mr Prescott. We are in the process of negotiating that.

Senator SCHACHT—You mentioned, Mr Roche, about the future of Australian naval shipbuilding. Is it possible that that would be the main thrust of what he would be doing in the future—advice to the department and the minister? Is that correct?

Mr Roche—This is the defence department and the Minister for Defence focuses on naval shipbuilding.

Senator SCHACHT—Yes, I know. And that spun off after dealing with the issue of the future of the Australian Submarine Corporation, which raised issues of naval shipbuilding, I presume?

Mr Roche—Yes, that is correct.

Senator SCHACHT—Has there been any indication of how long Mr Prescott will be employed, or given, to complete the task on the future of Australian naval shipbuilding?

Rear Adm. Briggs—No, I do not believe it has been precisely defined. The draft we are looking at at the moment envisages a period up until 31 January 2001, but that is just a draft.

Senator SCHACHT—Would any of his work be timely for the present Defence white paper being prepared?

Mr Roche—It would obviously be in the same period, yes.

Senator SCHACHT—Is there any interest in making sure the crossover is connected?

Rear Adm. Briggs—Yes. There are two crossovers: one is obviously in the question of settling the ownership issues in relation to ASC and the second is in relation to the white paper.

Senator SCHACHT—I appreciate the fact that you have been very open here today about there not having been a previous announcement about this. This is a development which I do not criticise. As a former minister in this area for a period, I fully support any effort to raise the issue of shipbuilding in Australian, naval or civilian. But what I am interested in, Admiral Briggs, is whether his work in this area will be conducted with not just the usual suspects quietly rounded up to give evidence but also a public process on the future of naval shipbuilding in Australia.

Rear Adm. Briggs—I cannot answer that question, Senator. We might—

Mr Roche—The short answer is that it has not been decided yet.

Senator SCHACHT—I appreciate that. What I am just suggesting is that, to get full value from the money that we pay Mr Prescott—which I presume is the normal commercial rate for these things—it would seem to me that it would be useful to have a public process where submissions are received, private or public hearings are held and a report made available to make sure that the range of interests in shipbuilding, naval or otherwise, get a chance to put their views forward. I do not think it is an unreasonable request to be considered, is it? Does anyone care to say—

Rear Adm. Briggs—It sounds very reasonable, Senator.

Senator SCHACHT—I knew you would agree on that. Thank you very much, and I hope the minister is—

Senator HOGG—I didn't know how a smile translated; now I know.

Senator SCHACHT—I appreciate the fact that you have given us that information. Give Mr Prescott our best regards for a great piece of work, and I hope a lot more ships are built in Australia.

Senator HOGG—Can I move on to something completely different. On the last occasion at additional estimates, Admiral Shackleton, you corrected the *Hansard* record with regard to the question that was asked about staff in your office. As I recall, it was in respect of your chief staff officer. We thank you very much for doing that. However, it has been drawn to my attention that there may have been, at that time—and I don't know if it still exists—a PR consultant attached to your staff as well. Was that correct?

Vice Adm. Shackleton—No. I haven't had a PR consultant attached to my personal staff.

Senator HOGG—So there has not been a PR consultant attached to your staff at any stage, in the last year, when that question applied?

Vice Adm. Shackleton—No. I think what you are referring to are the services provided by a consultancy to support an activity we commenced in September last year to deal with the Navy's public image and its overall approach to communications, both internal and external. We have received some assistance in that regard.

Senator HOGG—So that person was not directly attached to your staff? Were they paid for out of your budget?

Vice Adm. Shackleton—Yes. This was a commercial undertaking.

Senator HOGG—How much did that consultancy cost? Do we know?

Vice Adm. Shackleton—Yes, we do. We provided that to you on questions on notice. That was to the Phillips Group under a monthly contract, to a total of \$102,300 to date, between December 1999 and April 2000. That was for wide-ranging strategic communications support.

Senator HOGG—Thank you. I thought there was an additional consultancy to that but you confirm that there was not. Where is Navy with regard to Project 4000?

Vice Adm. Shackleton—C4000 is a Defence Headquarters managed project. It is in the process of firming up propositions. As you would have seen, the minister announced recently that the Kidd class destroyers would not be proceeded with and that other alternatives would be explored in the context of the Defence white paper to meet the role of air warfare for joint task force operations.

Senator HOGG—So the Kidd class are completely off the agenda now?

Vice Adm. Shackleton—That is correct.

Senator HOGG—I understand that there was some criticism of the RAN in a recent edition of *Jane's Fighting Ships* in terms of the current and future capability. Are you aware of that criticism?

Vice Adm. Shackleton—Yes, I am.

Senator HOGG—What is your response to that?

Vice Adm. Shackleton—I guess it depends on what you want the Navy to do. I think that is what this Defence white paper is about. It is deciding what the government's strategic objectives and its vital interests are and then for the defence organisation to propose force structures and capabilities will help the government achieve those objectives. And, in the case of air warfare or any other kind of warfare, that determination is made based on going right back to those strategic principles.

Senator HOGG—Was it considered at any stage not to decommission the DDGs and do an upgrade?

Vice Adm. Shackleton—There was a consideration not to decommission the DDGs, but frankly the costs of not doing that would be prohibitive in current terms. Over time there have been various propositions that the DDGs should be modernised even further than they have been, but frankly the costs would have been very expensive. Given the life of those ships—30 to 35 years—we regard it as completely uneconomical.

Senator HOGG—Thank you.

Senator WEST—Has the RAN introduced a physical fitness program for personnel?

Vice Adm. Shackleton—Yes, it has.

Senator WEST—Will it be the same as the AIRN?

Vice Adm. Shackleton—I would have to find out from my Army colleagues what their full regime is, but certainly the walking, the running, the sit-ups, the push-ups and the arm presses are the same.

Senator WEST—How is it being implemented?

Vice Adm. Shackleton—People have been advised that by 30 June they will be expected to have completed that fitness regime, and it varies with your age and gender as to how many you have got to do.

Senator WEST—What are the costs associated with this program—the extra training staff and things like that?

Vice Adm. Shackleton—We are using existing training staff.

Senator WEST—So there is no cost to Army; no cost to—

Vice Adm. Shackleton—That is correct.

Senator WEST—What has it found so far?

Vice Adm. Shackleton—It has found that some folk have to get themselves fit.

Senator WEST—Across all ranks?

Vice Adm. Shackleton—Across all ranks, including me. You're welcome to join us.

Senator WEST—Thank you, Admiral. I know I need to lose a bit of weight.

Senator HOGG—You can be so indiscreet; I cannot.

Vice Adm. Shackleton—It has nothing to do with weight. I am sorry if it was taken that way.

Senator WEST—It has to do with fitness, though, I suppose.

Vice Adm. Shackleton—It does.

Senator WEST—What are the costs associated with the introduction of this program? Can you tell me that?

Vice Adm. Shackleton—I guess there was the cost of producing a booklet, which I have circulated to people across the Navy, but other than that I am expecting people to use existing physical fitness facilities and, as I said, use the same training staff who are here. There will be no increase in that context.

Senator WEST—Have the training staff noticed any increase in their usage rates?

Vice Adm. Shackleton—I expect that is the case, but there is no more of them.

Senator WEST—I thought they might have been complaining that they are now being overworked or something.

Vice Adm. Shackleton—Anything but.

Senator WEST—Okay. It will be very interesting to see how this goes in comparison with the AIRN.

Vice Adm. Shackleton—I would expect that there will be a number of people who have got to go and do it again, but so far I have not become aware of any complaints. People see it as a natural thing that people in the Defence Force should be fit.

Senator HOGG—There is an ANAO report on this for Army, which I am going to pursue with Army tomorrow. A number of things have been drawn to the attention of Army as a result of that in terms of cost benefit analysis and so on. Have you taken into consideration that ANAO report in order not to fall into the problems that were raised in that?

Vice Adm. Shackleton—In terms of introducing fitness programs, we have learned from the experience of Army—and the Air Force for that matter. We see a long-term through-life benefit in people having a high level of average fitness—if I can use that term, because it is not anything like Olympic standard. In terms of the ANAO, I would have to go and check but I would have thought that we would be complying with its recommendations. That was the intention of doing this.

Senator HOGG—It has been my concern that, when I first asked the question, when I heard that this was going to be spread across the various services, that the ANAO report was

taken into consideration. I understood it was going to be coordinated centrally across the three rather than the Army, the Navy and the Air Force 'doing their own thing', so to speak. How much is it being coordinated?

Vice Adm. Shackleton—The regime that Navy is following, as I say—I would be surprised if I am wrong—is the same as the Army and Air Force and the advisers who recommended the various standards who provide it to me are part of the Defence central medical staff.

Major Gen. Dunn—The policy is standard across the force. The actual tests do have some variant state from service to service, based on the different requirements of each service. So we have got a standardised process across the force.

Senator HOGG—I will be going through that report tomorrow and asking specific questions on specific issues that arose out of that AIRN report, so I will not take up the time of Navy this evening on that.

Major Gen. Dunn—I will just make the point that AIRN is more extensive than the physical fitness regime that I am talking about here and which the Chief of Navy is talking about. That report—we can perhaps cover that tomorrow—covers other readiness issues.

Senator HOGG—I understand that. I understand it covers more than fitness and I accept that. But I was interested in whether some of the general principles that were espoused in that report had been picked up by Navy.

Senator WEST—There have also been some reports regarding shortage of uniforms for Navy personnel, particularly white shoes, tracksuits and caps, et cetera. Is that correct?

Vice Adm. Shackleton—There have been some shortages in the supply of uniforms, yes. The manufacturer was unable to meet the demand.

Senator WEST—For what reason?

Vice Adm. Shackleton—I think there was a combination of ordering difficulties. I am not quite sure why the manufacturer was unable to meet them.

Senator WEST—And what are you doing to rectify the situation? Are there any penalty clauses in the supplier's contract—

Vice Adm. Shackleton—Uniforms are managed through Support Command Australia.

Senator WEST—So is it not just Navy that it is happening to?

Vice Adm. Shackleton—I could not speak for the others.

Major Gen. Haddad—I think what you are referring to is some problems at HMAS *Cerberus* in relation to supply of uniforms, and that was an ordering problem. There was a new team managing the shopfront activity there and there were some difficulties which have now been rectified.

Senator SCHACHT—Are you saying they underordered or did they get the orders in late?

Major Gen. Haddad—Their ordering processes were not responsive to the needs of their customers. That was investigated and adjustments have occurred. I understand it is now working properly.

Senator WEST—Who conducts this ordering program? Who conducts the uniform—

Major Gen. Haddad—These are clothing stores operated by contractors engaged by the Corporate Support Program.

Senator WEST—So this is one of the CSP-ed things—

Major Gen. Haddad—That is right.

Senator WEST—And the delays, the inconveniences, the failure to meet the required standards—does that all count against them in terms of their contract?

Major Gen. Haddad—There were some difficulties with them in operating the information systems that they use for ordering and some skill level problems with the staff.

Senator WEST—How bad was the shortage?

Major Gen. Haddad—I do not think there were significant shortages. It was in one or two product lines.

Senator WEST—Is it correct that Navy recently conducted a survey of personnel with regard to their views on the Navy uniform?

Vice Adm. Shackleton—That is correct.

Senator WEST—What were the results of the survey?

Vice Adm. Shackleton—It was wide ranging. What I was not prepared to have was Navy people wearing blue ‘can’t see me suits’. So I applied my authority as Chief of Navy and fixed that one. But the questions ranged, and it is not unreasonable to ask people how they would like to look in a modern Navy. That ranges from the cut of skirts, shirts, shoes, caps—all manner of uniforms. It is as you would expect: most people have a desire to look as smart as they can. We want to find out what the opinions of our sailors are, so we ask them.

Senator WEST—What were the results?

Vice Adm. Shackleton—I do not have them all here with me, but I can certainly provide you with the tabulated results.

Senator WEST—Even if everyone, except you, wants blue ‘can’t see me’ suits, they are not going to get them?

Vice Adm. Shackleton—You will be happy to know that the statistics show that my decision was right.

Senator WEST—What action will result from this survey?

Vice Adm. Shackleton—In some cases, there will be no action; in some cases, uniforms will be adjusted and amended and changed over time.

Senator WEST—So are we looking at a new uniform design?

Vice Adm. Shackleton—Not right now, we are not, no.

Senator WEST—Different material?

Vice Adm. Shackleton—The materials are based both on wear and on our paying a lot of attention to the safety issues associated with those uniforms.

Senator WEST—In East Timor there was some problem initially—it might have been all the way through—with the ‘can’t see me’ suits of poly-cotton and the use of polyester.

Vice Adm. Shackleton—The uniforms that Navy people wore ashore in East Timor were supplied by Army; they are the same uniform.

Senator WEST—Navy basically wear cotton and wool, do you?

Vice Adm. Shackleton—At sea, we wear fire-retardant coveralls. That is 24 hours a day, seven days a week.

Senator WEST—Elegant grays.

Vice Adm. Shackleton—Yes, with high visibility strips to be able to be seen in smoke and poor light. Ashore, people wear a mixture of polyester-wool uniforms, as per normal.

Senator WEST—Is it possible to see the results?

Vice Adm. Shackleton—We can provide you with the results, yes.

Senator WEST—Thank you.

Senator SCHACHT—Did everybody respond? Did you get a good response?

Vice Adm. Shackleton—Yes. Uniforms are a fairly emotive topic, so everybody wants to have their say. You would never get a 100 per cent turnaround on these things.

Senator SCHACHT—But you got a big enough response to say that it was a reasonable sample of opinion?

Vice Adm. Shackleton—Yes.

Senator SCHACHT—I presume that, with any change to the uniform, the general traditional Navy uniform that distinguishes you from Air Force and Army will still be distinctive enough for that tradition to continue?

Vice Adm. Shackleton—I cannot see any reason to change it.

Senator SCHACHT—I am not asking you to change it. It is adjustment at the edges, so to speak, in the cut of things, the length of things.

Vice Adm. Shackleton—It was actually seen as quite revolutionary when Navy did away with bell-bottom trousers.

Senator SCHACHT—They had lasted 300 years or something, hadn't they?

Vice Adm. Shackleton—We have to proceed carefully.

Senator Newman—They were very sexy, it was a great pity, and they should bring them back.

Senator HOGG—The HMAS *Manoora* has just returned, I understand, from its first deployment.

Vice Adm. Shackleton—Yes.

Senator HOGG—The results?

Vice Adm. Shackleton—Quite satisfactory. The ship has shaken down. She is doing the first of class flying trials now, and there are the usual teething problems that go with those kinds of activities. But I have not been advised of any significant shortcomings, and all things point to the ship doing what we want it to do.

Senator HOGG—How important to Navy is the Sydney Garden Island facility, particularly the dry dock located there?

Vice Adm. Shackleton—The dry dock is important, perhaps less so now, given the way in which the design of ships has changed over time. But there is certainly a need to dry-dock ships for essential hull maintenance and repairs. Certainly relatively deep-draft ships, like FFGs, need to be able to be put in a dock like that for maintenance work. It offers commercial benefits to ADI, who use it also for commercial work.

Senator HOGG—Elsewhere in Australia, is there any dock similar to or as large as the one at Garden Island?

Vice Adm. Shackleton—No. The dry dock in Garden Island is, in fact, the largest dry dock in the Southern Hemisphere.

Senator HOGG—Is it considered to be a critical capability for Navy to maintain access to?

Vice Adm. Shackleton—‘Critical’ is a hard term to deal with because, if the effort has to be made, I guess we would always find alternatives.

Senator HOGG—Where would the alternatives be—Singapore, Hong Kong or somewhere else?

Vice Adm. Shackleton—Yes, if you had to in peacetime. But, certainly in a time of tension, that dock might be very handy for us.

Senator HOGG—So you are saying that really it is—

Vice Adm. Shackleton—It is an important national asset.

Senator HOGG—an important facility for Navy, for its use?

Vice Adm. Shackleton—Yes.

Senator HOGG—I have been informed by a highly experienced marine engineer that HMAS *Success* has had its inerting gas system removed because Navy could not operate it or maintain it properly. Is that correct?

Vice Adm. Shackleton—The fire suppression system in *Success* has been changed and modified.

Senator HOGG—When you say ‘changed and modified’, has it been removed?

Vice Adm. Shackleton—It is not my understanding that it has been removed, but I would have to get some other advice.

Senator HOGG—Perhaps you could get that advice for me.

Vice Adm. Shackleton—Yes, I can.

Senator HOGG—If we cannot deal with that this evening, maybe we can deal with an answer to that question tomorrow?

Vice Adm. Shackleton—I can provide you with a written response to that, if that is satisfactory.

Senator HOGG—There are some other questions that flow on from it. I need to know whether it has been modified; and, if so, how it has been modified and the impact of the modifications. If it is midday tomorrow when we deal with it—

Senator Newman—You will not have much time for Veterans’ Affairs then, will you, if you are still on that at midday tomorrow?

Senator HOGG—No, it will just be one short answer. Veterans’ Affairs, we indicated, Minister, would probably commence no earlier than 3 p.m. tomorrow.

Senator Newman—I will not be here for a lot longer than that, so we had better see how quick we can be. Really, I must say, I have been pretty kind and I think the chairman has been exceedingly generous. But it has been a very laid back, gentle day to not get very far.

Senator HOGG—Minister, to have this argument at this hour of the night—

Senator Newman—I am not having an argument; I am just stating very politely what are the facts of the case, from somebody looking on.

Vice Adm. Shackleton—Commodore Flint about a year and a half ago was commanding officer of *Success*. If he can answer your question, that might solve us a problem tomorrow. If he cannot, then we will have to deal with it in some other way.

Cdre Flint—I was in command of *Success* about 16 months ago. During the refit where I was in command, because of environmental concerns we replaced the halon with FM200. The FM200 certainly did have some teething problems but, at the same time, I understand that that is still the existing system on the ship. We have found that FM200 does break down into some by-products which we do have to take precautions about, but that remains the system on board the ship.

Senator HOGG—Does that pose any real problems during the loading of fuel or the refuelling of other vessels?

Cdre Flint—Not that I know of.

Senator HOGG—Also raised was the fact that the ship had its eco-tank washing system removed. What is the implication of that?

Cdre Flint—That was removed a number of years ago. Really, there is no real limitation that is imposed by that. You are using the tanks for the same fuel, so you do not wash the tanks generally but just refuel them. So there was no real limitation with respect to that. The only consideration would be if you had to flood those tanks for some reason to inert them. But it now has a stripping system, which was put in in that refit, which allows you to meet all the environmental concerns and also separate the water and restore the fuel.

CHAIR—Senator Hogg, do you have any more questions on output 2?

Senator HOGG—A few more questions.

CHAIR—We have four days set aside for estimates and we normally expect that Defence takes two full days and sometimes DFAT does take a shorter time. We expect that tomorrow we will be sitting till 11 o'clock but at that stage we will have finished the Defence hearings and Veterans' Affairs.

Committee adjourned at 11.00 p.m.